

# HOW EFFECTIVE ARE Groupon PROMOTIONS FOR BUSINESSES?

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## Abstract

Although social promotions, especially Groupon promotions, have been wildly popular with consumers, it is unclear how businesses fare upon running such promotions. In a survey-based study of 150 businesses that ran and completed Groupon promotions between June 2009 and August 2010, we find that the promotion was profitable for 66% and unprofitable for 32% of respondents. When compared to businesses with profitable Groupon promotions, those with unprofitable promotions reported significantly lower rates of both spending by Groupon users beyond its face value (25% vs. 50%) and return rates to purchase from the business again at full prices (13% vs. 31%). There was disillusionment with the extreme price sensitive nature and transactional orientation of consumers using these promotions among many respondents. Surprisingly, rather than features of the promotion or its effects, employee satisfaction is found to be the primary driver of the promotion's profitability. We also analyzed the predictors of number of Groupons sold and whether the business would run another social promotion in the future. Based on these findings, suggestions to modify social promotion offers are provided to better balance consumer appeal with positive outcomes for the small businesses offering them.

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## How Effective Are Groupon Promotions For Businesses?

*“it's a great marketing tool. just not great with making profit.” – small business owner*

### Introduction

Marketing circles have been abuzz in recent months with the sky-rocketing popularity of social promotion sites<sup>1</sup>. At present, Groupon is perhaps the best known and certainly the largest one of these sites. It features a daily deal for each city it operates in, offering consumers a significant discount for a local business or event, such as \$40 worth of sushi for \$20, or a \$175 facial at a spa for \$59. Consumers buying the Groupon must pay its price upfront, and then have a certain amount of time, up to a year, to redeem it at the business. Groupon promotions have a social aspect. Each promotion is valid only if a certain minimum number of consumers – pre-specified by the business – purchase the deal. Not surprisingly, news of Groupons spreads virally through Facebook updates and Twitter tweets on a daily basis, as people encourage family, friends and others within their social networks to “tip” the deal (i.e., reach the critical mass stipulated by the business) so that everyone can get the offer. Fueled by its popularity, the label “Grouponer” has entered the contemporary lexicon to describe deal-savvy, socially networked online shoppers.

Groupons and other social promotion sites are obviously attractive to consumers. They not only possess all the appealing features of coupons but they also have additional innovative benefits. Groupons offer significant, sometimes 70 or 80 percent, discounts off listed prices, providing consumers with low-risk opportunities to try new products and services such as restaurants or spas that have just opened or ones they haven't tried before. The promotion's short time frame – usually one day – creates a sense of urgency to buy, and makes the anticipation of waiting for the next Groupon an exciting daily game. As Christopher Steiner of Forbes magazine recently observed, “It's a cents-off coupon married to a Friday-after-Thanksgiving shopping frenzy.” Likewise, Urban Dictionary has coined the phrase “groupon anxiety” to refer to “the preoccupation and feeling of anxiousness and not

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<sup>1</sup> See for example, Farmer, Liz (2010), “Groupon's coupons causing businesses boons”, *The Daily Record*, Baltimore, MD: August 22, 2010; Sutherland, Brooke (2010), “It's a half-price kind of world: Millions of bargain hunters flock to online coupon sites like Groupon.com for deep discounts in everything from haircuts to meals”, *McClatchy-Tribune Business News*, Washington: August 7, 2010; Wilkerson, April (2010), “Courting with coupons: Online business helps Oklahoma retailers attract customers,” *Journal Record*. Oklahoma City: August 3, 2010.

being able to sleep knowing that a new Groupon will be released after 1 a.m.”<sup>2</sup> The promotion’s social aspects oftentimes encourage groups of friends or family members to buy Groupons together and share a positive experience like taking a cooking or wine-tasting class, or eating at a restaurant<sup>3</sup>.

For many businesses, particularly new or struggling ones, hordes of new customers flocking in because of a Groupon promotion may seem particularly appealing in these recessionary times when consumers are cutting back on so many products and services<sup>4</sup>. Marketers have acknowledged the effectiveness of promotions in drawing new customers to businesses<sup>5</sup>. The exposure to a small business from a Groupon promotion is undeniable and its efficacy is increasing directly as the Groupon site becomes more and more popular. The company recently reported that it has a waiting list of over 35,000 businesses wanting to be featured on the site nationwide, and that it can currently promote only about one in every eight interested businesses<sup>6</sup>. Not surprisingly, many other social promotion sites such as LivingSocial, eWinWin, and Adility have launched within the last year, and the whole industry represents a beehive of venture capital and technology startup activity.

