

Discounting the group coupon business

Fierce competition is driving smaller players to their knees

By **JOYCE HOOI**

[SINGAPORE] The go-go business of group coupon websites has ironically become a no-man's land for start-ups. Even as Groupon gears up for an initial public offering in the United States, cyberspace is littered with dormant group coupon sites and virtual cul-de-sacs of dead links.

One website, CoupCult, soldiered on through May before calling it a day as a conventional group deal site after losing ground to the giants of the industry, Deal and Groupon Singapore.

"It's getting very competitive. A lot of merchants had already been approached by (Groupon and Deal)," said Gabriel Lim, the website's co-founder.

Group coupon sites typically get merchants to slash their prices by 50 to 90 per cent. After the group deal site takes its cut of 10 to 50 per cent from the remaining sticker price, merchants are typically left with close to nothing – especially those in the restaurant and spa industries.

CoupCult learnt the math the hard way.

"Even though some of our deals did really, really well, when we went back to these merchants and they said they were happy with the results, most were not willing to do another deal," said Mr Lim.

"Their margins are really, really stretched thin. It's not something that is sustainable for them."

Another site, Joompr – which specialised in car deals – is revamping itself after five months in the business.

"The market is too saturated and people here are not that active in online car-buying," said Paul Poh, a managing partner at J&P Partnership which owns Joompr. Instead, his firm will be launching another car related website next month.

The group coupon industry is a brutal one with ridiculously low barriers to entry. Aspiring technopreneurs can buy a clone of the

Groupon website off eBay for US\$18 and have it installed within the hour.

This, local firms have done by the dozen. Some 14 months after the first coupon site – Deal – opened its doors, more than 50 sites have emerged in Singapore.

Doubtless, the industry's revenue growth has been explosive. According to figures compiled independently from the voucher values on websites by local group coupon website reviewer All Deals Leak, total revenue pulled in by 31 websites soared 56 per cent from April to \$7.2 million in May.

The caveat lies in the fact that 70 per cent – or \$5.1 million – of that went to two players – Groupon Singapore and Deal. Of the 735 revenue-generating deals run in May, only 214 of them were by Groupon Singapore or Deal.

While the smaller sites run the bulk of the deals, they are doing it for much lower revenues per deal and the competition is driving them to their knees.

By the time CoupCult halted website promotions, it had been forced to cut its commission rate from 30-40 per cent to 10-15 per cent.

It does not help that merchants have their reservations about group coupons.

William Tan, a managing partner at Heart Bistro, has run four different deals in the last six months, but has done it very selectively.

"I do not want my business to be viewed as a discounted business. No F&B outlet can survive on 50 per cent discounts all the time," he said.

And while Wilson Lee, a partner at beauty spa Skinmedics Singapore, reckons that group coupons are a good way to get new clients in the door, whether they come back might be another matter.

"There's a huge percentage of these people who buy a lot of vouchers from various sites and try everyone. At the end of the day, their motive is not getting

their skin or body treated. They're beauty-hoppers," he said.

The big players, however, are running a different ball game.

Patrick Linden, chief executive of Dealguru Holdings – the firm behind Deal – has begun nudging the price points beyond the reach of the lowest of the bargain hunters.

"You cannot keep on selling deals for \$3-\$5 because it's not viable. We might do it as a sweetener but we consistently increase the price point, offer more exclusive brands and generate a customer segment which is much more willing to spend," he told BT.

Recently, Deal featured a deal at Todai Restaurant in Marina Bay Sands. "With Todai, it was \$40. With these price points, you get a certain segment of consumers who enjoy the experience but they are not necessarily cheapos."

While smaller players have trouble getting repeat campaigns, websites such

as Deal and StreetDeal have to turn them away.

On average, 80-85 per cent of merchants want to run another deal on the website, said Gregory Costamagna, the co-founder of StreetDeal.

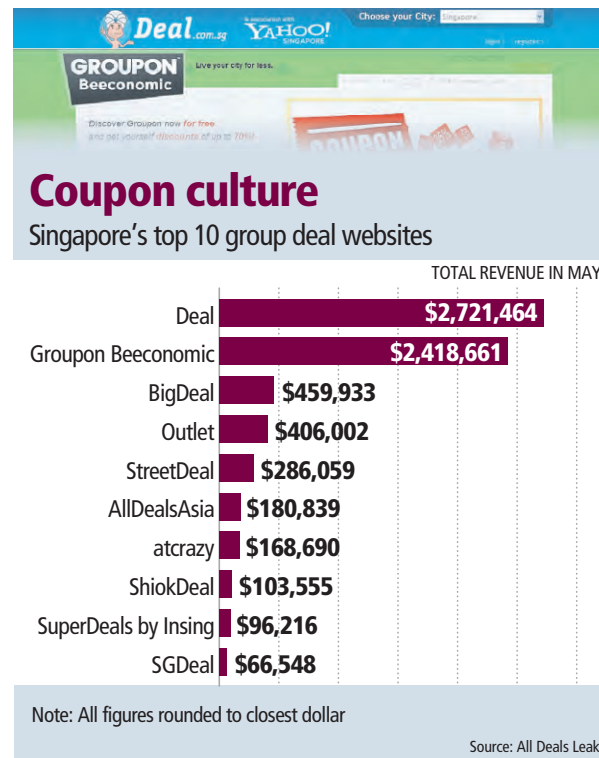
"We get a lot of requests. but we refrain from featuring the same merchant too often, otherwise, the consumers will be bored," explained Olivier Michel, the other co-founder of StreetDeal.

And even as websites with smaller budgets have resorted to cutting commissions, both Deal and StreetDeal say that they are increasing theirs.

With competition rife in the website arena, the next frontier is the mobile one.

CoupCult, having shelved its website, is exploring a location-based app for smartphones and mobile phones which it will launch at the end of the month.

Trouble is, so are the large players. Deal is launching its own app this



week and StreetDeal is canvassing the market for merchants with a scale that smaller sites will be hard-pressed to match.

The dominance of the top-tier sites will only intensify. Deal had 13 people in October but now has almost 30. The bulk of them form a sales army that will

canvass the market for merchants with a scale that smaller sites will be hard-pressed to match.

It would appear that in the land of the very cheap lunch deal, there is no free lunch.