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You're the Boss

The Art of Running a Small Business



March 14, 2012, 1:03 pm

Is SaveLocal a Better Deal Than Groupon?

By [DAVID H. FREEDMAN](#)

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What small-business owners need to know about technology.



David H. Freedman Archie Sclavounos: It's about new faces.

[Groupon](#), [LivingSocial](#) and other daily deal Web sites have by most accounts been a mixed blessing for small businesses. Yes, those half-off coupons hold out to small businesses the promise of unprecedented online reach to potential new customers. But that opportunity comes at the cost of having to offer bargain-basement discounts, with no guarantee that the bargain-seekers will ever return and pay full price.

Enter a new deal service called [SaveLocal](#). It's an offering from [Constant Contact](#), the Waltham, Mass., company whose cloud-based service has helped hundreds of thousands of small companies with their e-mail marketing. The Times has [published an interview](#) I did with Constant Contact's chief executive, Gail Goodman, in which she argues that SaveLocal can bring the benefits of online deal promotion while minimizing the costs.

In a nutshell, SaveLocal's coupons are sent only to a small business's e-mail list and Facebook followers, offering them a deal plus an incentive to share the deal with their social network. The small business determines who gets the deal, how big the discount is, and what incentive customers get in return for forwarding the coupon to their friends. Ms. Goodman says that because the coupons are aimed at the friends of existing customers rather than a list of consumer deal-hunters compiled by Groupon or LivingSocial, the new customers who actually redeem the coupons are likely to be fewer in number but better candidates to become loyal customers.

To get some front-line perspective on these claims, I recently spoke with two business owners, one of whom considered doing a SaveLocal deal but opted instead for LivingSocial and one who did choose SaveLocal, becoming one of the first small businesses to do so.

Archie Sclavounos and his wife Joy own and run Acropolis, a Greek restaurant in Needham, Mass., a suburb of Boston. I happen to be a customer of the restaurant, and I've been following the couple's efforts to increase business since it opened a little over a year ago — a tough slog, given the large number of good restaurants nearby. Word of mouth and good online reviews have helped, but Mr. Sclavounos says his problem is that it's been hard to get the attention of people who live outside of Needham, as well as of Needhamites who have already established their favorite restaurants and aren't looking to try new ones. "It's all about getting new faces in here," he said.

Mr. Sclavounos didn't see how SaveLocal would solve his problem. He has a mailing list of about 100 people, and he already sends out promotions to those customers on his own. He admitted he could do a better job of building the list, but he thinks he's already getting good word of mouth from his established customer base.

To get the word out, Mr. Sclavounos tried a LivingSocial deal in February, selling some 279 vouchers that offered \$20 worth of food for \$10. So far, the fears small businesses express about these deals have not materialized for him. He wasn't overwhelmed with a flood of redemptions — after three weeks, about 15

percent of the deal buyers had redeemed them — although he worries he might get a rush close to the coupon's expiration at the end of June. He also says he is not losing much money on the people who redeem the coupons. Even though they are for half-off, and LivingSocial takes nearly half of the money paid for the coupon, most customers have ordered enough extra items to make it at least close to a break-even proposition.

Even better, he said, most of the coupon-redeemers have been new faces. Will they turn into repeat customers? He says business is definitely up, but it's hard to say how much of the uptick is because of the promotion and how much to a seasonal swell — unlike SaveLocal, LivingSocial and Groupon do not provide a means to identify new customers brought in by the coupon and to follow up with them. On the whole, Mr. Sclavounos is cautiously optimistic. "I really don't have anything to compare the results to yet," he said. "But I'm seeing more of those new faces, and I'm hoping I'll see more."

Robert Clark, who owns the [Urban Escape Day Spa](#) in Golden, Colo., made a different choice. Founded five years ago, Urban Escape grew quickly to nearly \$700,000 in annual sales after three years and took on 14 employees, but Mr. Clark said sales have leveled off in the past two years. That's largely because the business is seasonal and weekend-heavy, which means that rooms are often empty midweek and off-season — but overbooked the rest of the time. To address the overbooking, Urban Escape is moving into a larger space this month, but that will create more pressure to fill rooms during off times. And that led Mr. Clark to consider a daily deal.

