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DEALING WITH DISCOUNTS

A whole host of deal-based sites have gone out of business. Many others are tweaking their business models. A look at what's working and what's not

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HANDS-ON

Everyone loves a good deal. And there's nothing more gratifying than finding that special item for an unbeatable price sitting right at your drawing room. If nothing else, you can brag about it to your friends and acquaintances on your Google+ group and prove you are way smarter!

Well, with an estimated 50 million internet users scanning the net for good deals every day in India, a whole lot of entrepreneurs thought they couldn't go wrong with a business model that rests on aggregating deals online — an evolved version of coupons in newspapers and magazines we are so familiar with.

As it is, the daily deal model is easy to copy and startup costs are extremely low. Much like New York's Lotto slogan, "All you need is a dollar and a dream," the industry has entrepreneurs seeing the potential for a big pay off. But just as with the Lotto, the chances of winning are beginning to look slim.

As it turns out, players in the daily deal and group buying segment are a hardier lot these days. A huge chunk of the market has simply gone out of business — some have shut shop and others have thought it prudent to sell out. Those that remain are busy tweaking their business models to stay afloat. From 40 daily deal sites in 2010, we have just about a handful now — may be four or five that can lay claim to being pure-play deal players. Add to these figures a recent study that reports last over 20 per cent of daily deals customers become repeat customers, and you can see why the daily deals market is one that seems to divide opinion on its benefits.

So what is going wrong? Is the average Indian's love for a good bargain no more than an exaggeration? "The whole business paradigm is undergoing a shift," points out Kishore Chakrabarti, vice-president, consumer insight, McCann Worldgroup. "If earlier consumers were looking at the cheapest offer, now they are looking at the whole experience, how the deal site makes her life easy or cuts down the peripheral issues she has to deal with during every transaction or every cancellation. In other words, the industry is in a sort of churn, the kind of churn you would notice in an industry just beginning to mature."

Agrees Ryan Valles, CEO, DealsAndYou.com, part of the Smile Group companies. "I don't think the business of group buying and deal sites is ailing in any way," he says. "Rather it is evolving like every other e-commerce business." He says the reason why many think the business is ailing or that it will soon come to a grinding halt is that a bunch of players have decided that their future lies somewhere else. "When a new business model is introduced, a lot of players jump in. Some players are not committed enough to be there for the long run, some are not adequately backed by capital. What has happened in this market is that over the last two years all the non-serious, non-well-funded players have died out. Only the real players are operating now," he adds.

It's not also true that consumer traf-

fic to deal sites is dwindling, forcing players to expand their repertoire? Those in the business will put it down to business compulsion. Valles explains the trend citing the case of Flipkart, a non-deal e-commerce site, which started as online book-store and has diversified into new product categories over time. He says, "This means that their business compulsion was to do a lot more." Of course, there are many players in the deal space who have not diversified. "We have not diversified," he points out. "We are not doing anything dramatically different, because we are committed and know that the long-term prospect in this space is extremely good. India is a country where everybody like to save, avail of discounts. We stand for value, which is actually central to the Indian shopping mentality. So, we think there is absolutely no reason to change our key offering."

Staying focused

Stick to your knitting, in other words. But be careful of the partners you choose, so to say. Ankur Warikoo, CEO, Crazeel.com, part of Groupon Inc., says, "There is definitely a limit on the number of quality merchants in a particular region. If you start getting the wrong kind of merchants or

deal/product gets sold," he says. For Mydala.com, which started with selling deals in 2009, the business is all about merchant show-casing. Although it never took its eyes off the ball — its core proposition of offering attractive deals — it has roped in partners in other platforms, such as print, television and social media to present itself as a comprehensive 'merchant marketing platform'. Talking about diversification and possibilities of expansion in other areas, Anish Singh, founder and CEO, Mydala.com, says, "I am not going to say that we didn't think about it. It is obvious to get tempted leaving from success stories of other e-commerce businesses around. Also when a business model is maturing, one tends to look in different directions to identify the best way forward. Having said that, our business model was always deals and I continue to be our core proposition."

Mydala's merchant marketing platform works on a simple premise. "To market a merchant, we offer whatever platform the merchant requires or suits him best. If a small restaurant in Mumbai approaches Mydala and says I agree to market itself on some local television network or is looking forward to a newspaper ad, we can offer it what it wants. We do certain amount of promotion around that for which we charge the merchant. All our initiatives, in the end, is aimed at driving customers to the merchant," she clarifies.

Here the problem is the high customer acquisition cost, because, of our business model, we are not only 1.5-2 per cent actually buy the deal. This also has a bearing on consumer loyalty, on making sure that people keep coming back to a website to hunt for deals.

With many tempting deals every day on a plethora of daily-deal websites, customers are spoilt for choice. Warikoo believes the problem is not about whether there was a better deal, it's about having possibly the same deal all around. What, therefore, will the balance be a lot favour is the quality of choice. "A spa is a spa. But

customers, you will eventually lose out on both." One way around this is the model Crazeel is following. "Where we have done things differently is, we have stuck to the merchant-first model. The best way to market yourself and the best way to create excitement among the customer is to get a high-quality merchants at a great price. For this, we stick to a deal-a-day model instead of publishing several deals in a day. And it is done with a carefully chosen merchant."

Warikoo adds, "Crazeel, which launched its website only last year, is also unique in the way it is sharing the risk with the merchants. "We only make money when the merchants make money, because we charge the merchant a certain commission from the deal price, but only when the deal/product gets sold," he says.

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Why is a five star spa different from a non-five star spa? If you are a well-informed customer, then you would go for your preferred spa. Even if it is coming for a slight premium, you will have the confidence that you will cherish the experience thereon. That's when the loyalty shifts," he says.

The problem is, most daily deal sites focus on the non-essentials, such as spa treatments, restaurants and entertainment venues, the very thing most of us can do without. And even if we do opt in for the deal, it's doubtful we'll repeat customers. It's not the business's fault; consumers are getting smarter and are looking for deals with more relevance.

Building loyalty

There are many ways to promote loyalty. If a site doesn't already have one, they could build a loyalty card for their daily deals customers. The first time they come in, they should fill out a short form providing key information about themselves. They then get a loyalty card with unique offers based around the daily deals. Use a small amount of times and they receive a free product or service (within a certain budget).

For Valles of DealsAndYou, repeat customers are really important and the formula to keep them hooked is pretty simple: "If you provide the relevant deal to the customers, which they want at the best value and you provide a good experience in terms of acquiring and redeeming the deals, then the customers will come back to the deal site again and again," he professes.

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During initial days, the segment had deal with the criticism that merchant and salespeople at the shop floor probably deal with customers walking in with deal coupons with a lot of criticism and redemption. Merchants quickly realised that if he is attending to a daily-deal customer, he is most likely attending a new customer walking into the store. As a result, the merchant have begun wooing such customers in right earnest in the hope that the come back again, with or without a deal coupon.



ANKUR WARIKOO
CEO, Crazeel.com

"Deal sites tend to step into other areas of business when they see themselves playing in an area which offers low margin, and very few high quality merchants and customers coming in"



ANISHA SINGH
Founder and CEO, Mydala.com

"The appetite for good deals is higher in tier 2 and tier 3 cities than the tier 1 cities. Mobile internet penetration is also extremely high in tier 2 and tier 3 cities of India"



KISHORE CHAKRABARTI
Vice-president, consumer insight, McCann Worldgroup

"If earlier consumers were looking at the cheapest offer, now they are looking at the whole experience, how the deal site makes her life easy"



RYAN VALLES
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