

# Case Study

A theme park operator considers whether the boost in ticket sales is worth the trouble.

by Marco Bertini, Luc Wathieu, Betsy Page Sigman, and Michael I. Norton



## The Experts



**Gideon Lask** is the founder of BuyaPowa, a UK-based social commerce business.



**Al Bhakta** is the CEO of Genghis Grill, a restaurant chain based in Dallas.



# Do Social Deal Sites Really Work?

The sales reps from DailyDilly had just finished their rollicking video presentation, and the laughter in the meeting room was starting to subside. Ruth Davison, the marketing director of Flanagan Theme Parks, was still smiling when she finally spoke. “I’m thoroughly impressed,” she said. “This would give us the marketing capabilities we’ve always wanted.”

Will Eastman, Flanagan’s operations director, was beaming. He had suggested doing the promotion with DailyDilly, a fast-growing Australian social-couponing company similar to Groupon and LivingSocial. “Then I think we’re ready to make a decision,” he said.

Everyone looked at Allie James, a consultant decades younger than Will and Ruth. Allie had been working with Flanagan for just over a month. She knew she had to kill the DailyDilly initiative but was reluctant to do it with the reps present.

“Let’s discuss this off-line,” she said.

Will slapped the table. “Come on,” he demanded. “We’re here *now*.” The DailyDilly reps became wide-eyed.


Allie took a deep breath. If Will was going to push her, she’d be blunt. “No, then,” Allie said. “It’s not on.”

Will pushed his chair back and walked out of the room. The reps started to review their presentation, but Allie stopped them with a wave of her hand. Ruth, no longer smiling, told them all she was sorry and stood up to escort everyone out.

Allie knew she had just made some enemies.

Half an hour later, Ruth stopped her in the corridor. “So you’re still not convinced?”

“Roddy asked me to weigh in on DailyDilly for a reason,” Allie said. Roddy Brennan, Flanagan’s managing director, had retained her from Gold Coast Partners, one of Australia’s top management-consulting firms, with a mandate to improve the

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customer experience at the company's six theme parks in Australia and New Zealand.

Ruth glared, and Allie had to summon all her strength to muster a defense. She began: "I know everyone's getting caught up in the group-buying mania. DailyDilly sounds fun, but a promotion like that would hurt the customer experience at the parks and damage your company in the long run."

"Are you hungry?" Ruth suddenly interrupted.

Allie was startled. "Why?"

"I am. Let's get lunch."

"I brought a sandwich—" Allie said.

"Never mind your sandwich," Ruth said. "I'll treat."

### Buckle In

Ruth's was a forceful personality, and Allie soon found herself in the car park. "Buckle in," Ruth said. Allie felt a little as though she were strapping into Flanagan's signature zero-gravity ride. What was it called? Ah, yes—the Great White Shark.

She and Roddy had ridden the Great White Shark together a few weeks back, when he was showing her around Mermaid Landing, the company's flagship park. He had screamed and laughed the whole time, and that tickled Allie. Roddy obviously had the heart of a kid and a real love for his product.

But Flanagan was struggling. The lines were shorter than those at competing parks. The problem wasn't the rides and attractions—they were state-of-the-art. In Allie's opinion, customers were being turned off by careless service, crowded conditions at the eateries, poorly managed traffic flow into and out of the parks, and awkward scheduling of shows. Roddy had brought her in to fix all that. "I want customers to leave here raving about it—*raving*," he had said.

Allie knew she could make Flanagan better. She had already helped an international hotel chain turn around its service reputation and improve guest satisfaction—she was becoming her firm's go-to person for that kind of thing. Allie

was painstakingly attentive to detail and preternaturally decisive, which is exactly what Roddy wanted. "Rule with an iron fist," he'd told her.

Ruth pulled onto the highway. "I noticed you weren't laughing during the video this morning," she said. "Didn't you think that senior citizen group on our zip line was funny?"

"The video glossed over the pitfalls of daily deals," Allie replied, knowing she sounded humorless. "There are ample case studies showing that people who buy from sites like DailyDilly are the worst kind of customers: ones with no loyalty. They're like a flash mob of coupon clippers. They overburden merchants, create shortages, annoy the staff, and erode the experience for other customers." She paused. "Where are we going, by the way?"

