



The Lukens Company

The Daily Deal Bandwagon: Should Your Organization Jump On?

The Daily Deal Bandwagon: Should Your Organization Jump On?

The Popularity of the Daily Deal

It's no secret that daily deals from websites like Groupon and Living Social have grown exponentially in recent years. Just consider the enormous growth seen in Groupon's number of subscribers over the past two years – 152,203 subscribers to 83.1 million since 2009, with an increase in revenue from \$3.3 million to \$644.7 million. (Merced, 2011). According to The Nielson Company, daily deal subscribers are mostly female, relatively affluent, college educated and 57% of Groupon users range in age of 35-64 (Nielsen, 2011), making this an important target group for many marketers.

With a following this promising, it's no wonder that nonprofit organizations want in on the action. At its inception, daily deal websites featured mostly restaurant or service-based offerings. Only more recently have deals expanded to include philanthropically based offers. Groupon and Living Social are in on the action, as well as one new player in the daily deal field, Google Offers. Additionally there are daily deal sites that cater exclusively to smaller nonprofits such as: Deals for Deeds, CauseOn, Sharing Spree and GoodTwo. Philanthropic offers include sites that give a portion of their daily deal profits to a particular organization or matching gift deals (Barry, 2011). This Whitepaper will solely focus on membership deals and, in particular, we'll take a look at a few that have been offered on Groupon.

The Dilemma

While capitalizing on the popularity of daily deals for social good may sound like a win-win idea on the surface, nonprofits must first ask the question of how jumping on this bandwagon might affect their organizations long-term. Sure, offering a deal might bring in new dollars and members for your organization now, but are you really gaining loyal donors you can count on for support once a bargain is no longer on the table? And is offering a deal training the general public to always expect a bargain on membership? What happens in the absence of a deal? And how about the cost of time and money spent on cultivating new members that may not be truly invested in your organization? Sustainability is important to every nonprofit and the lifetime value of your members must be considered when weighing the options of any fundraising strategy; therefore some solid research and insight into the impact daily deal offers can have on an organization are crucial before you decide to take the plunge.

The Lukens Company has had several clients offer daily deals on membership, each experiencing both positive results and challenging side effects. What follows are several case studies and our suggestions on how your organization can best come to a thoughtful decision on whether or not to offer a daily deal on membership.

Case Studies

The Brooklyn Museum

The Brooklyn Museum was one of the first museums to offer a daily deal on membership when they launched a Groupon deal in October 2009. The offer included a \$35 membership for two, plus an exhibition preview reception for *Who Shot Rock & Role: A Photographic History, 1955 to the Present* and Blondie concert. 857 individuals bought the deal, valued at \$85, at a 59% discount.

TLC began working with The Brooklyn Museum in August 2010, almost one year after their Groupon offer. That same month they began renewals based on when the Groupon member activated their

membership. The first mailing was sent in August 2010, two months before the first round of Groupon memberships were set to expire; of the 463 members mailed, only five renewed. The response rate was a mere 1.08% with an ROI of \$1.43 (compared to a renewal mailing sent that same month to non-Groupon members, which received a 26.72% response rate and a \$37.51 ROI). Three more renewal notices were sent to complete the series, only picking up an additional 18 members total.

After poor results, the membership team decided to cut their losses and stop the renewal cycle after four mailings. The best performing notice was the R3 that went out in October 2010 when the Groupon memberships expired. The renewal offer included one month free, a moderate incentive that the Brooklyn Museum intentionally set low so to avoid cultivating members who are used to deep discounts.

The lesson learned from The Brooklyn Museum's Groupon experience is that a strong cultivation plan for Groupon members must be in place before the deal is offered. Because Groupon members join the museum on a whim, it will require a more aggressive and immediate form of cultivation in order to truly connect members with the organization. As seen with the museum's renewal results of its Groupon members, it isn't enough to wait until the members are up for renewal and then offer a small incentive during the month of expiration.

While the Brooklyn Museum was grateful for the additional membership income in fiscal year 2010 when the Groupon members were acquired, they admit it was tough to handle the gaping hole they faced the following year due to the extreme drop in renewed members. The Groupon members were a short term benefit to the organization, but in the end their retention rate suffered and they were left without a major source of income the following year.

