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**Daily Deal Promotions:
An Explorative Research on
Consumers' Motivations in Italy**

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Daily Deal Promotions: An Explorative Research on Consumers' Motivations in Italy

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Abstract

In the last months the real and the virtual world have been shattered by a spreading phenomenon: the daily deal promotions. Daily deal (dd) sites offer every day for a limited time to their subscribers, at a very discounted price, a deal for a product or a service.

Although the first Groupon deal goes back to 2008, in the US, and the financial value of the company has skyrocketed since then, there is a lack of academic research on this topic.

The aim of this paper is to present the results of an explorative research conducted on Italian dd shoppers to understand the motivations behind the success of the phenomenon.

The authors conducted four synchronous online focus groups on 21 participants deep investigating five areas: level of awareness, perceptive area, social dimension, consumer behavior, and relationship with e-commerce.

Some brand-new data helped in achieving another goal of this paper: finding out how dds fit into the more general frame of e-commerce worldwide and in Italy.

Even if the results of a qualitative research cannot be generalized to the population, this study provides insights for dd sites and retailers to understand their customers' shopping motivations, behaviors, and intentions.

Keywords: daily deal promotions, qualitative research, focus group, e-commerce, consumers' motivations, Groupon, Groupalia, LetsBonus.

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Introduction

Along with the increase of e-commerce and despite (or probably thanks to) the economic crisis started in 2008, in the last few years a new trend has emerged: the daily deal promotions. Daily deal (dd) sites offer every day to their subscribers, at a very discounted price (usually 50% to 90% off), a deal for a product or a service lasting a limited time (usually one or two days). The tactic is not new among the promotional tools: it is a simple cut-price strategy adapted to the Internet era through the selling of online coupons. However, the worldwide success is huge. The most popular and largest daily deal site is Groupon founded by Andrew Mason in Chicago in 2008. The revenues of the site showed a growing rate of 219% in a half year: the total revenues were \$688 million in the first half of 2011 and \$313 million in 2010, even if with a net loss of \$224 million in the first half of 2011 (Pepitone, 2011). Nowadays dd sites are more than 500 (The Archer Group, 2011) and their number is still growing. Besides Groupon, Living Social and Eversave are the best known in the US and Groupalia and Lets Bonus in Italy.

Daily deals is a new two-sided market: one side representing businesses offering discounted products or services; the other side representing customers interested in buying them; between the two the network benefits from the intermediation of the dd site. Theoretically, if the site subscribers grow, the coupons sales increase and, consequently, the merchants' benefits increase too (economies of scale). The benefit for clients is proportional to the level of bargain obtained (number, quality, and convenience of the deals); the merchants and the dd site share profits from the sale of coupons in a variable percentage: for instance, Groupon's commission is 50% of the coupon price, but others dd sites ask for less (i.e. the share of LivingSocial is about 35%). Obviously the earnings of dd sites and of the merchants are proportional to the coupons that have been sold but the merchants should take into account the difficulties met in satisfying an higher number of clients. Thus leading the service providers to offer a lesser quality service and to dissatisfy the clients. Businesses join dd sites in order to attract new customers, increase traffic in the points of sale, benefit from word-of-mouth, gain popularity, and increase sell-out. Dd promotions are a new marketing tool that is cheaper than advertising and fostered by group buying strategies and geo marketing tactics.

The fast growing numbers of subscribers testify the success of the phenomenon: Groupon subscribers' base has doubled in 2011, reaching 115 million in the world (The Archer Group, 2001). Moreover, BIA/Kelsey (www.biakelsey.com) estimated in 2010 that daily deal sites would earn \$1.25 billion in the US in 2011 and their revenues would increase between \$3.9 billion and \$6.0 billion by 2015. But these figures probably were underestimated since Groupon in 2011 has collected revenues for \$688 million.

Despite the worldwide success of dd sites, testified by articles in newspapers and magazines, there is an almost complete absence of academic research on this topic. The aim of this paper is to present the results of an explorative research conducted on Italian daily deal users to understand the motivations behind the success of the phenomenon.

The paper is organized as follows: the first paragraph contains a review of the existing literature on online consumer behavior and daily deal promotions; the second paragraph discusses data about e-commerce and daily deals worldwide, in Europe, and in Italy; the third paragraph clarifies the objectives of the study and the applied methodology; the fourth paragraph reports the main results of the empirical research

(online focus groups) on daily deal users in Italy, and the last paragraph draws some conclusions.

