

Restaurateurs/Small Business Owners- Take Control of Your Own Destiny
By Peter Eckle, CEO Associate Arrangements, LLC

The exploding, highly discounted, daily coupon deal web mail mavericks are not so quietly trying to steal the future of many business owners. Their growth and huge profits come at the expense of small business owners. Restaurants seem to be particularly prone to the “siren song” that flows from these rapidly growing companies that can’t seem to hire enough entry level workers professing to understand your business and whose main purpose is to serve up additional customers, but not necessarily profitable ones.

Groupon, Living Social, Twongo, GoRaleighDeals, Z Spotlight, national and local firms, you name it. Everyone is jumping on the bandwagon that essentially takes profit out of your income stream and puts it into theirs. Current estimates peg the number of these discount website at more than 500. The two largest firms boast of more than 56 million visitors combined to their web sites in a recent month. Little wonder, with this type of traction, that such promotions have been difficult for businesses to resist. So how do people feel about this? There’s an old saying, “Where you stand, depends on where you sit”.

- If you are a consumer that just purchased a coupon for \$25 giving you \$50 of food at your favorite restaurant you go to regularly, you are probably pretty happy.
- If you own a restaurant and one of your regular customers just purchased one of these 50% discount coupons, you are probably not very happy, given that you will receive less than half of the \$25 for the privilege of serving this customer that you know and already have a relationship with.
- If you purchased this coupon for a restaurant you had never heard of, there is a good chance you will work very hard to see how close to \$50 you can spend and you will have spent \$25 that you never planned to spend. On top of that, you likely will only tip on the discounted amount and don’t plan to return to this restaurant again because you are more focused on securing the next good deal somewhere else. If you are the business owner, this is not a good outcome.
- If you are one of the web mail marketing companies, you’ve just scored another promotion and diverted another chunk of cash that normally flows from a customer to a business owner. Now you can afford to hire more comedy writers and sales people to dig up and dress up the next deep discount promotion.

There have been some independent studies done on discount deals (Rice University), which concluded that at least a third of these promotions were unprofitable for the businesses. Given the lopsided economics of these deals, there is every reason to believe these findings are most likely significantly distorted. No one likes to admit they made a mistake agreeing to accept less than 25 cents for every dollar of food you might serve to the new customer looking to take advantage of these discount offers.

Oddly enough, it has also been reported that as many as 40% of discount vouchers are never redeemed. These numbers are no doubt skewed by a number of factors, including the growing number of odd-ball, impulse purchase deals that most normal people would never even consider buying, e.g. pole dancing lessons or because of the time limits and restrictions that limit options to redeem.

Business owners and restaurateurs in particular should think carefully before entering into one of these deep discount promotions. The hope that a promotion coupon won't be redeemed because someone forgot seems like a strange premise to be banking on. Be patient and above all, be careful what you wish for. It can be awfully tempting to ignore a pitch that promises an influx of new customers without paying to advertise up front while you get paid a discounted amount upfront before you even see customer one. Not only that, you see a lot of other businesses doing it. What's wrong with this picture?

Potentially lots. Do you want to outsource your ability to attract new customers? If so, would you be confident that such a program would attract the kind of customers that would really value your business? Do you know what you are looking for when it comes to a new customer? Do you know what it costs you to acquire and maintain a new customer? Would your business be able to handle the potential influx and impact it might have on your ability to serve your existing customers? Do you really believe that deal-seekers can become repeat customers? These are just some of the tough questions that business owners should be asking themselves.

Time will ultimately tell just how sustainable the deep discount model is. In the meantime, there is growing anecdotal evidence of a fatigue factor with daily deals. The proportion of firms willing to repeat promotions they have entered into is a key question for sustainability. Few people actually believe it's at 95%, the level discount coupon mavericks would have you believe. Many restaurateurs and other small business owners who have participated in these promotions are learning first-hand that there is no quick, magical way to grow your business with profitable customers. Indeed, the friction that comes from business owners clashing with these discount seeking customers does not usually lead to a lasting, long-term, profitable relationship.

The “assault” on small business owners is not likely to let up near term judging from the amount of outside investment dollars being thrown at firms like Groupon and Living Social (\$1.4 billion in just the last couple of weeks). Now there is talk of an IPO, a clear signal the smart guys with the up front money want out. The pressure will grow to deliver more and more deals and so they will be knocking on yours and your competitor’s doors. Business owners who make it a point to communicate directly with their existing customers, as well as potential customers and do so on a regular basis are in the best position to influence and control their own marketing destiny and business success.

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