Museum of Science & Industry

Chicago's Museum of Science and Industry ran their Groupon deal in September 2010 and they offered bargain hunters two options - \$55 for a one-year "Master" Family membership (a \$115 value) or \$40 for a one-year "Bachelor" Individual membership (an \$80 value). A whopping 9,938 individuals and families bought in, which increased their membership base by 25%!

Due to the incredible boost in membership their Groupon deal provided, TLC recommended that MSI be more aggressive in their efforts to retain members. As a first step in cultivation and retention, MSI mailed an early renewal notice to their Groupon members in May 2011. The notice offered two free months when the member renewed. The mailing resulted in a modest 2.09% response.

As the expiration date for these members approaches this fall, TLC is working with MSI to integrate email, telemarketing and mail renewal notices into their cycle. The plan is to start with a phone call for all Groupon members, mail to those for whom MSI does not have email and phone contact info and then follow up with an email to those who do not respond. To ease Groupon members into the full membership rate, a \$20 discount off membership will be offered. TLC predicts that email will be most effective since that was the vehicle in which members joined.

While we remain hopeful that MSI will be able to retain a significant percentage of their Groupon members, there are unique challenges to this case. Many MSI members are families, a group that tends to be more focused on the value of a membership. As it plans to test in the renewal cycle, it may be that the museum will need to offer significant discounts on membership in order to entice these families to

renew. This focus on membership retention over revenue makes sense for MSI given the considerable number of Groupon members, but of course this decision won't be right for every museum.

Contemporary Jewish Museum

Our last case study is on the Contemporary Jewish Museum in San Francisco, which offered a \$37 household membership Groupon deal in December 2010. The deal was only available to new members and it offered a \$75 value at a discount of 51%. 294 people took advantage of the offer; of those, 17 memberships were purchased as gifts. Groupon offered statistics on the buyers showing that 70% were female, 29% between the ages of 26 and 35, 31% between 36 and 50, and 36% were aged 50+. While the majority of these new members fit the typical member demographic for CJM (ages 50 and older), a third of the respondents were in CJM's most challenging age demographic of under 35. This was a definite "win" for CJM as the museum normally attracts a niche market and they expected that the response to their Groupon offer would be lower than that of other museums.

CJM Groupon buyers were given three months to activate their membership, so TLC strategically planned for a "renewal at birth" mailing to be sent in early March, three months after the deal launched. Similar to MSI's early renewal offer, the mailing offered 20% of membership plus two months free. Unfortunately, the offer was not at all successful and zero members took advantage of the early renewal.

CJM still has a few months before their Groupon memberships expire and they're weighing their options on how to approach them within the renewal cycle. On the one hand, the renewal mailing for this group is relatively small and therefore costs would be low, but they hesitate to put too much into their efforts given results we've seen with other daily deal renewals.

It is interesting to compare CJM's Groupon experience with a similar organization, The Jewish Museum in New York, whose Groupon never even "tipped", meaning they didn't reach the preset number of 100 Groupon buyers in order to make the deal available to all. In a July/August 2010 American Association of Museum's article, the museum's Membership Director speculated that perhaps the reason they fell short of their target by 28 memberships is because they have an older demographic, one that is not represented in Groupon subscribers. Also, the Jewish Museum also doesn't have a huge social network presence compared to many museums, so they couldn't easily spread the word about the deal to their subscribers. (Get Your Groupon On, 2010)

Overall, CJM was pleased with the response to their Groupon deal. They strategically timed the deal to occur during their popular Curious George exhibition, and the December holiday season, which made it an opportune moment to reach out to new families and introduce them to the museum and all that it has to offer as an exciting cultural resource. Amy Zimmerman, Membership Manager explains, "Our goals were dual for membership and marketing -- to reach a *new* audience and make the museum accessible to them; broaden and diversify our base of support; and increase exposure for the Museum. From a marketing perspective, visits to our website doubled on the day of our deal! On the flip side, we never want to de-value membership and would not plan another offer without hard data to evaluate. My expectations for renewals are not high, especially now that daily deals are a dime a dozen, and more statistics are available to measure success."