Just then Ruth exited at the sign for Coral Wonderland, another Flanagan park. She pulled up to a service entrance, showed her ID, and parked next to a high wall that separated this area from the one that customers see. "Did you notice the river in this park on your tour?" she asked, lowering her window. Allie nodded. "Well, there's a little canal down there," Ruth said, pointing to a glimmer of water under a mass of pipes and machinery. "That's where the river starts. It runs through the whole park."

"I remember ducks," Allie said vaguely.

"The ducks love it," Ruth said. "So do the mosquitoes. That's because it doesn't flow—it's blocked by all of this." She motioned to the machinery. "I'm told this may be the biggest plumbing mess in eastern Australia. The circulation system wasn't built properly, and for years we've been patching it up because we don't have the cash flow to replace it. We can't budget for this kind of thing because revenues are so unpredictable." Satisfied that she'd made her point, she restarted the car.

But Allie didn't get it. "And?"

"I'm talking about DailyDilly. Think about it. If we work with them, our cash flow gets easier to predict—because people pay when the deal is posted, not when

they come through our gates, if they ever do. That's why Will was upset when you said no. He needs to make operations more predictable. I suppose you could argue that cash flows don't affect customer experience, but mozzies breeding in our plumbing cesspool certainly do."

One of those mozzies had apparently gotten into the car. Allie slapped it away. "But how many deals could you do in a year?" she asked. "Three? That's hardly steady cash."

### 50% Off

Back on the road, Ruth pulled up to a fast-food restaurant.

"Here?" Allie gasped.

"Don't worry, we're not eating at this place. I just want to show you something." Inside, they observed customers getting their orders. "Notice the tray mats?" Ruth said. They all carried an ad for Flanagan Parks—a cartoon image of the Great White Shark, along with a coupon offer.

"This is a typical comarketing effort for us, and it's typically bland," Ruth said. "With comarketing we don't control our message. We're limited by our partners' requirements. We can't use sophisticated humor or striking images to differentiate ourselves. We spend many thousands of dollars on this junk, and the return is pathetic." She looked around in disgust. "We're done here," she said.

"And DailyDilly would solve the problem?" Allie asked back in the car.

"We would have more control over pricing," Ruth said. "Right now we're giving away so many coupons that hardly anyone pays full price to get into a Flanagan theme park."

"I'd say that's what's *wrong* with DailyDilly, not what's right about it," Allie replied. "You saw the discounts the reps mentioned this morning: 50%. It creates the same pricing problem as the coupons. We'd be encouraging customers to wait for the next dirt-cheap deal. And no customer values an experience that's 50% off!"

Ruth shook her head. "True, we would take a hit for certain customers at certain



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times. And, yes, we'd get only 25% of the ticket price because DailyDilly keeps half of the promotional price. But overall we'd be better able to maintain our list price, given that we'd eliminate all those other coupons. And we'd be targeting *our* kind of customer: people hungry for a thrill, which is what we sell. Traditional marketing inevitably—invariably—means throwing money at people who aren't really potential customers. With DailyDilly we'd be hitting exactly the right audience—and that's worth a lot."

She turned into another parking area. "Here we are," she said.

"This place?"

"It's a hoot," Ruth said.

## A Long Queue

Everything in the restaurant appeared to be in constant motion, like sea grass in the waves. That's because each table was suspended from the ceiling, and every seat was a swing. Even more surprising was how many of the seats were occupied.

"I'm getting the point that this lunch excursion is a theme-park ride devoted to daily deals," Allie said. "So what's the angle *here*?"

Ruth grinned. "You're right. The ride is over. This is our final destination. The DailyDilly reps told me that this restaurant just ran a very successful group buy, offering 50%-off lunch coupons. They sold thousands of them. That's what you're looking at. Can you think of any other type of marketing initiative that could target so many people predisposed to a quirky experience like this? Forget it. There isn't one."

Allie looked around at the dozens of people gently swinging as they talked and ate. The clink of dishes and the buzz of conversation mingled with the creaking of ropes. But Allie knew that if these were DailyDilly customers, they weren't the good ones every merchant wanted. She'd heard enough from her hotel clients about how badly deal seekers behaved. They were rude, left holes in walls, and, most important, never came back to pay full price.

"Let's talk to them," Allie said.

"Who, the owners?"

"No, the customers." Picking a table of four women in their twenties, she asked if they'd bought into the DailyDilly deal, and indeed they had. "So how much are you going to spend beyond the coupon?"