### **Study goals and method**

But are Groupon promotions profitable for businesses? Do they generate sufficient additional sales to Grouponers at full price to warrant the steep discounts offered? What predicts the number of Groupons sold, and which businesses fare the best and worst after offering a Groupon promotion? To find out, we conducted a survey of businesses that had run and completed Groupon promotions between June 2009 and August 2010. The study was done in August and early September 2010. First, we called a small group of four businesses that had recently run Groupon promotions and interviewed their owners to gain a qualitative understanding of their experience with the promotion. This helped us

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<sup>2</sup> <http://www.urbandictionary.com/define.php?term=groupon%20anxiety>

<sup>3</sup> See Steiner, Christopher (2010), “Meet the Fastest Growing Company Ever”, *Forbes*, August 30, 2010, and Alves Armando (2010), “Consumers get together: from Group Buying to Collaborative Consumption,” *A Source of Inspiration*, Available online at: <http://www.asourceofinspiration.com/2010/07/15/consumers-get-together-from-group-buying-to-collaborative-consumption/>

<sup>4</sup> Economist (2010), “Of bits and bites: Posh restaurants innovate to attract customers”, *The Economist*, August 12, 2010. Available online at: [http://www.economist.com/node/16796572?story\\_id=16796572](http://www.economist.com/node/16796572?story_id=16796572)

<sup>5</sup> Walters, Rockney G. and Scott B. MacKenzie (1988), “A Structural Equations Analysis of the Impact of Price Promotions on Store Performance,” *Journal of Marketing Research*, 25(1), 51-63.

<sup>6</sup> Sherr, Ian (2010), “Online coupons get smarter – Groupon, rivals add personalized bargains staff as some merchants gripe”, *Wall Street Journal (Eastern Edition)*. New York, NY: August 25, 2010, p. B4.

formulate the questions to ask in the survey<sup>7</sup>.

Next, we identified 360 businesses nationally and contacted them by telephone and/or email, inviting the owner or marketing manager of each business to participate in the study. The businesses were identified through a combination of searching on Groupon's "recent deals" web-pages for various cities, and also conducting searches using Google, Bing, and Yahoo search engines to discover other past deals that were not listed on the Groupon site. Respondents were offered a \$10 gift card for completing our survey.

In the study, we asked a number of questions regarding their experience with the Groupon promotion. We asked how effective the Groupon promotion was in bringing new customers (on a 1-10 scale anchored with 1 = not at all effective, and 10 = extremely effective), what percentage of these customers spent more than the Groupon amount, what percentage came back to the business a second time, and how satisfied their employees were with the Groupon promotion (on a 1-10 scale anchored with 1 = not at all satisfied, and 10 = extremely satisfied)<sup>8</sup>. We also asked whether the Groupon promotion was profitable for their business (yes/no), whether they would recommend it to other small businesses (yes/ no), and whether they would run another Groupon promotion again (yes/ no). Finally, we asked a number of open-ended questions regarding the promotion. For most respondents, the survey took approximately ten minutes to complete.

If we were not able to reach the business owner or manager the first time, when contacting by email, we sent one additional reminder email approximately ten days after the first one. When using the telephone for the survey, we tried two additional times to reach the person. By the time all attempts at contacting respondents were complete, a total of 150 businesses, spanning 19 U.S. cities and 13 product categories completed our survey, resulting in a response rate of 41.7%. Chicago (16.7% of

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<sup>7</sup> At this stage of the project, we intended to include social promotions from other sites, in particular LivingSocial, in our analysis, to get a broader picture of social promotions in general. However, very quickly we realized that these sites were largely new and did not have enough completed promotions to be able to conduct a meaningful analysis as we were able to do for Groupon promotion. It is certainly an important research issue to revisit and study a larger pool of sites in the future.

<sup>8</sup> An additional question included in our survey was regarding the percentage of customers that never redeemed their Groupon. However, respondents had trouble answering this question. Almost 30% did not answer, and several of those that did qualified their responses by saying that "this is a guess" or "we don't really track this." Because we have some doubts regarding the validity of responses, this measure is not analyzed further.

sample), Houston (10.7%), San Francisco (10%), Atlanta (8%), Seattle (8%) and Los Angeles (6%) were the cities with the largest number of participants in the study. Category-wise, restaurants (32.7%), educational services<sup>9</sup> (14%), salons and spas (12.7%), and tourism (8%) were the largest product/service categories represented in the sample.

For each business, we matched data from the survey to information regarding the promotion's performance (date and duration of promotion, the face value and offer value of the Groupon, and the number of Groupons sold). These variables were collected directly from the Groupon website so they are actual observed variables instead of being self-reported by the survey respondent. Our analysis is based on this sample of 150 businesses.

