

My Living Social Experience

Kerri Radicella, owner of Childish Things in Boulder CO, has written this account of her experience using Living Social in her consignment shop. We appreciate her sharing of her situation and her actual figures here. All information is offered by Kerri to help others in the resale industry make their own informed choices.

She adds, "Please be sure to let your readers know that Living Social deals only accounted for 6% of my sales during the time frame when it was going on," because she wanted TGTBT.com viewers to understand that the Living Social deal was not a major part of her business in the time frame.

Contact Kerri through <http://howtoconsign.com/find.htm#Colorado> where she has listed both her site and her Facebook page. The shop blog is on our Shop Blogs List at <http://auntiekate.wordpress.com/>

Background:

My store is located in a college town of approximately 100,000 people, not including the college kids. I have a 4000 sq. ft. store which sells mainly children's items. We sell children's clothing, books, toys, furniture, and baby gear. We also sell new items I've purchased—cloth diapers, Melissa and Doug toys, shoes, socks, tutu's and bikes. Our smallest seller, but

commanding the most money per item, is our maternity and women's clothing. I've been in business for 18 years.

Our mix of things that actually sell is as follows:

Children's items—72% of all sales—avg. price of an item—\$9.85

New items I purchase for the store—17% of all sales—avg. price of an item \$10.46

Women's items —9% of all sales—avg. price \$13.78

(One might ask why I don't give up the kid's stuff and sell women's since I get more money per item—simple—there are about 4 other shops in my town who "do women's" much better than I do, and I'm the only kids shop. Also, I LOVE kids—and I'm not a person into fashion, so I don't think I could do justice to a women's store.)

The average sale in my store is about \$35—higher in winter, lower in summer. My average Cost of Goods is about 32% of all sales—based on consigned items. It is different than my consignor split because I make use of expired items that people do not pick up. This IS in my consignor agreement so consignors are aware that if their items do not sell, and they choose not to come get them, if that

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item sells after the consignment period, the store gets the credit. Some items are donated and some are kept to try to keep selling.

The Deal:

I was approached by Living Social to run a deal last November. After thinking it over and coming up with a worst case scenario, I decided that I'd try it and see what happened. I also spoke with the owner of one of the women's stores in town who had already done a Living Social deal to find out her experience.

I decided to run a deal of \$20 of merchandise for \$10. I limited it to 500 people (the minimum allowed) and they had one week to purchase the deal.

Also, I ran it in my town's Living Social Family section so it was being viewed by people with families. By my calculations, if all 500 sold, and when the vouchers were redeemed the person spent only the MINIMUM of \$20, the most I could lose was \$1500. I was willing to take this chance to reach 18,000 female shoppers. I had a few "fine print" things in there—it was valid only on consigned merchandise (not the new stuff—my profit margin is greater on consigned stuff), and they could only buy one for themselves, and 3 others as gifts. Note: people do find ways around this!

If you're not familiar with Living Social, here's how it works. A person buys a voucher for \$10 and you get reimbursed \$5

of that from Living Social. You have to give that person \$20 worth of "stuff" when they come in to shop. So you think you are losing out on \$15, but really you are losing only your COGS (cost of goods) for those items. I pay consignors 40%, so on a \$20 sale, it costs me \$8. This is why I limited it to consigned goods, and also how I figured out my worst case.

Here's how to figure worst case which I think is a very important thing to know:

Total vouchers -500
Spend \$20 each
Total Spent (500X20) \$10,000
COGS on \$10,000 is \$4000 Assuming everything bought is current—none is expired
Reimburse from Living Social (\$5X500) \$2500
Total Loss \$4000 minus \$2500 = \$1500

So here's what happened...

We sold 255 vouchers. Now my worst case would cost me \$765.

We had 218 vouchers redeemed in the 3 month period that the voucher is good for. The total spent using the vouchers was \$7915.65

Figuring a payout rate of 32%, my COGS for those items comes to \$2533.

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Total spent in store
\$7915.65
Less COGS
\$2533.01
Equals Profit (before vouchers)
\$5382.64 This is what I WOULD have profited if
I had not done a deal.
Less vouchers (218X\$20)
\$4360.00
Profit (after subtract vouchers)
\$1022.64
Add Reimbursed (255X\$5)
\$1275.00

TOTAL PROFIT
\$2297.64

Some numbers to look at:

Total average sale was \$36.31—pretty much in line with my “normal” average sales. I gained 25 NEW customers, who spent on average \$31.46—slightly less than normal. 11% of those who redeemed vouchers were NEW people—and they shopped!

So while it may look like it wasn't worth it to run the deal—they didn't spend over and above the “normal average sale”, my feeling is that this deal got 218 people in the door and got them to spend almost \$8000. I also gained 25 new customers in a 3 month period who actually bought something. I didn't lose any money, and my sales numbers for the period of the deal were up 18% over the same period last year—but I cannot attribute all of that to the deal because even after the deal ended, our numbers are up.

Things I might do differently:

While it went very well overall, I would ask Living Social to make it more clear what you can and cannot use the deal on. I had only one person get mad that she couldn't use it on new diapers, even though it was stated as such on the voucher. In the “advertising blurb” they run, they talked about the second-hand and new items we sell. I had asked them to take out the part about the new items, but they didn't—so next time I'd insist they take it out.

I would limit it to one “gift purchase” per person. We had a mom gift it to both her children, plus her own, so she was able to shop 3 times. But I must say, she is a great customer and spends quite a bit of money here, so I wasn't too annoyed.

I just found out about a similar “deal” program using Constant Contact. They KEEP only \$1, \$2, or \$3 of each voucher sold. I plan to use this in the summer when sales are slower to get more people in. Hopefully it works well and helps me accomplish my goal of surpassing last year's numbers!!

A bit of other information on coupon usage at my store:

I track coupon usage, and it's interesting—if you ask people to spend more money to use a coupon, they will. As I mentioned earlier, our average sale is about \$35. I put some

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coupons out in various media. One is a book schools use as a fundraiser, one is a book sold for \$10 that has hundreds of coupons for “eco-conscious” products and businesses, one is a local paper for parents, and some are included in emails I send to consignors and customers.

Most of the coupons are for \$10 off any \$40 purchase. There is one for \$10 off any \$35 purchase, and there’s one for \$10 off any \$50 purchase. I even did one on my website—they were directed to it from an email I sent out—for \$10 off any \$100 purchase. These can be used on ANYTHING in the store.

What I’ve found people will spend:

\$10 off any \$35 purchase—average sale is \$46

\$10 off any \$40 purchase—average sale is \$61

\$10 off any \$50 purchase—average sale is \$73

\$10 off any \$100 purchase—average sale is \$153 (only 5 of these were redeemed—but they were only good for one week)

So if you ask someone to spend a certain amount, it seems like they always spend at least another \$10. And—it seems like the more you ask them to spend, the more they will spend OVER that amount. Nice!!

I also did something that was just for fun—and got me direct advertising. When people came up to the register to check out, I asked if they were on Facebook. If they were, I gave them \$2 off their purchase to

“check-in” at my store. Now their friends could see they had been at my store. We let them use our computer to check in if they didn’t have a smart phone. Their average sale was \$35—which I would expect since I didn’t tell them about the special \$2 until they were paying. It was fun to see what little comments they would write. Not a big sales driver, but it wasn’t meant to be.

I hope this information is useful and will help in planning some of your own promotions!

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