He wasn't encouraged, however, by what he heard about Groupon and LivingSocial. "The buzz in our industry is, don't go there," he said. "You don't have control to limit the number of vouchers, or when they can be redeemed, and you can end up selling more business than you can handle." The percentage of new customers brought in by these deals who come back a second time is down into the teens, he was told by others in the industry (his normal capture rate, he said, is close to 30 percent). In addition, he said, a half-off deal combined with the steep commission taken by the daily deal companies — typically around 40 or 50 percent — would send him into the red on most of the redemptions. "I can't operate on 25 cents on the dollars," he said.

Since Constant Contact's SaveLocal service seemed to hold out hope of addressing those problems, Mr. Clark decided to try it, offering \$20 off a \$75 midweek massage to the 4,000 names on his customer e-mail list, along with an extra \$10 off to any customer who e-mailed the message to three friends.

He sold 45 vouchers and took in more than \$2,000 in revenue. Constant Contact charged him \$3 per coupon, for a total of \$135, which he said allowed him to stay in the black on the deal. Had he chosen Groupon, he most likely would have had to offer the coupons at about half off, or about \$37, and Groupon would have taken half the cost of each coupon, or about \$18. If he had sold 45 coupons with Groupon, he would have taken in about \$800 — less than half the coupon revenue he got with SaveLocal. Most likely, however, he would have sold far more coupons — 200, for example, would have brought him \$3,600 in coupon revenue — but obligated him to provide for more massages at just 25 cents on the dollar. Of course, it remains to be seen how many of the SaveLocal customers will return and pay full price.

Mr. Clark said he's happy with the results. "The capture rate has been looking good," he said, "and we've seen some customers come back who haven't been here in two years." He calls the experiment a success, and said he intends to run similar promotions two or three times a year. He also plans to target subsets of his mailing list, such as those customers who haven't been back in a year. He has no plans, he added, to try the daily deal companies.

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Deal seekers can also look up a new service called Detabl, which offers personalized deals based on

reviews and recommendation from friends, family and the web.

About Detangl

Detangl (www.detangl.com) is a daily deal aggregator (10,000 deals across 600 websites), like the Kayak of daily deals, which gives personalized recommendations on local deals to its users while ensuring that they are educated about the quality of the business offering the deal. Detangl sources deals from many daily deal websites like GroupOn, Living Social, Google Offers, BuyWithMe, TravelZoo. It is built on the premise that cost alone should not determine a deal for an individual, other factors are equally important - quality of the business, user preferences to name a few.

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Living in San Francisco, I used a few Groupons, then unsubscribed because the "deals" were for stuff I had absolutely no interest in. The couple of restaurants I tried were on the verge of going under (I didn't know when I bought coupons) and places I'd never re-visit. Money down the tube. Used Living Social for a few things. I view these all as not long-term viable. I do not give my email to merchants. If I do, for some limited promotion, I end up unsubscribing/blocking, as I have no interest in getting a bunch of emails. I am not alone. That's why this SaveLocal thing looks like a real bust.

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I browse all of them, might as well maximize your savings right?

<http://www.championevents.com>

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I use more than one, all have different local deals and coupons, so I browse them all, <http://www.mefindcoupon.com/daily-deals-2/>

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What if Groupon and LivingSocial were to shake hands? Now there's something worth a deal. Can it happen? Yes it can!

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That would not improve the quality of the "deals." It'd just eliminate competition, and I assume the DOJ and Eric Holder would block it, as they should.

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Thinking Entrepreneur

Jay Goltz, who employs more than 100 people at his five Chicago businesses, offers insights and perspective on running a small business.

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You're the Boss offers an insider's perspective on small-business ownership. It gives business owners a place where they can compare notes, ask questions, get advice, and learn from one another's mistakes. Its contributors also interpret news events, track political and policy issues, and suggest investing tips.

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