GroupOn: Small Business Lessons on Coupon Advertising (Part 2)

Read Part 1: GroupOn: Small Business Lessons on Coupon Advertising]

[tweetmeme]1. Understand how advertising works.

Using advertising to get customers cost money, and it is a question of whether you can really afford it and whether it is the best use of your limited resources. Some advertising campaigns may just be too expensive for you, just as Burke had found out.

Results of some advertising campaigns may also not be immediate. With a couponing campaign like Groupon, you may make very little (even nothing) the first visit. So look at whether these customers are actually spending more than the coupons and whether they are coming back again and paying full price. If they do come back, then that's when you make money from the coupon campaign. Consider the lifetime value of the new customer, or whether the customer will come back again and again, and whether the customer will bring in family members and friends to the business.

2. Recognize that advertising is a marketing expense.

Spending on advertising is an investment, and it can result in two ways: you actually meet your objectives (e.g. increasing awareness, sales and customers); or the advertising will not work. There?s always the possibility that you will sink in money but may not see any results. Everything in business is a risk, and you need to be prepared to absorb the cost if and when the advertising is not effective. So you need to understand what you are getting into, and whether that's the right use of your marketing dollars.

3. Understand the true cost of the advertising campaign.

It is important to know the return on your investment, as well how the advertising campaign will affect your bottom line. Before you sign up for the campaign, be sure that you know how much this campaign really costs and whether you can really afford it.

As Burke mistakenly thought:
To this day I don?t know why I thought even 50% would be a good deal for us. Maybe because I thought since we were covering our food costs. What I didn?t think clearly enough about was that that margin we mark up is what covers all of our other costs? like staff, rent, utilities, etc. Our overhead is roughly $25,000/month, and this decision was about to make it so that we didn?t cover any of those other costs.

4. Track and analyze the campaign.

When you are spending money to increase customers, it is important to know whether the campaign is indeed effective or not. Set-up your marketing objectives and be clear what you want to achieve from the advertising. In Burke's case, she should have tracked her coupons.

For a couponing campaign like hers, some of the metrics she should have tracked include the response rate to the coupon, the change in her sales, and the amount of sales on advertised items, and the average check of the Groupon customers. She should have looked at how many new customers she gained, where did they come from, and whether these are indeed the customers that she wanted to be part of her business.

It is also important to make sure that the campaign will give you the type of customers that really need your product and most likely to buy from you. Burke learned that not all of Groupon customers are ideal:
At the same time we met many, many terrible Groupon customers? customers that didn?t follow the Groupon rules and used multiple Groupons for single transactions, and argued with you about it with disgusted looks on their faces, or who tipped based on what they owed (10% of $0 is zero dollars, so tossing in a dime was them being generous). Or how about the lady that came in the day of Groupon (though you?re not technically allowed to use them until the day after) and asked for the Groupon discount without an actual Groupon in hand because she preferred to give us all $6 rather than half of it to Groupon.

5. What is the value of a long time customer to you?

Burke denied her ?dear and loyal customer? Lucinda when she used an expired Groupon. This in turn hurt and disappointed Lucinda, and the experience made her never want to come back to the cafe:
Today one of our most loyal customers, Lucinda, came in and asked if she could use her Groupon that had expired the day before. I felt terrible, but I had to say no. I knew she was upset, and I wanted to explain, but there was a line, and it would take longer than the few seconds we had together there to share why I couldn?t. She came up to me later when there wasn?t a line to tell me that she was really disappointed, that she had been a longtime supporter of Posies through the Mamananda Group, and that this experience made her never want to come back. I knew she felt my declining was personal.
Lucinda is a valued customer with a longstanding relationship with the business. She is not like the other Groupon customer, who went to the cafe because of the coupon, never to return again. She has a long lifetime value as a customer. In my view, I am more inclined to cut her some slack and give her the freebie that she came for, because I know that she?ll be back again in the future. Whatever I lost for that transaction, I will still gain back when Lucinda comes back (along with her friends and family members). Keeping the good relations with a loyal customer is sometimes worth the price.

6. Don?t take the word of the salesman; instead look for independent data on the effectiveness of the program.

The salesman?s job is to sell, and they may even sweeten the deal for you just to get your account. But whether the deal really makes sense for you is a whole different thing. Research, research and research -- especially if this marketing campaign is something that you?re trying for the very first time. Or like Groupon, something new. Talk to others who have actually done the campaign, and asked them what worked for them and what did not. Of course, your mileage may vary and what worked for others may not work for you. But you?d have the wisdom and knowledge of someone who?s been there and done that.

7. Listen to your gut instincts.

Burke admitted in her blog post that at some point during the discussion, she had some reservations about Groupon?s offer. As she wrote: ?It wasn?t starting off as that great of a deal for us, but we kept talking.? She also did not listen to the advice of her husband, who was presumably against the campaign.

Here's the big question from this experience: Is a financial risk worth doing to get loyal customers?

One of the commenters on the blog gave this very insightful response:
Doubtful. I?ve always worked in large companies and when we or our large competitors do couponing or rebates, it rarely attracts new loyal customers. It basically retains the existing customer base you have. Large companies like mine can afford it no problem, but there?s a reason why small companies or small stores don?t go to such discounting extremes?. can?t afford it. The financial outlay will rarely parlay into large sales long term.

Extreme couponing just leads to bargain hunters who will scrimp and save and leave you the second the discounts stop. That?s why my business does discounts through stores at relatively small discounts?. 10-20% off at most. And the price cut is a combination of our company paying it, 50/50 or they swallow the costs.

A red flag for these types of deal sites is that a good portion of the offers are mostly no-name stores and services. Established companies avoid it, and places like Groupon know the small stores who want publicity and customer awareness will do whatever it takes?? so they mandate heavy discounts and backend fees.
Burke has learned her lesson; but it is a very expensive lesson that nearly killed her business. If and when you decide to spend on any type of advertising, whether coupons or pay per click or radio ads, be sure to sit down, run the numbers and see whether doing the campaign can improve your bottomline.
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