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# Seal that Deal

Deal sites are dime-a-dozen these days but what really goes on behind-the-scenes? Read on to find out

these days, have that advantage over a Mercata, back in the day.

**What has changed?**  
Not much actually. Group-buying web sites feature an offer - say 80 per cent off on a 3 days 4 nights travel package - but that offer will "tip" only when there are a minimum number of consumers (say 30) who want that discount. Tip in this scenario means that the deal will be activated only if there are over-30 people clicking "Buy" on that offer. Another variation of this is Deal-a-day sites, which have heavy discounts on various offerings, and which can be bought by individual consumers without having to wait for others to sign up.

That's the front end. What goes on behind the scenes is interesting.

**Dealing out deals**  
"To source deals and offers we have a dedicated team which directly contacts the service provider. The whole process is similar to that of customer acquisition in any business. Initially the cost of acquiring a customer is high, however, if the business can retain the same customer it becomes a highly profitable customer over its lifetime," says Anurag Aggarwal, CEO of Khojgaru.com.

Faisal Farooqui of Dealface.in, a daily deals site which only offers deals on services concurs. "Seventy per cent of the merchants that are listed on our site are those that we have approached, whereas the other 30 per cent have contacted us."

According to others, such as Groupo's Indian arm Crazeal's CEO, Ankur Warikoo, it is just another marketing platform for merchants, who would anyways spend that money on other media. "All our

Allen had created this site called Mercata.com. The web site, now dead, created a platform for buyers who wanted to shop for the same item. Provided there were enough buyers for that particular item, a discount would be negotiated with the site selling the item. But unfortunately for Mercata, it had to shut down by 2001. Halfway across the world, in China, a variation of this concept was in the works. This phenomenon called Taogou (Chinese for team-buying or group-buying) was quite popular in China by the early 2000s. In chat rooms, like-minded consumers would decide to meet up at a physical retail store on a fixed date, at a fixed time, to buy an item at a discount. It was like an in-store flash-mob, where the consumers would mob the store to get discounts on the same item that everyone wanted to buy. Majority of the time, the consumers got what they wanted, as the seller was selling high volumes, although at slightly lesser margins. It was a win-win for both. Back in the early 2000s, there weren't many social networking tools at our disposal. But in this day and age, with the prevalence of Twitter, Facebook, Google+ and other sites, it is not hard to spread the word and deal-a-day sites which are mushrooming

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**W**e have all come across them at some point online. Popular dailies have them advertised everyday. Yes, we are talking about daily deals and group buying web sites which offer you discounts that will make your jaws drop. Of course there are e-commerce sites featuring deals of the day, but we are concerned only with deal sites. The discounts may at times seem unreal. So ever wondered how these web sites manage to get them in the first place and what goes on behind the scenes? We did too and will try to answer that very question in this article.

**Humble beginnings**  
Group buying has its origins in the late '90s when Microsoft co-founder Paul

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merchants are used to traditional forms of marketing such as radio, print, outdoor, direct marketing. In all such cases, a cost is borne not knowing how much of it is going to come back. On our web site, merchants get access to millions of customers in a single day, at no cost. The cost is only borne per transaction - by which time the merchant has a guaranteed customer."

**Selecting the right deals**  
Selecting the right kinds of deals is critical to keep the consumers happy. There is no point featuring a deal that will have no connect with the consumers. It is also very important to get the credentials of the merchant verified before putting up a deal on your site. "We have a strict evaluation process. We have a team of about seven people who evaluate every

little detail of the offer and the service. We verify the merchant and verify that he is offering genuine services. There have been times, when our team has walked away due to inferior quality in services from certain merchants. Ultimately these are our customers, and we do not want them to have any bad experience," says Farooqui. Majority of the other players use a similar strategy, with over 50 per cent deals being decided after the site has personally approached the merchant.

The discount percentages on offer are decided upon after there has been a mutual back and forth between the deal site and the merchant. Crazeal makes use of Groupo's massive intellectual property on how deals should be structured. According to Warikoo there are three key things to consider; it should help solve a business problem for the merchant; pricing has to be attractive for the end consumer and capacity planning should be considered, so that the site does not end overselling an offer. "We do a stringent quality check where we experience the deal ourselves before offering the same to our consumers. As a matter of fact we often do ghost shopping just to evaluate the entire experience with the merchant," he says.

Farooqui has a team of specialists who know the industry benchmark costs of particular services. "Let's say you want to get a hair straightening done at an upmarket salon and it is priced at ₹2,000. Now we know that the actual cost to the merchant is ₹800, thanks to the experts in our company who have the knowledge of that particular market. So we negotiate for an offer of say ₹1,000. So the final pricing is arrived after a mutual consultation.

"Also deal web sites have data to backup their discount suggestions, so merchants have to take that into consideration as well."

**Payments**  
Where deal sites are concerned, you are looking at two kinds of payments: Payments by the end consumer to the service provider and payments from the merchants to the deal site. Most of the sites do not charge consumers to register.

"As far as Khujgura is concerned, the consumer does not have to pay anything upfront. The whole payment is made by the consumer to the service provider. We then collect our part from the service provider," says Aggarwal.