1. Literature review

Academics started to study online consumer behavior since its emergence in the nineties. Since the first studies, scholars tried to draw an identikit of the Internet shopper: according to Donthu and Garcia (1999) he is older, richer, more convenience oriented, more innovative, more impulsive, more variety seeker, less risk-averse, less brand and price conscious than Internet non-shoppers.

Liebermann and Stashevsky (2002) and Ahuja et al. (2003) assessed that perceived risk was the most important barrier to Internet and e-commerce usage. Among the perceived risks, Internet credit card stealing (see also Mangiaracina & Perego, 2009) and supplying personal information are recurrent, even if diversely affected by demographic traits and usage behavior characteristics.

Cheung et al. (2005) proposed a literature review in order to classify the fragmented and contradictory studies published between 1994 and 2002 (351 papers), presenting an integrated framework of the driving factors of consumer behavior. According to their analysis, five factors explain online consumer behavior: individual/consumer characteristics; product/service characteristics; medium characteristics; merchant and intermediaries characteristics. These five 'domain areas' in turn differently influence the three key concepts of online consumer purchase: intention, adoption, and continuance. In a similar work, Perea et al. (2004) identified three factors affecting online shopping: usefulness, ease of use, and enjoyment of the Internet (Technology Acceptance Model). These factors affect the attitude toward online shopping and the intention to buy online through other five exogenous factors: consumer traits; situational factors; product characteristics; previous online shopping experience; trust in online shopping. From the comparison between online and brick-and-mortar shopping emerges that e-shopping fulfills some consumer needs more effectively than traditional shopping: offers the entire product-assortment; allows to obtain critical knowledge about firms, products and brands and to compare product features, availability, and prices more efficiently and effectively; guarantees anonymity and is less time consuming. The same results have emerged from a qualitative study by Dennis et al. (2002) involving university students.

According to the Jayawardhena's (2004) model, personal values (self-direction, enjoyment, and self-achievement values) are significantly related to positive attitudes towards e-shopping. Constantinides (2004) identifies the main constituents of the online experience in the functionality of the Web site (usability and interactivity); the trust and credibility of the online vendor (psychological elements); the aesthetics and marketing mix of the Web site (content elements) (see also Mangiaracina et al., 2009). Senecal et al. (2004) studied the importance of product recommendations: subjects searching product recommendations have a more complex shopping behavior (i.e. they browse more web pages), but the authors find no substantial differences in online shopping behavior among subjects searching but not following product recommendations and subjects searching and following them. Also the product types do not influence consumers' online shopping behavior.

More recently, some papers focus on the positive influence of online product recommendations (social shopping) and the consumers' intention to purchase (Hsiao et al., 2010; Lee et al., 2011; Olbrich & Holsing, 2011). In studying repurchase

behavior and trust, Zhou et al. (2009) show that service quality influences repurchase behavior and satisfaction a lot more than website design quality, and San Martin and Camarero (2008) consider service quality, together with satisfaction related to previous purchases, Web site security, and privacy policies as the main determinants of trust. According to Hasslinger et al. (2007), price, trust, and convenience are the more influencing factors of online consumers; the same research identifies three clusters of online consumers: “high spenders”, “price easers”, and “bargain seekers”.

Finally, in 2010 and 2011, some scholars studied specifically daily deal promotions, but mainly from the supply-side. According to the results of a survey-based study conducted on 150 businesses using Groupon promotions, Dholakia (2010 and 2011a) highlights that the deal’s profitability depends mainly on two factors: the customer willingness to spend beyond the deal value and the percentage of deal users becoming repeat buyers. According to the study 66% of businesses were profitable. Moreover, profitability depends significantly on effectiveness in reaching new customers and employee satisfaction with Groupon promotion. Some factors affect the number of sold coupons: duration of the promotion (positively); time since it is online (negatively); presence of an upper limit on the number of saleable coupons (positive); if the business is a restaurant (positive). Three factors predict if a business will run another Groupon promotion: effectiveness in reaching new customers, percentage of Groupon users buying more, and employees’ satisfaction with Groupon promotion. Through a case study, Dholakia and Tsabar (2011) highlight the positive effects of a Groupon promotion on a small retail start-up (a restaurant): it increased ‘exposure value’ (rise in sales because of exposure received by the ‘grouponers’) and sales.

