



## The Business Failings of Deep Discounted Sales Promotions

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In these lean economic times, it is hard to make the family dollar stretch thin enough to cover all the necessary expenses. Even with little money left at the end of the bill cycle, most people still want to add at least a small amount of entertainment to their existence. With dwindling resources as the current norm, a night on the town seems a doomed concept for many American citizens.

Enter the champions. 2008 saw Daily Deal sites enter the consumer marketplace, heralding a new era in consumer spending. Offering deep discounts on everything from restaurants to massages, the trend struck a very pleasing chord with the financially stressed masses. Over the last several years, we have seen a steady rise in the number of companies offering extreme discounts to lure customers back into the buying arena. This was great news for the consumer, but devastating news for many beloved small businesses.

In order to compete against much larger companies with huge marketing budgets, small businesses must constantly assess the consumer atmosphere to garner a small piece of the shrinking customer spend. Consumers have come to expect substantial discounts on everything that falls under the banner of discretionary spending. Because of this, small business operators have been required, by consumer mandate, to offer their goods or services at a substantial reduction. In the beginning it appeared as though this marketing avenue, with its "no initial cost to the vendor" approach, could be a boon for companies without the ability to spend heavily upfront on advertising. Mainly presented through email and online campaigns, businesses could effortlessly enter the homes of thousands of potential new customers. The concept of vast cost efficient reach sounds like a dream come true. The nightmare of this type of campaign for a small business soon becomes apparent.

The basic structure appears to be similar for most of the deep discount sites. The marketing company arranges to present a one-time deal, at a discount to consumer of over 50 percent of market value, during a specified period of time to the marketers distribution list. These email blasts can reach thousands, even hundreds of thousands, of opt-in subscribers during the deal's run. Consumers rush to purchase prepaid deal vouchers before the offer expires. Vouchers are then presented to the merchant for redemption according to pre-established guidelines. The purchase price of the voucher is then shared between the marketing company and the provider equally. This is where the dream turns sour.

A tour that costs \$15 is sold for \$7 of which the tour operator gets \$3.50. The tour can realistically hold 20 people before the quality begins to suffer. If all tour participants are prepaid

voucher users, the tour operates with a revenue stream of \$70. From that the operator must pay operation costs, tour guide fees, insurance, taxes and additional basic business needs. If fewer than the maximum number of participants book for any tour, the daily amount decreases while operator costs do not. In order to cover costs, the tour operate may be forced to raise the maximum number of attendees to bring in enough income to meet the daily costs of operating a business. This causes quality to suffer, guides to be overworked and heightens the likelihood of accident or injury which forces additional revenue to be spent recovering from situations that would otherwise have been avoided.

A restaurant with an average meal ticket of \$20 per person offers a meal voucher for \$10 of which the restaurant gets \$5. From that the restaurant must pay for the ingredients, the chef, the dishwasher, the wait staff, the hostess, water, electricity, gas, telephone service, website, taxes and all the ongoing costs of running a restaurant.

Any business that manages to stay functional will have established some market base- a steady stream of income that pays the bills. For a restaurant, this would be the regular customer who visits your establishment consistently. For a tour company, this could be the concierge at a nearby convention-friendly hotel. A huge influx of customers, however brief, may interfere with the overall extended business operation. In order to gain market share, a business must first maintain a regular revenue stream. If regular customers cannot have their needs met by their business of choice, they will have their needs met elsewhere. When the minimum financial flow gets interrupted, the new growth generated by a deal cannot take hold before the business falters. So not only is the Merchant providing goods or services at a loss, they may also be alienating their bread and butter patrons in the process eliminating current and future revenue from established sources. Since the Merchant will typically fulfill vouchers for a month or more before the first payment is received, it is necessary for the business to fund upfront costs from alternate resources including crucial business reserves.

The major advantage of mass marketing campaigns is the potential for return customers. Even this poses a problem for those participating in a deep discount program. In the case of the tour, once a guest has attended, they are not likely to choose the same offering for their next outing, especially not paying twice as much for the same experience.

Merchants participate in these types of programs to create a customer base that will continue to feed their business long after the email blast goes out. The assumption of an ongoing greater market share might be fueled by false hope. Merchants are often expecting word of mouth advertising from guests who are already looking forward to their next great deal. Future patronage may not even be an option for the consumer. Vouchers can be purchased by anyone who receives the offer. This could be a local who may utilize the company again or may be one-time visitors to the city from which the business can expect no additional revenue.

All marketing is a gamble with the potential for gain or loss. It is a gamble most small businesses are prepared to take. Deep discounts are as useful as any other business tool as long as the pitfalls can be avoided. An educated merchant can better define the terms of their agreement and structure a deal that benefits both consumer and merchant. In these hard economic times it is vital to maintain a strong marketing voice. Careful application of deep discounts can fuel small business growth but careless use can signal the demise of hopeful up and comers.