### **Profitability of Groupon promotions**

So were Groupon promotions profitable for our respondents? Yes, they were, for about two thirds (or 66%) of our respondents. However, a significant number in our study, 48 (or 32%) reported their Groupon promotion was not profitable. For these businesses, only about 25% of redeemers purchased products or services beyond the Groupon's value and less than 15% came back a second time to purchase products at full price. When analyzing the profit impact of a price promotion, marketers usually assume that a significant proportion of those availing of the discount will purchase more products and services at full price, and become repeat customers<sup>10</sup>. These benefits never materialized for this group of businesses in our study. Not surprisingly, few of these businesses (8%) said they will run a Groupon promotion again. Restaurants appear particularly susceptible to these negative outcomes: 42% of the restaurants in our study (20 of 48) reported unprofitable Groupon promotions. One restaurant owner observed that "Most of the Grouponers were what we call 'deal-seekers'; they felt entitled to special treatment, didn't spend more than what the Groupon itself cost, they didn't tip, and most won't be repeat customers."

On the positive side, it is important to reiterate here that for two-thirds (or 66%) of respondents

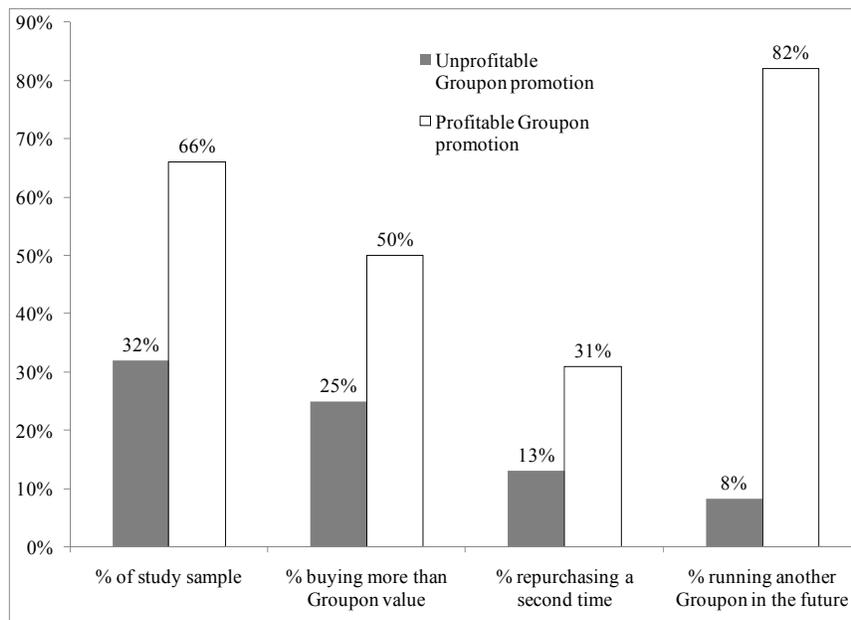
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<sup>9</sup> Educational services includes businesses offering an educational class or classes of some type such as learning a particular language, cooking classes, flying lessons, etc.

<sup>10</sup> See for example Lal, Rajiv and Carmen Matutes (1994), "Retail Pricing and Advertising Strategies," *Journal of Business*, 67(3), 345-370 or Mulhern, Francis J. and Daniel T. Padgett (1995), "The Relationship Between Retail Price Promotions and Regular Price Purchases," *Journal of Marketing*, 59(4), 83-90.

in the sample, the Groupon promotion *was* profitable. Furthermore, the businesses in our study with profitable promotions saw twice as many redeemers buying beyond the Groupon’s value (50% vs. 25%;  $F(1,141) = 22.40, p < .001$ ) and a greater percentage repurchasing a second time (31% vs. 13%,  $F(1,126) = 17.91, p < .001$ ) when compared to businesses with unprofitable promotions. These businesses also reported that the Groupon promotion was significantly more effective in bringing new customers to them when compared to those with an unprofitable promotion ( $M = 8.43$  vs.  $M = 6.56$ ;  $F(1,145) = 27.55, p < .001$ ). In our sample, spas were disproportionate beneficiaries of Groupon promotions: 82% of the spas in our sample (14 of 17) reported having profitable Groupon promotions.

**FIGURE 1: Differences between profitable and unprofitable Groupon promotions**



Many of the business owners who had enjoyed profitable promotions had good things to say about the promotion. One respondent said “It’s the best advertising for small businesses!” while another one noted “We have run multiple promotions with GO, all of them very successful. With our business GO reached customers who never would have come to [activity redacted to maintain respondent anonymity] with us, as well as having those customers spreading the word to others about us.” Appendix 1 summarizes the positive comments provided by respondents in our sample.