Moreover, Dholakia (2011b) studied the daily deals through a multi-site analysis of the five most popular dd suppliers. The survey, conducted on a sample of 324 firms, found out that 55.5% earned money, 26.6% lost money and 17.9% broke even; moreover, there was a low redemption rate of new customers.

All the Dholakia’s papers underline the structural weakness of the business model behind dd promotions and suggest to modify the offers to better balance the value offered to consumers (that at the moment are very advantaged) with the positive outcomes for small businesses (that at the moment do not seem advantaged enough) in order to build a business model sustainable in the long-run.

Finally, only two papers study the demand-side of the group-buying phenomenon. Dholakia and Kimes’s (2011) quantitative survey on 973 respondents focuses on consumer perceptions of dd. The results highlight the overall enthusiasm of users (above all of heavy users): they have no troubles spending coupons within the expiration date; they believe in saving money using coupons (they buy things they would have purchased anyway); they have integrated the dds in their shopping behavior; finally, they show a high intention of purchase coupons in the next months. Among the dd sites, Groupon is the best known and used by customers whose frequency of buying decreases with age and increases with income and in urban areas. Dds are appealing to mainstream shoppers (they are not looking for distinctiveness), for impulsive shoppers, and for users interested in trying new products/services, while saving money. Finally, non-users have not purchased coupons mainly because they do not know about them.

Dumpe and Peterson (2011) made a similar quantitative study on consumers in Latvia. The survey (on a small sample of 153 people) emphasizes that the coupon discount must be at least 50% to persuade 80% of respondents to buy it; moreover, the respondents would like to buy catering coupons; they have not shopped at group

buying websites mainly because they are not interested in and do not know about them; they buy coupons because of the lower price and the relevance of the offer.

2. An overview on e-commerce and daily deals

Boosted in the last years by the emergence of group buying, online outlets (i.e. Privalia), mobile commerce, and 'social commerce' (e-commerce through social networks like Facebook or Twitter), the e-commerce industry is increasing worldwide. Global B2C e-commerce revenues ranged approximately \$400 to 600 billion in 2010 (yStats.com, 2011). Nowadays, the percentage of B2C e-commerce revenue compared to total retail revenue is about 8% for countries where the e-commerce is more developed (France or Great Britain) and below 3% in others countries less e-commerce oriented. The leader in global e-commerce sales is the US market, since it totalized about \$177 billion in 2010 (+13% compared to 2009) and 27% of worldwide volume (Gridley&Co, 2011).

In Italy, e-commerce market is small and in 2011 has reached the value of 8 billion Euro (+20% 2011/2010, +17% 2010/2009), about 2% of the total retail market (Politecnico di Milano&netcomm, 2011). Italian Internet users are only 48% of the total population and hence Italian e-shoppers are only 30% of the total population (compared to a medium value of 60% in Europe), a total of 9.2 million.

Recent data (Politecnico di Milano&netcomm, 2011) highlight that Italian e-commerce market is under-developed also from the supply side: less than 5% of the Italian enterprises have an e-supply (the medium value in Europe is 15%).

According to a worldwide survey conducted on 25,000 Internet respondents across 51 countries (Nielsen, 2011), consumers favor good value for money (61%) over lowest prices (58%) choosing where to shop, even if they want to save money. 48% declare to use coupons (traditional or online) to save on household expenses, thus assessing couponing as the second most popular saving strategy after buying "on sale" items (59%). Coupon use is most popular in North America (65%) and Asia Pacific (55%), especially in US, China, and Hong Kong. Within Europe there are great differences in coupon use: in Western and Southern Europe at least half of the consumers declare to use coupon (63% in Belgium and Portugal, 55% in Greece, 53% in France and 50% in Spain), compared to a marginal use in Northern and Eastern Europe (i.e. in Germany and the Netherlands).

