

Countering the Groupon effect and linking tactics to strategy

August 18, 2011



Bryon Morrison is president of The Marketing Arm's wireless practice

By [Bryon Morrison](#)

Deep discounting in groups is a marketing mechanic that has been around for a long time (think Home Shopping Network). But it has been on every retailer's mind since Groupon and other online group discounting sites began popping up.

The basic model is based on volume discounts where the retailer offers dramatically reduced prices for a large number of customers within a given time window.

Deep group discounting is a proven tactic for immediate bumps in cash flow, but it is not without its pitfalls.

What follows is a discussion of these pitfalls, and a case for mobile marketing – direct marketing through the use of mobile devices – as a strategic approach to building loyalty and how it counters the “Groupon Effect.”

Marketing tactic

While deep group discounting works for getting the retailer's message, location, and product in front of a new customer, for most retailers, its high relative cost prohibits it from being a repeatable tactic for long-term, sustainable customer retention.

This is not to say that there is little value in deep group discounting – it is especially effective when the result is a significant bump in incremental sales, but that is usually not cost-effective as a long-term strategy.

Incremental sales drive profit when fixed costs are covered, and the resulting variable costs added through high-volume discounts are low enough to maintain a margin.

The incremental sales that a time-sensitive deep discount provides will result in a positive cash flow bump, while also having the tactical marketing effect of driving traffic to the retailer and driving trial usage of the product.

Customers, branding and loyalty

One of the primary problems with the deep group discounting is that it rarely attracts the long-term loyal customer.

All too frequently, the discount customer is a “one-and-done” shopper who the retailer will not see again until the next coupon.

This is not a problem if you are simply driving sales, but in order to build a sustainable customer base, retailers must build a stronger branding bond with customers.

The retailer needs to create a reciprocal relationship that motivates the customer to come back soon – and often.

If this reciprocal relationship is solely based on deep discounting, then the customer will require deep discounting for every visit.

Another area where deep group discounting fails is in overall marketing strategy when strategy involves anything other than discounted products.

After the dust settles from a 5000-in-one-week customer run due to a deep group discount, where does a retailer’s brand fit in with customer preferences?

Are customers interested in returning when the product is marked at full retail price? What are the customers’ reasons for buying the retailer’s product? Why are the customers buying the retailer’s product versus the competition?

All of these questions are key to marketing strategy.

Unless answers to these questions revolve around a brand that exists strictly to provide discounted products, deep group discounting should only be used as a tactic to either expose new customers to the product, or provide a bump in cash flow during slow periods.

In moving from marketing tactics to the big picture, how do we link tactics to strategy?

While there are many scholarly answers to this question, I will focus here on just one – the most cost-efficient way to link tactics to strategy: customer loyalty.

Loyalty returns us to the reciprocal relationship mentioned earlier.

When a retailer's brand drives traffic because customers are loyal, discounting does not have to be as deep, margins not as slim and more profit is made per incremental sale.

Which leads us to one of the most cost-effective ways to drive incremental sales through loyalty: mobile marketing.

Creating loyalty cost-effectively

Everyone wants to save money, but to some target markets, however, saving time is just as important. To others the feeling of involvement is paramount. And many of us place access and information at the top of the heap.

All of these points can be delivered via mobile when they are provided at the most relevant moments.

At the beginning of 2011, 85 percent of U.S. consumers owned mobile phones, of which 31 percent were smartphones, and by 2015 smart phone ownership is expected to reach 43 percent.

The population is individually armed with the most sophisticated technology available in such a small, intimate and relatively inexpensive package.

Each one of these devices provides a retail marketer with the opportunity to reach out, engage and interact with a potential loyal customer on their own terms.

This makes mobile marketing's ROI exponentially greater than any other form of advertising or promotion, including deep group discounting. And mobile marketing is able to generate similar exposure to deep group discounting, but in a much more targeted way.

Through location-based services, mobile marketing allows discreet discounting to customers within range of the retailer.

Instead of drawing customers from all over, mobile marketing allows the retailer to target those nearby customers who are most likely to return, establishing a greater chance for loyalty in the process.

A recent survey by JiWire reinforces this: 39 percent of on-the-go consumers are interested in receiving coupons from nearby stores and venues onto their mobile phones.

As for incremental spending, instead of deep discounting, mobile marketing gives retailers the ability to routinely target loyal customers with deals that closely follow their buying habits and not necessarily discount items the customer normally buys.

Mobile marketing provides the retailer with a non-invasive CRM loyalty program that tracks customer purchases, timing and behavior, all within seconds of the customer buying the product or walking through the retailer's door.

Some retailers are reporting multichannel purchasers as being six times more valuable than a single-channel purchaser. Repeat, six times more valuable than a single-channel purchaser.

Mobile marketing gives the retailer a truly adaptive CRM network.

SO LET US review the strategic marketing questions posed earlier in regards to deep discounting:

- Where does a retailer's brand fit in with customer preferences?
- Are customers interested in returning when the product is marked at full retail price?
- What are customers' reasons for buying the retailer's product?
- Why are customers buying the retailer's product versus the competition?

If the answer to these questions involves "loyalty," then the retailer has successfully linked marketing tactics to strategy.

And the most cost-effective way to achieve this loyalty is clearly through mobile devices.

Bryon Morrison is president of [The Marketing Arm's](http://TheMarketingArm.com) wireless practice in Dallas. Reach him at bmorrison@themarketingarm.com.