## Drivers of profitable Groupon promotions

So which factors determine whether a Groupon promotion is profitable for the business? Using a logistic regression, we examined effects of a number of factors including number of Groupons sold, the Groupon's face value, percentage of discount offered relative to full price, the promotion's duration, its effectiveness in reaching new customers, the percentage of customers buying more than the Groupon's value, the percentage purchasing a second time, and employee satisfaction with Groupon-using customers. Surprisingly, only two factors predicted the Groupon promotion's profitability: how satisfied employees were with Groupon shoppers, and the promotion's effectiveness in reaching new customers.

**TABLE 1: Logistic regression results for whether Groupon promotion was profitable or not**

Variable	Regression Coefficient	Standard Error	Wald Statistic	p-value
Number of Groupons sold	.00	.00	.02	.88
Groupon value	-.01	.01	.33	.57
% discount off list price	2.80	3.10	.81	.37
Effectiveness in reaching new customers	.22	.12	3.11*	.07
% Groupon users buying more	.01	.01	.98	.32
% Groupon users returning a second time	.02	.01	1.94	.16
Employee satisfaction with Groupon promotion	.40	.13	9.80**	.00

\*\*indicates statistically significant coefficient at the  $p=.05$  level of significance; \*indicates statistically significant coefficient at the  $p = .10$  level of significance

Our study provides compelling evidence that “satisfied employees” is the most important factor for the Groupon promotion to be successful. The business owner could do this by preparing his or her employees for the barrage of customers that ensue from the promotion, and compensating them adequately such as for lower tips received because of the deal-prone orientation of many Groupon users, or for working longer hours. If employees remain satisfied through the promotion, the likelihood of its profitability is significantly higher. For instance, when asked what her employees thought of the Groupon promotion, one service business owner in our study observed “We embraced it, however after a few weeks they realized that the groupon customer is not as friendly or open to spending money as

the average customer”, and another salon/ spa owner that suffered an unprofitable promotion wistfully noted “Because of the great discount and commission to Groupon our employees did not make any money. Besides, these Groupon customers did not tip as most customers do. We feel the Groupon purchasers will only buy for the discount and wait for another promotion and move on. Hopefully, some will return.” In contrast, another spa business that enjoyed a successful Groupon promotion reported that “After the initial stress of the unexpected 'rush', everyone was very happy.”

Additionally, because of the significant impact of effectiveness in reaching new customers, it appears that businesses for which the Groupon promotion does not cannibalize sales to existing customers may be the ones most likely to benefit from it. This is indicated by the marginally significant coefficient for “effectiveness in reaching new customers” in Table 1. One respondent’s comment is insightful in this regard: “This is a useful tool for new businesses that need lots of visitors. However, for stores like ours that already have fantastic numbers, it brought down our overall profit margins and prevented us from having space for full-fared customers.” It is noteworthy that none of the other promotion characteristics such as the Groupon’s face value or percentage of discount offered, or its consequences such as percentage of repeat customers were significant in predicting whether the Groupon promotion was profitable.

### **Drivers of number of Groupons sold**

Although the number of Groupons sold does not predict the promotion’s profitability, with the goal of maximizing revenue, both Groupon and the featured business would want to sell as many Groupons as possible. Because the business cannot directly stipulate or control how many of its Groupons will get sold, we also conducted analysis to determine the predictors of number of Groupons sold, using the Groupon’s face value, percentage discount received off list price, the promotion’s duration, time since Groupon appeared in days, whether an upper limit was placed on number to be sold, and whether the business is a restaurant/ spa/ education business. In this analysis, we used the log of number of Groupons sold as the dependent variable to conform more closely to the normality assumptions of a multiple regression.

There were four significant predictors of number of Groupons sold. Duration of the promotion

was a positive predictor indicating that when the time allowed for redemption is longer, more Groupons get sold. This finding is in line with prior research on coupon redemptions<sup>11</sup>. Surprisingly, time since the Groupon promotion was conducted turned out to be a negative predictor, indicating that the number of Groupons sold is decreasing over time in our sample after controlling for the other variables. This could be because as the firm adds new markets, it takes time for Groupon’s popularity to increase in these markets. We are not able to control for market entry effects in this analysis because of relatively small sample sizes for most individual markets, and especially the new ones. Finally, both placing an upper limit on the number of Groupons sold and having a business that is a restaurant (as opposed to some other business) results in significantly more Groupons sold. In interpreting the former result, it is important to note that a limit on number of Groupons sold was placed only by 11% of businesses in our sample and the ones that did so placed relatively high limits, an average of 2,190.