According to a Eversave survey (Epmcom, 2012), in the US the most popular products and services bought through dd sites in 2010 were: online retail (gourmet food, children clothing, handbags, makeup) (67%); restaurants (46%); events and activities (concerts/theatre tickets, travels, etc.) (30%); health and beauty services (massage, facial, manicure, fitness, etc.) (23%). Furthermore, online couponing is well-known: 82% of e-shoppers are aware of group-buying (but only 19% have made a purchase) and the social shopping is increasing too (comScore Ink. et al., 2011).

In Italy, the value of couponing sales reached 300 million Euro in 2011. The dd promotion is a strongly increasing phenomenon since in 2010 total sales barely reached some dozens of millions and the number of dd sites increased from 3 to 23 between 2010 and 2011 (Yoodeal, 2011). Groupon, who has started its activity in March 2010 (Salvioli, 2012), is the market leader, obtaining a so huge and fast success that in 2011 ranked among the top 20 e-sellers (Politecnico di Milano&netcomm, 2011). The main followers are Groupalia and Letsbonus. The market is highly concentrated since the subscribers of the first three players count as

90% of the total subscribers (totally more than 10 million) (Yoodeal, 2011). In 2011, the average discount increased to 68%. According to a recent survey on 640 subscribers of dd sites (Yoodeal, 2011), many people ignore the existence of dd sites; 84% of the e-coupon shoppers reported a positive experience; they mainly bought deals because of the high discount (81%), the transparency of the offer (48%) and to have a new experience (35%); they did not buy because the deal is not appealing (39%), the discount is low/not real (35%), and because of the bad reputation of the partner (32%); the most interesting offers are about wellness and free time/events (84%); usually respondents buy 3 coupons per month; the most unsatisfying are wellness offers. Despite the dissatisfaction, 65% of respondents declare the intention to buy again in the future.

A recent trend in the Italian market is the appearance of dd aggregators like Gurudeal or Yoodeal: sites offering every day to their subscribers coupons of the main dd sites together in the same e-mail.

3. Study objectives and methodology

As we have already mentioned, academic research on the dd topic is in its starting phase and very few data are available about the consumers' perception and motivations. According to Dholakia and Kimenes' survey (2011), the heaviest daily deal users (purchasing 11 or more deals) are the most enthusiastic about them. They perceive just the convenience of the deals and have integrated these deals into their usual shopping behavior. Moreover, they intend to purchase other deals in the next future. American dd users prefer creative offers instead of higher discount percentage, thus highlighting that the dd sites should innovate their business model.

The aim of our research was to identify the motivations related to the dd usage among Italian consumers, a quite widespread phenomenon for a country whose consumers traditionally prefer brick and mortar shops to online retailers.

In order to explore the motivation area we conducted four online focus groups. Focus groups are aimed at eliciting data from small groups of people on the meanings, practices, and normative understandings behind phenomena; the findings are not meant to be generalized to a wider population (Bloor et al., 2001), but are useful to achieve a depth of understanding. Online focus groups have a similar use. Indeed, Internet-based data collection is now a well assessed methodological choice and online focus groups have been used for academic purpose since the pioneer study of Murray (1997).

As traditional focus groups, they are characterized as an organized group discussion around a given topic, which is monitored, guided, and simultaneously recorded by the web platform (Stewart & Williams, 2005). Specifically, we conducted four synchronous online focus groups, a sort of moderated chat room that is more similar to face-to-face conversation (Mann and Steward, 2000; Williams, 2003).

The focus groups have been conducted on the 15th and 16th February 2012 and have involved 15 female and 6 male participants, aged between 25 and 45 coming from all over Italy. All of them have bought at least one deal in the last 12 months. The participants have been recruited using a snowball method through social media.

4. Main findings

The focus group guide had touched different points: the awareness of the phenomenon, since in Italy the first deal goes back to March 2010 (Salvioli, 2012); the perceptive area related to dd offers; the motivations fostering people to buy online coupons (Jayawardhena; 2004, Dholakia & Kimes, 2011), despite the often low satisfaction level; the influence of dds on consumer behavior; the eventual social dimension (Hsiao et al., 2010, Olbrich & Holsing, 2011, Lee et al., 2011) embedded in buying and consuming online coupon; finally, the relationship with e-commerce.

4.1 Level of awareness

First of all we tried to understand if all the respondents could define precisely what a daily deal is. After some initial confusion with online outlets, all the respondents recognized the typical features: ‘a coupon that you can buy online allowing people to buy a product or a service with a great discount’. Almost all the respondents knew the dd since Groupon opened in Italy in March 2010.

