



MOOB RULE

In just nineteen months, Scoutmob has gone from Groupon wannabe to the darling of Atlanta deal seekers. But for the merchants, is it worth the price?

by CHRISTINE VAN DUSEN

illustration by PETER OUMANSKI

ONE DAY IN FEBRUARY,

a salesman met with Barbara O'Neill and promised to dramatically increase her business. As the owner of the Cookie Studio, set in a Decatur strip mall down the street from the Waffle House Museum, O'Neill has spent the last four years baking cookies, cupcakes, and dessert bars in a white-walled space barely big enough to fit ten customers. The chalkboard menu is limited mostly to what's baked fresh: Cherry Ginger Explosion cookies, Key lime cupcakes, toffee pecan bars, and chocolate brownies. On the counter sits a tip jar, the proceeds of which go to the day shelter for women and children where O'Neill volunteered after leaving her job at a New York law firm to live a more family-focused life in the South.

The man with the promises, Evan Pease, explained that he worked for Scoutmob. O'Neill had heard the name before. If you live in metro Atlanta and have a smartphone, you probably have, too. Launched in January 2010, Scoutmob is a website and mobile application that provides discounts at restaurants, boutiques, and other businesses. Unlike big competitor Groupon, which requires users to purchase a coupon in advance, Scoutmob doesn't cost customers a thing. They simply flash the deal to their server or cashier and *presto*—the bill is reduced by as much as half.

The pitch to O'Neill was simple: Sign up with Scoutmob for no cost up front and we'll drive thousands of customers to your business over a three-month period. In return you'll pay us a small fee every time someone clicks on or claims the deal.

By virtually any measure, the Cookie Studio had been a success since it opened; revenues were growing by as much as 50 percent a year, and O'Neill had customers she knew by name. Still, she was eager to bring in new business. She didn't have the money to advertise in the newspaper or on television, which can cost upwards of \$3,200 to \$6,000 a month. Scoutmob sounded like a cheaper, easier way to spread the word. Without giving too much thought to what would happen next, she signed on.

At 6:30 a.m. on May 17, more than 250,000 people in the Atlanta area received an e-mail with a coupon from Scoutmob that read, "Everyone has their own version of a pick-me-up: a long walk on the

Check out Scoutmob's ten most popular deals at atlantamagazine.com/features



Michael Tavani, left, and Dave Payne



IT'S

never been so cool to be cheap. Companies like Scoutmob are built on the notion that as Americans we need never pay full price for anything. Deal hunting even qualifies as entertainment now; TLC's *Extreme Couponing* spotlights com-

pulsive savers, some willing to Dumpster dive for a discount. Where once a bargain could be found only by clipping coupons for products you really needed, companies like Scoutmob have changed the definition of what a coupon is. It's not fifty cents off shaving cream; it's \$20 off your dinner of tagliatelle with wild mushrooms and Parmigiano at La Pietra Cucina.

According to a recent study from Bing and Impulse Research, 74 percent of respondents claimed to search multiple coupon sites every week. Groupon is the pioneer, starting in Chicago in 2008 and growing to more than 83 million subscribers in forty-three countries as of June. After turning down a \$6 billion offer from Google last year, Groupon announced plans to go public | CONTINUED ON PAGE 98



PHOTOGRAPH BY RYAN GIBSON



Mob Rule

Continued from page 75

two months ago, and the company's value was put between \$15 billion and \$20 billion. Groupon works like this: A minimum number of customers must purchase a deal for it to be activated, and the coupons carry an expiration date. So let's say you spend \$25 for a coupon that gives you \$50 off. In general, half of your \$25 goes to Groupon and half goes to the merchant, so the merchant loses \$37.50 on the transaction.

Groupon's cash-up-front approach is the most common in this increasingly crowded marketplace, which now includes Amazon-backed LivingSocial, Google, Facebook, Daily Candy, OpenTable, upstarts like DealMoms and ScoopMama, and Half Off Depot (an Atlanta-based site and app that got \$7 million in funding but hasn't quite established the buzz of Scoutmob).

More than 400 writers and editors are employed to hone what Groupon calls "the Voice," which, in a recent Atlanta coupon for a photo booth rental, sounded like this: "A picture is worth a thousand words, which is why the Oxford English Dictionary consists of only eighteen pages of English nobles spilling tea on their knickerbockers. Visually express your long-winded sentiments with today's Groupon . . . Photobooth Phun's booth creates pictorial evidence of celebration shenanigans while adding flair to any party."