**TABLE 2: Multiple regression results for number of Groupons sold<sup>a</sup>**

Variable	Standardized Regression Coefficient	t-value	p-value
Groupon value	-.15	-1.56	.12
% discount off list price	.03	.33	.74
Duration of promotion	.14	1.67*	.09
Time since Groupon appeared in days	-.29	-3.46**	.00
Whether upper limit placed on # of Groupons sold	.18	2.35**	.02
Whether restaurant is a business	.35	4.06**	.00
Whether restaurant is a spa	.09	.97	.33
Whether restaurant is an education business	-.07	-.80	.42

<sup>a</sup>Dependent variable is natural logarithm of number of Groupons sold; \*\*indicates statistically significant coefficient at the p=.05 level of significance; \*indicates statistically significant coefficient at the p = .10 level of significance

### **Willingness to run another Groupon promotion again in the future**

Which variables predict the likelihood of the business running another Groupon promotion in the future? To find out, we conducted another logistic regression, including number of Groupons sold, the Groupon’s face value, percentage of discount offered relative to full price, the promotion’s

<sup>11</sup> Reibstein, David J., and Phillis A. Traver (1982), “Factors affecting coupon redemption rates,” *Journal of Marketing*, 46(4), 102-113.

duration, its effectiveness in reaching new customers, the percentage of customers buying more than the Groupon's value, the percentage purchasing a second time, and employee satisfaction with Groupon-using customers.

In this case, results revealed that three factors were significant predictors: effectiveness in reaching new customers, percentage of Groupon users buying more than its value during the visit, and employee satisfaction with the Groupon promotion. In addition to satisfied employees, it is crucial for the business to both reach new customers, and get Groupon users to purchase beyond the Groupon's value to justify a repeat promotion.

**TABLE 3: Logistic regression results for whether business will run another Groupon promotion**

Variable	Regression Coefficient	Standard Error	Wald Statistic	p-value
Number of Groupons sold	.00	.00	.36	.55
Groupon value	.02	.01	1.52	.22
% discount off list price	3.17	3.52	.81	.37
Effectiveness in reaching new customers	.39	.14	7.32**	.01
% Groupon users buying more	.02	.01	5.91**	.02
% Groupon users returning a second time	.02	.01	2.45	.12
Employee satisfaction with Groupon promotion	.42	.14	9.29**	.00

\*\*indicates statistically significant coefficient at the p=.05 level of significance; \*indicates statistically significant coefficient at the p = .10 level of significance

## Study Limitations

To enable readers to interpret the results correctly, it is important to acknowledge this study's limitations. First, we note that the sample of businesses used in this study is a *convenience sample*. Since we did not have access to the full database of businesses offering Groupon promotions, a representative sample was beyond our reach. As such, we make no claim that our study's results reflect performance of the overall Groupon client base. We note, however, that our sample was diverse in its makeup, covering a range of U.S. cities and industries. Second, like any survey-based study, our results are susceptible to a *non-response bias*, i.e., the possibility that those who did not respond to our survey were systematically different from those that did participate. Nevertheless, we note that the

41.7% response rate can be characterized as “healthy” and in line with published research<sup>12</sup>. Third, we wish to point out that Groupon (and its competitors) are relatively new firms. Thus, while we focused on completed Groupon promotions, it can be argued that not enough time has elapsed for all the benefits of the social promotion such as repeat purchase by more of the Groupon users to have accrued to the businesses in the study. Although prior research has had difficulty finding long-term effects of price promotions beyond the shorter-term impacts such as the ones we studied,<sup>13</sup> examining perceptions of business owners after more time has elapsed post-promotion is likely to be useful and add to the findings regarding social promotions presented here.

### **Sustainability of the social promotion business model**

Despite the limitations noted above, there is evidence from this study that raises some concerns about the sustainability of social promotions as they currently exist. We believe these promotions are structured in such a way that they give too much value to consumers and not enough value to the small businesses that run them.

When we asked the businesses in our study whether they would run another Groupon promotion again, 42% of the respondents told us they would not do so. Even among those businesses that had profitable promotions, almost one in five indicated they would not run another Groupon promotion again (see Figure 1). There is widespread recognition among many business owners that social promotion users are not the relational customers that they had hoped for or the ones that are necessary for their business’ long-term success. Instead, there is disillusionment with the extreme price sensitive nature and transactional orientation of these consumers among many study respondents. One respondent’s observation is representative of this view: “Businesses need to consider that this class of consumers are [*sic*] bargain hunters. By nature they are frugal. An assumption that the Groupon consumer is going to fit certain predictions in behavior would be a mistake.” Appendix 2 summarizes

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<sup>12</sup> Deutskens, Elisabeth, Ko de Ruyter, Martin Wetzels, and Paul Oosterveld (2004), “Response rate and response quality of internet-based surveys: An experimental study,” *Marketing Letters*, 15(1), 21-36. For examples of published research with lower response rates, see O’Sullivan, Don and Andrew V. Abela (2007), “Marketing performance measurement ability and firm performance,” *Journal of Marketing*, 71(April), 79-93; or Palmatier, Robert W. (2008), “Interfirm relational drivers of customer value,” *Journal of Marketing*, 72(4), 76-89.