Further Concerns on Daily Deals

The daily deal dilemma doesn't just affect nonprofits; many businesses are also beginning to question the effectiveness of this quick surge in business. Rice University professor of management Utpal Dholakia wrote a study that revealed nearly 80% of daily deal users are first-time users and only 20% become repeat customers. Only 36% of coupon users will buy goods or services beyond the original deal, so businesses only sometimes make profits in addition to the original deal offered. And as for any hopes of getting repeat business in the future, less than 2% of daily deal buyers return to the business for full-price purchases. (Mitchell, 2011). While a 20% first year membership renewal is quite high for museums, one must consider that naturally the likelihood of a membership renewal is going to be significantly lower given that membership deals last one full year, making the opportuneness an even bigger challenge. Also, in comparison to other daily deals, 50% off of an \$85 or \$100 membership is a significant difference when members are asked to renew at full price; even when they are given a renewal discount of \$10 or \$20 off. Most daily deals are for lower ticket items – pay \$10 for \$20 at a restaurant or pay \$20 for a car wash and detailing – while museum memberships are comparison higher ticket item.

There are undoubtedly questions as to the profitability of daily deal websites, but mobile and social media guru Rakesh Agrawal also questions complex rules of one of the more popular daily deal sites, Groupon. Agrawal points out that the Groupon merchant agreement is incredibly lopsided in favor of Groupon. How so? For starters, the company tacks on a substantial fee for each merchant deal. The amount of the fee varies based on the merchant, but participants can expect to split about 50% of their profits with Groupon. (Agrawal, 2011) For example, if you offer a \$50 membership for \$25, Groupon takes 50% of the \$25, leaving the organization with only \$12.50.

Dig deeper into the Groupon agreement and you'll learn that Groupon doesn't offer any guarantee that the deal will actually run, they may choose to terminate the voucher and agreement at any time and there is an exclusivity clause that states merchants can't run any other deals online simultaneously. And because there is no guarantee when the Groupon deal will run, this can mean months of waiting for the spike in daily deal income. Merchants are also left unprotected against fraudulent redemptions of offers and they must pay all applicable taxes and have unlimited liability against law suits from deal buyers whereas Groupon is only liable for the amount of their "opportunity fee" (or the percentage of revenue they collect from that particular deal). (Agrawal, 2011)

Another detail to consider is that Groupon controls the editorial rights that go along with your deal, so your organization gives up control of copy and the resulting text may not be truly reflective of your brand.

TLC Recommendations

We know this is a lot of information to digest and it is difficult to compare experiences between organizations. Regional demographics, cultivation and retention strategies, and exhibition schedules - all factor in to the success of post-daily deal retention rates.

Should we make the deal?

While the terms on partnering with daily deal sites may be intimidating and the initial findings on long-term success of daily deals for TLC clients are less than optimistic, we understand that the potential of the daily deal is just too good to pass up for many organizations who need to boost acquisition numbers. If your organization does choose to move forward with offering a deal, it is important to **manage your**

expectations. Recognize that while you will certainly see a surge in new members at the onset, it's not likely that you will hold on to those members on a long-term basis.

Before offering a deal, we recommend that clients contact TLC for a full **assessment** of membership costs and revenue, including an analysis of the value that your multi-year members place on their membership. TLC recommends that the **timing** of any aggressive membership discounts be considered in relation to the museum's exhibition and program schedule. For example, if you pair a dual membership offer along with tickets to an opening celebration for an exhibition that isn't expected to be a huge draw, you are helping boost attendance at an event that otherwise wouldn't bring in much revenue. Furthermore, **testing** is always the best approach to offering deep discounts on membership. Consider basing your daily deal on a membership level or affiliate group that could benefit from increased publicity from Groupon or Living Social's key demographic. If growing membership for a targeted group remains a challenge for your organization, aggressive discounting at certain levels might make sense.

Another discussion to have before your organization offers a daily deal is exactly what you're going to offer. While most museums will offer a deal on membership, another tactic might be to give a deal on discounted admission to an event or exhibition. This may make more sense for your organization as you will be left with a group that could be further cultivated for membership, but your long-term membership program won't suffer the potential effects of losing members when your daily deal buyers don't renew. With the right cultivation, these new ticketbuyers could be prime targets for membership.

So you've done your due diligence and the deal is made.

The real work begins after daily deal members activate their membership, typically within three months of the initial offer. While it may not be appropriate for all organizations, a **renewal at birth** mailing to your newly acquired daily deal members might be a good first step, particularly if your museum has an exciting exhibition coming one year out, when the membership will expire.

For some organizations, funneling your newly acquired daily deal members into your **regular renewal cycle** might make the most sense. Of course you will have to consider if you want to offer those members a special discount on renewals or not. Remember, these members were brought into your organization at a deep discount, so chances are these members are bargain hunters who may scoff at the idea of paying full price for a membership. This is when managing expectations comes into play. Your membership team will have to decide what's more important – retaining those members or maximizing revenue? The answer to this question will vary widely depending on your organization.

