

# Coupon Sites Are a Great Deal, But Not Always to Merchants



Scott Olson/Getty Images

In June, Groupon was preparing to go public at a valuation as high as \$30 billion, but the offering has repeatedly been put off.

By [DAVID STREITFELD](#)

Published: October 1, 2011

Like businesses across the land, the Madison Avenue spa Wellpath tried to drum up customers by running heavily discounted coupons on deal-of-the-day Web sites. But the Internet coupon fad is shrinking faster than fat from a weight-loss laser.



Michael Appleton for The New York Times

“They would get another coupon and go do it with someone else. There was no loyalty.”

Coupons for the spa drew women from around the metropolitan area eager to see their bulges melt and their wrinkles removed. Once.

“Then they would get another coupon and go do it with someone else,” Wellpath’s director, Jennifer Bengel, said. “There was no loyalty.”

Just a few months ago, daily deal coupons were the new big thing. The biggest dealmaker, [Groupon](#), was preparing to go public at a valuation as high as \$30 billion, which would have been a record amount for a start-up less than three years old. Hundreds of copycat coupon sites sprung up in Groupon’s wake, including [DoubleTakeDeals](#), [YourBestDeals](#), [DealFind](#), [DoodleDeals](#), [DealOn](#), [DealSwarm](#) and [GoDailyDeals](#). Deal sites were widely praised as a replacement for local advertising.

Now coupon fatigue is setting in. Groupon’s public offering has repeatedly been put off amid stock market turmoil and internal missteps; [the company says it is back on track](#), but some analysts say it may never happen. Dozens of copycats are closing, reformulating or merging, including Local Twist in San Diego, RelishNYC and Crowd Cut in Atlanta. Facebook and Yelp, two powerhouse Internet firms that had big plans for deals, quickly backed off.

Even the biggest Web retailer, [Amazon.com](http://Amazon.com), has had trouble gaining traction in oversaturated New York, where it started offering deals with great fanfare a month ago. There are at least 40 active coupon sites for the city, according to [LocalDealSites.com](http://LocalDealSites.com).

Shopping coupons have a long history, and they will undoubtedly continue to play a significant role in local merchants' efforts to attract customers. But what has become apparent is a basic contradiction at the heart of the daily deals industry on the Internet.

The consumers were being told: You will never pay full price again. The merchants were hearing: You are going to get new customers who will stick around and pay full price. Disappointment was inevitable.

Some entrepreneurs are questioning the entire premise of the industry. Jasper Malcolmson, co-founder of the deal site Bloomspot, compares the basic deal offer with lenders' marketing subprime [loans](#) during the housing boom.

"They were giving these [mortgages](#) to every consumer regardless of whether he could handle it," Mr. Malcolmson said. "But sooner or later you find that you can't make great offers to people if they're not making you money." He recently revamped Bloomspot to focus on merchant profitability.

During the first dot-com boom, entrepreneurs tried to develop group-buying sites. They never really worked. Then a group of outsiders far from Silicon Valley stumbled upon the idea and, to their amazement, it caught fire. Groupon was begun in Chicago in late 2008 by a group of musically and theatrically inclined young men and women who never seemed to have contemplated the Internet riches that quickly came their way.

"We were used to small audiences, like blogs that we were the creators and the only readers of," said Daniel Kibblesmith, a Groupon copywriter. "Now it seems like an audience we can't wrap our heads around."

Last December, Google offered \$6 billion for Groupon. That was astonishing enough, but then Groupon [snubbed](#) the search giant, a declaration that it was really worth much more. Its valuation began to rise by about a billion dollars a week. Deal mania commenced, a boom within the larger Internet boom. If a bunch of part-time artists could do it, so could everyone. All you needed was a desk and a deal to present to the world.

"A lot of people saw an opportunity to get rich quickly," said the Forrester analyst Sucharita Mulpuru. "It was a very 1999 mentality."

By the time Groupon issued its financial documents in June, the first step to going public, the phenomenon seemed a little less promising. Contrary to what the company had maintained, it was not profitable in the traditional sense. Eighty percent of subscribers to Groupon's daily e-mails never bought a deal.

Thirty billion dollars suddenly seemed a stretch. "They're in over their heads," Ms. Mulpuru said.

Groupon's legally mandated quiet period prevents it from responding to criticism of the business model, beyond a joking explanation on its official blog that it is "prohibited from saying anything to the press that may make the company look 'good,' 'successful,' or 'not currently on fire.'"

Merchants do derive benefits from doing a daily deal. Deals increase brand awareness, and of course there are some consumers who do indeed come back again at full

price. But the cost is high: most coupon sites offer deals at 50 percent off and then take half the money the customer pays, sending the other half to the merchant.

Da Pietro Hair Studio on East 78th Street did a promotion with a second-string deal company and ended up begging it to stop running the ad. “I said, ‘No more. We don’t want your clients,’” said the salon’s manager, Rosanna Kabashi.

Even worse from the merchants’ point of view, the popularity of the coupon sites fed a relentless bargain-hunting mentality among customers that did not use them. “Every day, we get an e-mail or phone call saying, Can we match someone else’s price?” said Ms. Bengel of Wellpath. “We’re not Wal-Mart.”

And the long-term reputation of the merchant may be at risk, according to [a new study](#) by researchers at Boston University and Harvard that analyzed thousands of Groupon and Living Social deals. The researchers found that fans of daily deals were on average hard to please. After they ate at the restaurant or visited the spa, they went on Yelp and grumbled about it. This pulled down the average Yelp rating by as much as half a point.

“Offering a Groupon puts a merchant’s reputation at risk,” said John Byers, a professor of computer science at Boston University who worked on the project. “The audience being reached may be more critical,” he said, “than their typical audience or have a more tenuous fit with the merchant.”

Even Amazon, the retailing juggernaut, has found quick riches are elusive. Its response in New York has been tepid. A subscription to The New York Observer had 84 takers, as did a [“Sex and the City”](#) tour. A Latin cooking class attracted 61 people, an Asian bistro 109.

Kevin Walters, manager of the Creole Restaurant and Music Supper Club on Third Avenue in Manhattan, said he was “very, very surprised” to sell only 77 deals through Amazon. “It should have been huge,” he said. Amazon declined to comment.

Despite the lackluster response, Mr. Walters will probably try another coupon. “I’m in East Harlem,” he said. “If the rest of the economy is shaky, then East Harlem is depressed. One way or another, I need to get people here.”

A version of this article appeared in print on October 2, 2011, on page A1 of the New York edition with the headline: Coupon Sites Are a Great Deal, But Not Always to Merchants.