<sup>13</sup> See for example, Pauwels, Koen, Dominique M. Hanssens, and S. Siddharth (2002), “The long-term effects of price promotions on category incidence, brand choice, and purchase quantity,” *Journal of Marketing Research*, 39(4), 421-439.

some of the critical comments provided by our study's respondents.

Furthermore, based on our study's responses, the news for Groupon's competitors appears to be decidedly bleak. Although we did not ask this directly, many of our respondents volunteered their opinions regarding competing social promotion sites. These respondents largely indicated annoyance at the barrage of calls they receive from these competitors on a daily basis, and most reported a lack of success when using them to offer a promotion. Phrases such as "rip off", "imitators", "ineffective", were employed, and respondents told us that the competitors "never proved anywhere near the results that Groupon did", and that "Groupon will beat out the competition, it is still the 'Kleenex' of the business model." One respondent who had had a successful Groupon promotion told us "I worked with another company shortly after my Groupon promotion and have to say that Groupon was 75% more effective in coupon sales, bringing in new customers and with their organization of coupons sold." In contrast, few respondents had positive things to say about other social promotion sites. We also note that many of the other sites are much less transparent than Groupon is in revealing how many promotions they have sold.

Amidst the recent media frenzy regarding social promotions and the rapid multiplying of sites offering them, our results indicate a need for caution. Although the majority of Groupon users are satisfied and intend to run another Groupon promotion, an industry in which two in five customers are hesitant after a first purchase, and where the customer base is a relatively limited pool of small businesses with strongly interconnected social networks that could quickly spread news of dissatisfactory results, may need to modify its overall strategy. One of our respondents' comments sums up the crux of this problem: "While I feel that [*sic*] was important for our business to determine whether or not social buying could be helpful, the experiment was a failure. It certainly did increase the number of guests coming into the restaurant, but the increase in revenue was nothing compared to the increase in cost of goods/labor. If we had seen even a moderate number of guests returning, I think we could have said the promotion was a success, but the number has been extremely low."

So what should Groupon and its competitors do to address some of these problems? Several avenues seem feasible to us and are worth exploring further. First, social promotions could be

structured so that relational behaviors of consumers are rewarded instead of transactional ones. For example, instead of offering \$60 worth of food for \$30, a sushi restaurant could offer \$20 worth of food for \$10 on each of the consumer's next three visits. Social psychologists have shown that repetitive behavior leads to the formation of habits that are remarkably durable<sup>14</sup>, and social promotions, just like other incentives, may be effective in inculcating habits, if designed appropriately. Second, rather than promoting the total purchase amount during a visit, a specific item could be promoted. Instead of offering a discount on the consumer's total bill, for example, such as \$75 worth of services for \$35, a spa could offer \$10 off for a facial, another \$10 off for a pedicure and \$15 off for a massage, during a single or multiple visits. Social promotions should offer the small business a good opportunity to cross-sell its products and services to customers and increase the amount of the total bill, a strategy that prior research on promotions has found to be successful<sup>15</sup>. Third, the promoted items should be chosen judiciously so that the business is able to use unutilized capacity or sell unpopular items through the promotion. A yoga studio might offer classes on a weekday afternoon, for example, but not on weekends, or an apparel store might promote middle- or end-of-season lines but not the newest arrivals. Such an approach would have the added benefit of insulating the business from cannibalizing full-price sales to its existing base of customers. We note that each one of these suggestions concurrently entails reducing the attractiveness of social promotions to deal-chasing, price-sensitive, disloyal consumers that are not appealing to the businesses anyway; however, they are also likely to reduce the attractiveness of the promotions for others.

To conclude, we believe that because of their many alluring features and broad-based consumer appeal, social promotions offer a potentially compelling business model; however, for longer-term success and sustainability, this industry will likely have to design promotions that better align the deals offered to end consumers with the benefits accruing to the small businesses that offer them.

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<sup>14</sup> Ouellette, Judith A. and Wendy Wood (1998), "Habit and Intention in Everyday Life: The Multiple Processes by Which Past Behavior Predicts Future Behavior," *Psychological Bulletin*, 124(1), 54-74; and Aarts, Henk and Ap Dijksterhuis (2000), "Habits as Knowledge Structures: Automaticity in Goal-Directed Behavior," *Journal of Personality and Social Psychology*, 78(1), 53-63.