With other sites such as Dealface, it is the other way round. "As soon as you enter your card or banking details, you will immediately get a payment transaction confirmation. You will be charged. You will also get an SMS - an alphanumeric coupon. You show that to the merchant who will verify it, only then will there be a successful transaction," says Farooqui. So you do not have to pay the merchant.

Crazeal employs a similar pay-first model. It also assigns Partner Service Managers (PSM) to each merchant.

**Other options to find deals**

**Forum deals**  
Another interesting way to sell off products is via forums. Our very own Thinkdigit forum has a section called Bazaar where users can buy or sell products at discounted prices. While most of the time it is the users of the forums who put up sales, many a times, you will find product companies or distributors offering discounted sales provided a certain number of users show interest in buying the product.

**Deal-site aggregator**  
Just like news aggregators, which basically drive traffic to the original source, there are deal-site aggregators as well. The funds of these sites is very simple; they will aggregate the best deals of that day and put them up on their site's front page. Some sites such as Dealidrive.com have a completely user-driven approach to such sites. "As it's a community based bargain hunting site, users post the best of deals in our forums. Other users vote and comment on such deals. The very best are suggested by the users as Front Page Deals by sending us an alert which is very transparent and visible to the entire community. Our team then reviews such deal alerts and cherry picks them and they get featured on our home page," says Jimish Jabanwala of Dealidrive.com. None of the payments happen on the site aggregator, instead users are directed to the actual deal site. The business model of such sites is based on performance marketing and they also help in negotiating exclusive deals for their entire community.

**Read fine print carefully**  
A lot of the deals may come with certain terms and conditions, so you need to be aware of them before you buy the deal. For instance, we recently saw a deal online which said "Get a ₹600 discount voucher from Woodland for ₹39 which can be redeemed on their web site." So far so good. But when we read the terms and conditions, it clearly stated that the offer is valid ONLY on purchases above ₹2,500. So you will have to spend a minimum of ₹2,000 to get effectively ₹500 off. It is very important to be aware of such fine prints before being impressed with the number of people buying that deal or the heavy-duty discount.

**The future**  
This segment is red-hot at present and daily-deal sites comprise India's fastest growing web-vertical. According to comScore, the coupon business is 16.5 per cent of the total e-commerce business! There are many players in the market beating each other down when it comes to costs. But will such a model survive? What is the future for such sites?

Many established players foresee a lot of consolidation in the space. "In the last few months, various internet deal sites have either shut shops or have been acquired or altered their business model as they found their original deal model unsustainable. The number of serious deal sites in India has now come down to four or five, from around 40 in 2010," says Warikoo.

Farooqui, on the other hand feels that there will be a clear demarcation between deal-sites and product-based e-commerce sites. "With FDI coming in, it will be difficult for product-based e-commerce sites to deal with the likes of Amazon. But when it comes to stuff like a local salon or a local restaurant who want to promote their services, it is very well suited for us. Right now it is all hotch-potch. Having a get-rich-quick strategy in this field will not help anyone, those kind of players will likely get absorbed," says Farooqui.

Specialisation of deal-sites based on verticals - such as having dedicated site for travel packages or gadgets or spa visits and so on also looks bleak. Most of the sites we spoke did not foresee their site going extremely niche with verticals when offering deals. ■

**"We try and do some analytics as to how many customers saw this deal, how many customers abandoned this card, how many went ahead with the transaction. And we have an algorithm which takes all this into account and then we decide which deals go on the front page"**  
- Faisal Farooqui, CEO, Dealface.in

**"We help businesses market their services/products to a large audience, through a deal that runs for a short period of time, and only pay for the customer when he/she has bought the service or product. Not a penny before"**  
- Ankur Warikoo, CEO, Crazeal (India unit of Groupo)

**"We have already seen a lot of churn in the pure daily deal sites which provides services, you are restricted to top 10 cities. There are some players who are trying all the cities, but I really don't know what's their ROI on that," says Farooqui justifying Dealface's policy to concentrate only on city-based deals.**

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**Location, location, location!**  
Group-buying and deal-a-day sites are quite hyper-local in nature. When you visit such sites, the first thing you will be asked for is an email address and the next will be your location. Once you enter the location, the emails you will get daily will pertain to discounts being offered for services and products in and around your region. Majority of these sites are currently operable in metro cities such as Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore, Ahmedabad and so on. For services it is a straightforward reason - the vendors or service providers are in your locality. You cannot offer a discount in a Mumbai salon to a user in Nashik. Some of the web sites even break up these cities into regions. For instance we found some web sites which ask for location preference after the Enter City query. Say you want deals only from vendors or service providers based in South Mumbai, then that facility is also available. In the end it's all about location. So have deal-sites thought of entering the interiors of the country?

"I personally feel that there is very little volume outside the top 10 cities as far as local business listings is concerned. However, for an e-commerce vendor, there is a huge demand from Tier-II and III cities.

If you are looking at pure daily deal sites which provides services, you are restricted to top 10 cities. There are some players who are trying all the cities, but I really don't know what's their ROI on that," says Farooqui justifying Dealface's policy to concentrate only on city-based deals.

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