The role of word-of-mouth is crucial in the spreading of the phenomenon: mostly, the subscription to dd sites has been suggested by friends who were among the early adopters; only a few of the respondents have accessed dd sites through advertising banner.

Among the dd sites, Groupon and Groupalia are top-of-mind for our sample followed by Kgbdeals, Poinx and Jumpin. The spontaneous mentioning of almost all the players in the market testify the high awareness of dd sites among the respondents, despite the newness of the phenomenon (less than two years). However, none of the respondents is aware that there are some aggregator sites able to present together the coupons related to a specific geographical area.

4.2 Perceptive area

In order to understand the spontaneous connotations related to the dd phenomenon, we asked to the focus groups participants to describe it through three positive and then three negative adjectives. The area of convenience has emerged as prevalent, ‘cheap and convenient’ being the most recurrent positive characteristics. The second semantic area is related to experiencing the newness: new places or new services that people are prone to experiment thanks to the bargains offered from dd sites. Curiosity seems to be a potent driver.

As far as the negative characteristics are concerned, most of the respondents complained about the level of service: to be a client with a coupon is like being a second choice client; the sense of dissatisfaction is higher for buyer of beauty care services as already emerged from other researches (Yoodeal, 2011).

Another critical area is related to the conditions of the service: the timespan for using the coupon is often perceived as too limited, or the use-conditions too restraining. The overbooking is also perceived as a critical factor.

According to the literature (Lichtenstein et al., 1990), using promotional tools, as the dds, influences differently consumers’ self-perception; our sample felt mixed sensations: the negative ones were related to a sense of compulsion, the urge to buy just because there is a limited time to finalize the purchase, the “Groupon anxiety” (Dholakia, 2011a); furthermore, many members of our panel doubt the utility of their

purchases, thinking that the idea of convenience encourages them to buy something that is not really needed.

As far as the positive sensations are concerned, some respondents are happy about the bargain side of the deal: they feel competent because they have saved. Despite the fact that the negative aspects are mentioned more vehemently, the respondents declare their intention to buy more deals in the future.

4.3 Social dimension

Literature (Hsiao et al., 2010; Olbrich & Holsing, 2011; Lee et al., 2011) suggests that there is a social dimension related to this kind of consumption. Indeed, the dd practice had also been identified as social shopping since, in order to be successful, the sold coupons should reach a certain number, thus implying a social dimension, i.e., consuming the deal together with friends. Nowadays, the term “social shopping” is used to define the union of social media with e-commerce, letting all the features of social media (mostly Facebook and Twitter) - friends, groups, likes, comments and discussion - converge toward the activity of shopping.

Dd sites foster the use of social media as a mean to socialize the experience: icons of Twitter and Facebook are present in all the coupons. Nevertheless, our informants prefer to share the experience through offline word-of-mouth with real friends, thereby refusing to act as a PR agency for the dd sites. The social dimension is only marginally noted: most respondents buy for themselves or at least for them and their partners (if they buy restaurants or holidays deals), quite often the deals are meant to be a gift, but the idea of a social kind of consumption is very weak.

4.4 Consumer behavior

According to a recent research (Yoodeal, 2011), the number of users of dds in Italy has skyrocketed in the last months, and most consumers (94%) buy three deals each month. If the deal is related to the wellness and beauty care area, the average increases to 4 in a small percentage of consumer. However these data have been collected between April and August 2011, thus they suffer of a “seasonal bias”: everybody wants to look fit for the summer vacations.

Indeed, our respondents, 6 months after the Yoodeal survey, declare to buy less than a deal per month and some of them have bought just one deal in the last six months. Obviously, given its qualitative nature, our research lacks of any representativeness, but the drastically dropping down of purchases could be an indicator of the fashionable side of the phenomenon: the number of purchases seems to decrease when the initial enthusiasm fades.

Our respondents have bought very different deals: travels and vacations, restaurants, services for the house (cleaning hours, house painting, energy certification for the heater), beauty treatments (massage, beauty farm, waxing, hairdresser), all of them because they perceive the bargain of the offer. Sometimes they have not bought, despite the appeal of the offer, because of the location (too far from home or office), the too short coupon’s lifespan or because they really did not need it. Sometimes the lack of trust has restrained our respondents in buying travels and hotel accommodations.