<sup>15</sup> See for example, Kamakura, Wagner A., Bruce S. Kossar, and Michel Wedel (2004), "Identifying Innovators for the Cross-Selling of New Products," *Management Science*, 50(8), 1120-1133; and Raghurir, Priya, J. Jeffrey Inman, and Hans Grande (2004), "The Three Faces of Price Promotions," *California Management Review*, 46(Summer), 23-42.

## Appendix 1. Positive comments by respondents regarding Groupon promotions

- “Good program. Lot's [*sic*] of exposure. Good deals.” – Health club, Northeastern US.
- “Thought it worked well in bringing customers...Great results for a one day promotion.” – Tourism business, Western US.
- “[The employees] Enjoyed it. More work. More hours.” – Service business, Northeastern US.
- “When I did groupon they were only in [city redacted to maintain respondent anonymity] for 1 month and I sold [redacted]. It worked at quite well with that number. I had several repeat guests and 2 massage and facial club memberships from them.” – Salon/ Spa, Western US
- “Right now we think it's great because of the cash flow it creates. However we don't know the long term effects are of offering our service a [*sic*] such a reduced rate.” – Tourism, Northeastern US.
- “Very low customer acquisition cost, relatively easy to on-board customers (although less informed about our business than other channels).” - Food Business, Location withheld.
- “We sold [redacted to maintain respondent anonymity]...received lots of exposure” – Restaurant, Western US.
- “Groupon is wonderful because it was so many followers. We have been solicited by many other social networking sites but Groupon is truly the most popular and effective. We all use Groupon personally, and so it was great to be featured on there. It definitely spread our name to a whole new market who may have not heard of us otherwise and really did help us to expand our business.” – Food business, Eastern US.
- “Very good offer. Easy to redeem through our point of sale system.” – Automotive services, Western US.
- “[Employees] like the promotion because it drives new guests in, creates top of mind exposure for the restaurant and also increases word of mouth marketing for a brand that spends very little on advertising.” – Restaurant, Southern US.
- “They are a great company to work with. A very pleasurable experience.” – Restaurant, Southern US.
- “Groupon is the best way to increase your small businesses market share, or create brand awareness. It is amazing.” – Tourism business, Southern US.
- “Loved it! Great way to bring in new customers. Very cost-effective way to do marketing.” – Food business, Southern US.
- “It's a wonderful business model. I would need to get a slightly [*sic*] higher percentage of the groupon to do it again.” – Retail store, Southern US.
- “It was a good way to bring a lot of people through the door.” – Education business, Southern US.
- “excellent idea... we're very happy with Groupon.” – Salon/spa, Southern US.
- “It was challenging to get through the Groupon promotion but we came out ahead at the end of the 6 mo redemption period.” – Food business, Southern US.
- “We loved it and we have been asked to do another one but have decided to sign with Groupon exclusively for [redacted to maintain respondent anonymity] a year!... What a wonderful way to bring almost 2000 new clients to our door.” – Spa/ salon, Southern US.

- “While our Spa has been in business for [redacted to maintain respondent anonymity] years, and in the same location all that time, it was amazing how many Groupon clients did not know we were there. From a business visibility standpoint it was very beneficial to us.” - Spa/ salon, Southern US.
- “They [the employees] loved the increase of business and the servers were very pleased with the extra tips.” – Restaurant, Southern US.
- “Happy for increased traffic.” – Restaurant, Western US.
- “Groupon created a buzz for us and we were still getting calls even after the Groupon ran from [redacted] who wanted to sign-up for [redacted to maintain respondent anonymity].” – Education services, Southern US.
- “It is a great idea, but a restriction on the number of groupons that can be purchased would be advisable.” – Restaurant, Southwestern US.
- “I think it's brilliant. Quick influx of cash. Great visibility for our business created amazing traffic to the site the day we were featured. It's a great new client acquisition tool.” – Service business, Northeastern US.
- “Groupon worked very well for us. It was a nice mix of existing customers and new customers who purchased. Existing customers tended to be very appreciative and slightly apologetic about buying; many used them to make much bigger purchases than their average. We've gained a few new, loyal customers because of Groupon as well. We're in a residential neighborhood without much adjacent retail, so we're relatively hidden to the larger metro area. Groupon has certainly increased our visibility. And unlike other advertising where there is a probability of impression to action, Groupon removes much of the probability and provides a measurable and tangible result. In other words, there's no guessing game as to whether your advertising dollars are well spent.” – Retail store, Midwestern US.
- “The Groupon staff was very easy to work with. I am very happy with the execution and the results.” – Restaurant, Western US.
- “i hope my competitors dont do it. to keep my edge on the market.” – Restaurant, Northeastern US.
- “We felt it really brought our product [redacted to maintain respondent anonymity] to a new, younger audience which was great.” – Tourism business, Midwestern US.
- “They (the employees) thought it was a great way to introduce or re-introduce customers to the business. We took the approach that each person who presented a Groupon was a first time customer and gave them extra attention.” – Restaurant, Western US.
- “Very good for our business. We all succeed when the store succeeds.” – Retail store, Midwestern US.
- “they (the employees) thought that it was a positive experience based on the fact that it drove additional business.” – Restaurant, Midwestern US.