They giggled. "As little as possible," one said.

"Would you come back and pay full price?" Allie asked.

"Doubt it," another answered. "Who wants to get seasick while you eat?" More laughter.

Allie turned to Ruth. "Ask any table. I'm sure you'll get the same answers. Now imagine these people at Mermaid Landing or one of the other parks. Would they pay for photos or buy stuffed animals? Never. They probably wouldn't even buy food. They'd get sandwiches through some other DailyDilly deal, smuggle them in, and eat lunch on a bench."

Allie pointed toward the door, where another group of young women had just lined up at the hostess stand—more DailyDilly people, no doubt. "Do you see? They're queuing up for tables, just as they'd queue up for the Great White, making the experience that much worse for the good customers, the ones who pay."

"I just see a lot of eager customers, all acquired very efficiently at a relatively low

cost," Ruth replied. "If short queues are Flanagan's goal, we're already a screaming success. I want to see *longer* queues. Not so long that people get fed up, but long enough to make them feel they're waiting for something special—and to make Flanagan money.

"And if you want to interview a deal seeker, talk to me," Ruth continued. "I use DailyDilly for all kinds of things, and I *do* buy more than the coupon value, and I *do* go back to places I like. I'm one of those 'good' customers you're talking about." She paused and looked around again. "This could really help Flanagan," Ruth said. "That's why I'm asking you to reconsider your decision."

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"Eternal damnation? Do you realize how this will look on my résumé?"

## The Experts Respond



**Gideon Lask** is the founder of BuyaPowa, a UK-based social commerce business.

**ALLIE JAMES** is right that Flanagan needs to provide a better customer experience to sustain the business for the long term. What she doesn't see is that social-media discounts might be the perfect way to help the company work toward that goal. But those discounts must be handled with care.

As part of a broad promotional mix, price is a powerful way to drive sales—it always has been and always will be. Social-media discounts extend and refine the benefits of pricing by allowing merchants to reach beyond their usual pools of potential consumers and turn newly acquired customers into online advocates for a product or brand. That advocacy raises brand awareness.

But discounts can destroy margins. At BuyaPowa, we have a sign on the wall that says “Revenue is vanity. Profit is sanity.” Many business owners forget that and focus more on the total dollars coming in than on how profitable each customer is. That makes it too easy for merchants—and their customers—to get addicted to discounts. Discount-addicted customers will never be profitable and can wreck your brand's value because hardly anyone pays full price.

### A discount should always be framed only as a way to lure customers to your product.

Flanagan can avoid the discount addiction by telling customers that any discount is a special, time-limited deal. BuyaPowa's “co-buy” strategy encourages consumers to earn a discount by aggregating themselves into a single transaction. Co-buyers receive, for a brief time and at restricted volumes, a wholesale price for specific products. The limits, which everyone agrees on up front, ensure that a merchant does not start down the slippery slope of ever-deepening discounts.

If Flanagan sidesteps the addiction trap with a strategy like that, Allie can still fulfill her assignment to improve the customer experience. The key, as I will explain, is cash.

Making Flanagan's customers happier is going to take more than getting rid of pesky mosquitoes. It will require investments in training and other steps to

motivate the current staff, not to mention more hiring. That takes cash, of course, and for now Flanagan isn't in a healthy cash position.

A discount through a social-media site could help solve the cash problem—if it is done right. Simply offering discounted daily tickets would get customers through the turnstiles but might not increase cash flow much if the discounts were steep. So Flanagan should consider selling discounted season passes. That would generate a meaningful amount of cash that Allie could quickly deploy in the form of better-managed eateries, more conveniently timed shows, smoother traffic flow, fewer insects, and so on. Families would then show up with their discount season passes, have a fun day in a captivating setting, and leave thinking, “What a great experience that was!” instead of “What a great deal we got!”

Like so many tools, pricing can do a great amount of damage if it's wielded ineptly, but a lot of good if it's handled well. A discount should always be framed only as a way to lure customers to your product. At that point it's up to you to persuade them that they should keep coming back for more of it.



#### WHAT WOULD YOU DO?

SOME ADVICE FROM THE HBR.ORG COMMUNITY

**AT THE** yoga studio I use, Groupon totally disrupts the peace that the regulars enjoy and expect. Classes get too full; people are turned away. Grouponers use cell phones and talk during practice. And they don't buy memberships, as far as I can tell.