Scoutmob tends to be more personal, and specific. Here's the text from a recent Scoutmob deal for a Persian restaurant in Sandy Springs: "Hookahs, belly dancers, and kabobs. Need we say more? No? Well, we will . . . because that's how we do . . . One thing that sets Fanoos apart from other fine belly dancing establishments around town is the stage where the dancers start their sets; you can fully observe their sexy talents while you dine . . . Owner Jalal will most likely stop by your table during his rounds to make sure you're enjoying yourself and your meal."

You get the sense that the Scoutmob writers have been to the places they're recommending and that you're getting a heads-up from a friend who talks like Tina Fey and skims *McSweeney's*. It's a tone inspired by Liza Dunning, Scoutmob's twenty-nine-year-old founding writer, who named her dog after caustic cousin Maeby from the cult

favorite TV show *Arrested Development*. Then there's the look of the site, with a rubber stamp logo (its top curved and peaked like a mustache), the Revel club for frequent users, and the hidden jokes (drag your cursor over the staff pictures and each gets decorated with tattoos, eye patches, cat burglar masks, and the like).

"Scoutmob began because of the locally owned businesses we love," the site says. "We figured by giving other like-minded folks the incentive to scout these spots for themselves . . . that we—maybe, just maybe—could create a community of even better locals."

The message has resonated. More than 600,000 people are now part of the 'Mob, allowing the start-up to do something almost unthinkable in the post-dot-com-boom era: turn a profit in its first year.

THE TWO MEN BEHIND SCOUTMOB wear tight, gray turtle-necks, and sweater-vests in red and putrid yellow. Christmas lights bounce off their identically thick glasses. One man is seated, while the other stands behind with his hands clasped over his friend's shoulder in an awkwardly intimate

maker, then a journalist, then a sports executive, before settling on law school. After graduation he married his high school sweetheart. On the way home from their honeymoon, he came up with a company called Peachtree360.com, which would e-mail a daily digest of Atlanta happenings to subscribers.

In 2008 Payne saw Tavani's website and sent a two-line e-mail inviting him to a Panera to discuss content ideas for his hot spot company, SkyBlox. Tavani said yes, mostly because nobody had ever contacted him about his business. They brainstormed over cappuccino and bagels. Once Tavani realized Payne wasn't just trying to steal his ideas, the two decided to work together.

Both men were similar in temperament—friendly but soft-spoken, driven but calm to the point of seeming almost lethargic—but neither was a web developer, so they brought on a wireless aficionado and built SkyBlox into a network of 150 hot spots in Atlanta, then began to expand into Denver and Chicago. When the business faltered, Payne and Tavani left it in the hands of the tech guy and spent six months holed up behind door number seven in the

Sears studio pose. Dave Payne and Michael Tavani scoured used-clothing stores to find these outfits for Scoutmob's holiday gathering. Even though it wasn't a dress-up party, they donned the kitschy costumes to recreate the movie poster from the Will Ferrell and John C. Reilly comedy *Step Brothers* for Scoutmob's first official holiday card.

Payne, a former New York investment banker and San Francisco software entrepreneur, moved to Atlanta to work at EarthLink, then started his own company to manage wireless hot spots for businesses.

Tavani thought he wanted to be a film-

redbrick Swift & Co. building in Castleberry Hill. There, in Payne's 1,000-square-foot bachelor pad, they tried to think of an idea that would allow them to tap their current customer base. Then they noticed that other businesses, like Groupon, were doing just that.

"We realized that if we could do what they were doing, but do it for free for consumers and charge businesses in a healthier way and attach a strong brand, then we should be successful," Payne, now thirty-nine, says.

With \$100,000 in funds from their sav-

ings, angel investors, family, and friends, Tavani and Payne started Scoutmob. They paid consultants to build a website and smartphone app, then reached out to SkyBlox customers and began assembling a list of deals. Their approach turned Groupon's on its head. Rather than getting people to pay \$25 for a coupon worth \$50, Scoutmob would not ask for money up front. Instead, the consumer would get the coupon for free—by smartphone, text, or e-mail. Each time a deal was claimed, Scoutmob would get a piece of the action.