Even if most of our informants are not enthusiast with the dd experience, indeed some of them are really disappointed, all of them are willing to buy in the future if they perceive a bargain. Either being disappointed with the level of the service or

declaring that they could not afford the full price, no one has admitted any changing in their consumption habits after the coupon purchase: they have not come back without coupon, nor have significantly changed their purchase pattern.

Interestingly, some of the respondents declare to be disappointed with the service provider and not with the dd sites that are not perceived as responsible for the service's quality.

4.5 Relationship with e-commerce

According to a recent research (comScore Ink. et al., 2011), there is a strong link between dds shoppers and e-commerce. As far as our sample goes, all of the respondents have had some experience with e-commerce, mostly related to Amazon and IBS (an Italian internet bookshop) and to the online outlets like Privalia, Born to Shop, Vente Privee, Saldi Privati; someone even mentioned E-bay. However they perceive the experience as totally different from that they had with dds: a lesser convenience and a higher satisfaction level are typical of these sites, considered as totally reliable.

Finally, we have asked our sample to describe the ideal dd user: they mostly have identified a woman between 25 and 45 years, a student or an employee, Interned skilled, able to choose the best available option. She should live in at least medium sized cities, preferably in the North and Center of Italy (where most of the deals are concentrated). About the income, two main positions emerge: she should either have a budget for superfluous purchases, or be bargain oriented. The existence of two well defined but opposing motivations reflects again the ambiguity already perceived from what had been previously highlighted. Ambiguity is emerging also from the very last question: 'to whom would you like to suggest buying online deals'? Indeed, despite the controversial position of our respondents, most of them would like to suggest to everyone to buy a deal, or at least to check the dd sites in order to find some good bargain, with the exception of people who are not familiar with Internet, or customers demanding a top level service.

Conclusions

Web sites selling online coupons are a spreading phenomenon in many countries and the number of e-coupon buyers is steadily increasing so that daily deal promotions are boosting e-commerce in US, the first worldwide market, as in Italy.

Despite the success of dds, there is a lack of academic research on this topic, above all on consumers' perceptions and motivations. Our paper tries to fill this gap, through a qualitative research on dd shoppers in Italy, investigating five main areas: level of awareness, perception, social dimension, consumer behavior, and relationship with e-commerce.

As a general conclusion, a sort of ambivalence emerges among our participants: positive feelings and general dissatisfaction are always coexisting.

More specifically, there is a high awareness of dd sites, since all participants spontaneously mentioned almost all the players in the market. Groupon and Gropalia emerge as top of mind (they are the market leaders), their awareness fostered by word-of-mouth (friends).

In the perceptive area, convenience emerges as the driving factor in coupon buying, followed by the willingness to have new experiences, despite these lead to

deep dissatisfaction especially for beauty services. Other critical areas are related with the use-conditions (i.e. a limited timespan to redeem the deals). However, all interviewees declare their intention to buy e-coupons in the future.

Ambivalence emerges also related to the self-perception area: someone feels her/himself smart or competent in buying e-coupons, while some others perceive themselves as compulsive shoppers or think to have bought not really needed things.

The 'social dimension' is almost irrelevant: few people share through Facebook or Twitter their experience and most of the interviewees are buying mainly for themselves.

As far as the consumer behavior is concerned, dd seems to be a kind of fashion, since our participants are less enthusiast and buy less than one year ago. They perceive the bargain side of the offer, behaving like "cherry pickers" and not coming back without the coupon. So they are not going to change significantly their shopping behavior.

Our data about e-commerce point out that there is a significant link between e-commerce and dds purchase: all our participants have had prior experience with e-commerce sites and with online outlets which they perceive as much more reliable than dd sites.

Given the qualitative approach of our research, the results cannot be statistical representative; however they let us draw some useful implications, mainly for sellers. The general dissatisfaction about dds shows the need for retailers to improve the level of service in order to transform new customers in loyal customers, using the dds as a real marketing tool, and not only as a simple way to make money in the short-run. A good level of service and an enjoyable experience, and not only a very low price, should act as an incentive for new customers to come back again, and to activate word-of-mouth, that is so important for this kind of shopping.

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