**Alex Jarvis, DJ, Graves Hotel Minneapolis**

**I WOULD** not write off DailyDilly and assume that people who buy daily deals are bad customers. Flanagan needs to have faith that all its customers will have a good experience, recommend the parks to others, and come back at some point.

**Jacob Hagemann, founder and CEO, Searcus AG**

**FLANAGAN MUST** first improve customer service, add capacity to the eateries, manage the traffic flow in and out of the parks, and schedule shows to match customer preferences. Then engage DailyDilly for a limited partnership to see how effective it is.

**Hrishikesh Karekar, manager, Amdocs**

**THIS COMPANY** should identify its target segment and then aim to reach that group with incentives. The free-for-all approach that most deals sites offer is not targeted enough for many small businesses—and harms both the top and bottom lines.

**Anirudh Suri, founder and CEO, EkSMS.com**





**Al Bhakta** is the CEO of Genghis Grill, a restaurant chain based in Dallas.

**ALLIE WAS** smart to talk directly with the DailyDilly coupon holders in the restaurant with the swinging seats. Until then, her knowledge about the risks of partnering with daily-deal sites came mainly from reading case studies. The customers told her plainly that they probably wouldn't come back without the deal, and that's exactly what I've seen in the restaurant industry.

Acquiring customers organically is both an art and a science. For restaurants, it starts with choosing the right real estate. About 75% of customers in our industry segment are walk-ins, so people must be able to see you and get to you easily. Then you have to give them a great experience, because word of mouth and repeat business are crucial. A meal can be ruined in a thousand ways, so we must get everything right: the air-conditioning, the music, the quality of the food, the timeliness of the meal's arrival, the accuracy of the check, and much more.

I like to think that if you give consumers a fresh, reasonably priced meal in a pleasant environment, they'll be willing to pay what you ask. Even very price-conscious customers, which many people are today, will recognize the good value you're offering. They'll tell their friends and maybe return again soon.

Given the cost and difficulty of acquiring customers, many restaurants turn to online deals to fill their seats. But deal seekers are different from other customers. Even if they love the food and service, they inevitably look for the next discount: "What offer will I find tomorrow?" If they can't get a deal at your restaurant, they'll look for one elsewhere. In my experience, very few of these deal seekers become regular, full-paying customers, and they are almost never as loyal as the customers you've earned organically.

I think it's dangerous for a customer-facing business to begin offering deep discounts, through a daily-deal site or anywhere else, because the expectation of getting a deal then takes on a life of

## It's dangerous for a customer-facing business in a low-margin industry to begin offering deep discounts through a daily-deal site.

its own. Pretty soon even your longtime customers are hunting for them. In a low-margin industry like mine, that's just suicide.

So, although I'm no authority on the theme-park industry, I agree with Allie that daily deals aren't the best way to build Flanagan's business. However, I don't subscribe to her view that deal seekers ruin other customers' experience. And, of course, I see Ruth's point that daily deals allow a company to market to likely customers rather than to people who don't fit the profile for its business.

Fortunately, companies no longer have to market blindly. Today it's possible to use aggregators to acquire detailed data that identify, for example, who in your community eats out regularly, who likes ethnic food, even who has subscribed to websites that feature Asian recipes. Businesses today can mine that information and market to people who show an affinity for their products or services while ignoring the neighbors who don't. ▾

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Here are a few examples of social media voting deal sites. The main factor that drives the content for these sites is user generated deals and user voting that decides whether an offer becomes popular or not. Deals Plus. This is an extremely well built site by Ben Chui, the man behind Bensbargains.net one of the oldest deal sites on the web. This site allows you to vote by "plusing" deals that users submit. Use coupon codes. Codes allow for you to have more tracking for your sales so you can really find out how well a sale worked by collecting all orders attributed to a promotion. So if you submit a code for social deal sites and it gets tossed around to other coupon-based sites like retailmenot, you will still have the tracking to attribute all sales to that original code. Have a really good sale. Social-couponing engenders a one-time experience, but not necessarily a long-term customer relationship. In addition these customers are widely considered to be more inconsiderate in terms of feeling responsible for the facilities they are using with the deal. Furthermore could the sudden rush of visitors, triggered by the coupons, overcharge the infra-structure of the park. In the worst-case scenario this would lead to an almost collapse of the parks and consequently to a massive decline in the customers satisfaction.