It caught on. Groupon users have to worry about using their coupons before they expire. Scoutmob users don't; if a deal expires, it's at no cost to the customer. (Though Groupon merchants get paid either way, Scoutmob merchants may pay for coupons claimed by people who never visit.)

When the work became too much for the duo, they started hiring and moved the kitchen table and couch out of the apartment to make space for cubicles. Downstairs, the closet became a conference room, and the bed was removed so that desks, laptops, metal shelving, and many, many mustaches—on a sailor-suited mannequin; hanging from the ceiling; askew on the baby's face in the Nirvana *Nevermind* poster—could move in.

Fifteen months later, on a Wednesday in April, twenty-eight staffers and one sleepy female mutt named Willy are packed inside Payne's former apartment. This is Launch Day, Scoutmob's most important day since its first, and many of the employees have been here for almost twenty-four hours. Others shuffle in throughout the morning, bleary-eyed and beelining for the giant blue can of Maxwell House and the picked-over plate of banana bread and quiche.

Scoutmob began with the three cities of Atlanta, New York, and San Francisco. On this day, thanks to a \$1.5 million injection from a venture capital fund, the company will add ten more: Austin, Boston, Chicago, Dallas, Denver, Los Angeles, Nashville, Portland, Seattle, and Washington, D.C. The expansion has been in the works for months, requiring hours of web development, troubleshooting, hiring, flying cross-country, making sales calls to wary merchants, calming nerves, editing, blogging, and tweeting.

Somehow the 15.2-ounce orange juice, with two bottles of Skyy Vodka taped to it

IT'S CRUCIAL THAT SCOUTMOB PERSUADES MERCHANTS TO COME BACK AND DO DEALS AGAIN AND AGAIN. AND THAT WON'T HAPPEN IF THE SCOUTS HAVEN'T COME BACK, POSTDEAL, AND PAID FULL PRICE.



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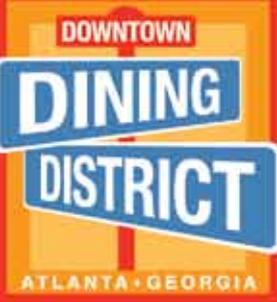


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and a sign that says "Break When Stressed," remains intact on Tavani's desk. It's nearly knocked over as Dunning says "beep beep" while trying to squeeze between two work spaces. Loren Norman, the in-house web developer who actually has an impressively curlicue mustache that he twirls with one hand, doesn't look up from his laptop.

There's a bit of a hipster vibe here, with the mustaches and skinny jeans, but there are also pressed button-downs and Dockers in the mix. When the office playlist lands on Sister Hazel, nobody winces. Dunning, in a silver knuckle ring and oxford shoes, even sings along. The black acoustical foam tacked haphazardly to the walls does nothing to keep the sound from floating through the office; it can't even muffle a cell phone's vibration in the next room, and it certainly doesn't allow a purple-sneakered salesman any privacy while he's giving his best pitch to a barbecue roadhouse in Brooklyn called the Smoke Joint.

This is, hands down, the most measurable form of advertising that's ever existed . . . Well, yes, but . . . We're cheaper than Groupon . . . We drive a customer in and you pay for that customer . . . Let me put it this way: If I went out right now and grabbed a person off the street and sat them in your restaurant, would you pay me \$3 for that? . . . Right, I understand. Sure, think it over. Thanks so much.

Though Scoutmob is a favorite app on Atlantans' phones, it's a tougher sell in other markets, where the company has only three salesmen. There are more than 275,000 users signed up in Atlanta, but there are just 65,000 in New York, a city of 8 million. And it will take six weeks for the newly launched Washington, D.C., mob to reach 12,000.

The salesman clicks off the phone. "That Smoke Joint place is pretty rad," a coworker calls over the cubicle wall, offering feeble encouragement.

"Yeah," the salesman sighs.

"HOW LONG DO WE HAVE, since this table is now somebody's desk?"

It's 8:30 a.m., six days after Launch Day, and the Scoutmob management team of seven is crowded around an Ikea table, hurrying through their agenda before the rest of the staff arrive at the Castleberry Hill loft.

"An hour," Tavani tells Paul Heerin, the CFO.