## Appendix 2. Critical comments by respondents regarding Groupon users

- “Many of the groupon user [*sic*] used it for only the value of the coupon (in our case \$50) and nothing more. The return business has been non-existent. It was very harmful to our bottom line during the months we ran it. We still get people coming in to redeem their groupon even though the promo has been over for 4 months, and they are very upset they cannot get the full discount.” – Restaurant, Midwestern US.
- “Great to see new faces, however, several customers did not realize that the coupon does not include gratuity, and only tipped on any amount over value. This upset some of our servers.” – Restaurant, Southwestern US.
- "The customers who try to take advantage of getting a discount.. but guess that's human nature. Occasional complaints from customers towards the business that were more groupon related. with the huge number of purchases there's really no good way to ensure people aren't printing their coupon multiple times. think they should have less than a year to redeem groupon- maybe 6 months"- Restaurant, Midwestern US
- “the groupon clients try to swindle you out of more savings. most of them are cheap-skates.” – Salon, Western US
- “The only downsides to Groupon are you never see of the guests return because they are bargain shoppers, it can create a wait that negatively influences full-paying guests and it is difficult to track/redeem.” – Restaurant, Southern US
- “Customers constantly printed the same coupon... or copied one coupon over and over and tried to use them after the original was redeemed. Our staff had to create an online monitoring web page to prevent multiple uses” – Restaurant, Southern US
- “The types of customers that were attracted were not here to genuinely try our restaurant. Instead, they were here to get a deal. They knew they were getting a deal and that was the only reason they came... Towards the end of the groupons, we also had many people in the restaurant taking up valuable table space and ordering the bare minimum for their value. And, it then became these people who leave negative reviews on our yelp/citysearch pages.” – Restaurant, Midwestern US
- “Customers seem to be predisposed to the belief that someone is out to screw them. We gave them the exact same value, however, they were looking for the 'gimmick'. This required more of our time in booking [*redacted to maintain respondent identity*] than would be so with a non-groupon customer.” – Business, Southern US
- “People that but these discount coupons tend to be demanding and appear to only want the discount rather than a relationship with the business they buy from.” – Salon/ spa, Southern US.
- “The consumers were cheap.” – Restaurant, Western US.
- “The initial week can be overwhelming, and Groupon customers sometimes demanding.” – Specialty Food store, Northeastern US
- “clearly a value oriented customer - some of whom tried to combine their offer with other promotions even though we were clear that you could not... in general, not a good fit with our core customer” – Retailer, Southern US
- “waiters were frustrated by low sales & low tips since guests didn't tip on the full amount.” – Restaurant, Western US.
- “Most of the customers had never heard of our business before and were coming for the treatment based solely on the deep discount of the service. They also did not feel as though it was necessary to tip the

associates servicing them the appropriate amount because they were receiving the service at a discounted rate. Most were impatient and complained when anything did not fit their exacting expectations. We had hoped for more understanding from the customers.” – Spa & Salon, Western US.

- “Customers were trying to use it with other promotions or offers. Also, they are easy to duplicate and abuse.” – Restaurant, Western US.
- “It certainly attracts a certain kind of clientele - people looking for a flat out deal (professional 'grouponers' I suppose) rather than consumers looking for new products or services to continue with.” – Salon/Spa, Midwestern US.
- “Our experience with Groupon was that it did bring in customers - as promised, but nearly all of them did not stay on beyond using their Groupon deal. For us, it was not the right fit.” – Service, Western US
- “Some people try to get away with stuff not offered. You have to be very specific with all of the rules. You tend to get some people who don't even read the rules. But that's just typical.” – Retail Store, Midwestern US.
- “The people who bought our groupons were not our typical customer. They are only looking for a deal.” – Restaurant, Eastern US.
- “Difficult to administrate, brought in 'deal chasers' (people who follow the half price deals around town), guests didn't tip well” – Restaurant, Southern US
- “It is obvious that many Groupon users are only looking for deals...not a business that they will return to many times. They buy the maximum number of deals allowed and then move on to another salon that has deals as well. The percentage of people actually looking for a new stylist was low and not many of them returned.” – Salon/ Spa, Western US.