As with any new member group, **cultivation** of your daily deal members will play a huge factor in retention rates. Below are a few pointers:

- Start with cultivating these members from the onset.
- Have a solid fulfillment package in place.
- Communicate with members regularly. Remember how these members were brought on and consider their likely preferred method of communication – email!
- Consider sending a survey to your new daily deal members and aim to get to the bottom of why they joined. For most, the bargain may have been just too good to pass up, but for others perhaps they were already considering joining and the timing of the deal happened to be just

right. You won't know until you ask and this is valuable information to gain if you want to truly cultivate these members and make them feel connected with your organization.

- Host an event targeting just your Groupon members. The American Museum of Natural History used this tactic for their Groupon joins. They also gave those members free tickets to an IMAX show as a part of their deal.

Another way to better ensure retention is tacking a special interest group membership on to your daily deal offer. If members are automatically enrolled in a special interest group, such as a young professionals or family group, they might be more likely to build a longer lasting connection with your organization. One TLC museum client tried this with great success. Despite low renewal rates among their daily deal members, they found that some of their members did feel strongly connected to the young professionals group they offered as an "add on" to the deal and they subsequently gained five board members who might not have otherwise found their niche at the museum.

Final Thoughts

If your organization is interested in trying a daily deal, the bottom line is you must weigh the cost of the time and investment made on cultivating new members who may not have long term value to your organization. As with any direct marketing technique, what works for one organization may not work for another. Do your homework – study your organization's demographics and identify a particular membership level you need to grow or an event or exhibition you need to promote. Think outside the box in terms of what your organization might offer as a deal. And have a cultivation plan in place before the deal goes live so that no time is wasted on making your new constituents feel valued. With a well thought out plan and carefully managed expectations, your daily deal might be just the right boost to your program.

Questions?

Share with us your questions or comments regarding this whitepaper.

Please contact:

Angela Struebing Vice President, Client Services

Phone: 703-845-8484 ext. 233

angela@thelukenscompany.com

Works Cited

- Get Your Groupon On.* (2010, July/August). Retrieved August 29, 2011, from American Association of Museums: <http://www.aam-us.org/pubs/mn/groupon.cfm>
- Agrawal, R. (2011, June 7). *Analysis of the Groupon merchant agreement.* Retrieved August 15, 2011, from Quora: <http://www.quora.com/Rakesh-Agrawal-2/Analysis-of-the-Groupon-merchant-agreement>
- Barry, F. (2011, February 1). *Group Buying for Social Good: 7 Sites Using Daily Deals to Give Back.* Retrieved August 9, 2011, from Mashable: <http://mashable.com/2011/02/01/group-buying-social-good/>
- Company, T. N. (2011, April 26). *Deal Me In: Behing the Bargain-Hunting Audiences of Local Deal Sites.* Retrieved August 9, 2011, from Nielsen Wire: http://blog.nielsen.com/nielsenwire/online_mobile/deal-me-in-behind-the-bargain-hunting-audiences-of-local-deal-sites/
- Helft, M. (2011, June 1). *Google vs. Groupon.* Retrieved September 22, 2011, from New York Times Bits Blog: <http://bits.blogs.nytimes.com/2011/06/01/google-vs-groupon/>
- Jaacks, C. (2011, September 16). *Google Offers vs Groupon.* Retrieved September 22, 2011, from Coupon Trade Blog: <http://blog.coupontrade.com/2011/09/google-offers-vs-groupon/>
- Merced, M. J. (2011, June 8). *Is Groupon's Business Model Sustainable?* Retrieved August 9, 2011, from Dealbook New York Times: <http://dealbook.nytimes.com/2011/06/08/is-groupons-business-model-sustainable/>
- Mitchell, D. (2011, June 16). *Study Offers Grim News on Deal Sites Like Groupon.* Retrieved August 15, 2011, from CNN: <http://tech.fortune.cnn.com/2011/06/16/study-offers-grim-news-on-daily-deals/>
- Wortham, E. M. (2010, December 3). *Groupon Said to Reject Google's Offer.* Retrieved September 22, 2011, from Dealbook New York Times: <http://dealbook.nytimes.com/2010/12/03/groupon-said-to-reject-googles-offer/>