The agenda at today's meeting includes

discussion of the upcoming move to their new Westside office: a 7,000-square-foot, one-floor space on Means Street. First, though, the executive team does a postmortem of Launch Day, deemed a success given the more than fifty subscribers signing up daily in each new city. Then they turn their attentions back to their hometown market. As the leadership team tosses around business jargon like "bandwidth" and "reducing ramp time," Andy Meeks also uses the word "shit" a lot, particularly when recounting his recent experience at Wisteria restaurant. Meeks, a Scoutmob salesman and a part-time actor, went to the Virginia-Highland bistro on the first night of its deal. The chef-owner, Jason Hill, stomped over and gave Meeks the what-for, grumbling that Scoutmob was too expensive, that Groupon pays better, and why did I sign up for this?

"Sometimes restaurants don't understand how this really works," Payne says to the group. "Sometimes they've had literally thirty minutes of explanation and say, 'Sure, let's do this,' but they don't really understand. That's unacceptable. We need to make sure we're really clear, because we've got a great business model."

There are several reasons why businesses struggle with the Scoutmob model. First, Groupon sends merchants a check every month for the amount they've made on the transactions, while Scoutmob sends a bill. But the cost to merchants is actually *lower* with Scoutmob. Remember how Groupon splits the \$25 you spent for a \$50 coupon down the middle with the merchant? That's \$12.50 for Groupon and \$12.50 for the merchant. Scoutmob is different. Each time a user redeems a deal on his smartphone, Scoutmob's cut is just \$3.

Some Scoutmob deals attract as many as 5,000 subscribers. If all of them get the deal via text or e-mail, the business will owe \$2,500. If all of them redeem in person via smartphone, the bill will be a whopping \$15,000. Of course, some Scouts spend even more when using a coupon, a boon for businesses. But sometimes the customers who have claimed the coupons by text or e-mail never show up at all, and that still costs the merchant fifty cents a pop. "In some cases, we pay for people who never step through our doors," says Laura Corliss, a bartender and server at the Shed at Glenwood, which offered one of the earliest Scoutmob deals.

Some merchants get overwhelmed. One restaurant put up a sign that said "no meat" because the Scouts tapped them out. The servers at Babette's Cafe in Virginia-Highland had to soak their feet after a Scoutmob-related shift.

"The first day was off the charts," says Ria Pell, owner of Ria's Bluebird in Grant Park and Sauced, an Inman Park restaurant that did a deal in January. "We were actually ready for the added traffic, but immediately had to hire a host to deal with seating and reservations."

Another difficulty is how Scoutmob affects waitstaff. "For every Scout who tips a little extra because she's using a coupon, we get one who tips on the discounted total of the check," Corliss says. Merchants have the option to build in a tip, but some opt not to. For it to be an automatic part of the deal is contrary to what the company stands for.

The ultimate goal for merchants is for a Scoutmob deal to attract new customers—customers who come back again and again long after the deal has expired. But those metrics are difficult to track. While the company does offer a 25 percent dis-

count to returning customers, there's no other way to tell how many repeat customers a restaurant gains from Scoutmob. La Pietra Cucina, an upscale Italian spot on Peachtree, counted twenty-seven returning Scout tables during the first month after the restaurant's deal ended.

Says the Shed's Corliss, "We got lots of new faces in the door—which is a big deal for us, because we're in a neighborhood that really isn't a destination yet—and have made regulars out of quite a few of those Scouts. We had three straight months of busier-than-usual shifts."

But the boom was followed by a lull for Sauced. "It's kind of hard to shift gears," says Pell, who won't do another deal with a discounter due to the stress. "I believe our customers would rather it not be so crowded, have more time with their server, and enjoy the laid-back ambiance."

"Unfortunately, the more restaurants that sign up for Scoutmob or the forty other incentive providers, the more choices a consumer has for a deal literally anywhere in the city," she says. "It takes away from the organic thought process of choosing din-

ing options based on previous experiences, versus checking your smartphone for the closest deal or coupon."

So far, none of these concerns have managed to slow Scoutmob down. By May the company had moved into its sprawling new Westside office on Means Street.

"Shh, don't tell anyone," Heerin says, pulling a key from a planter outside the frosted-glass door. He steps inside and taps out a text as he passes the reception desk, manned by the upper half of the mustachioed mannequin, and the conference room with its glossy wood table and high-tech acoustic paneling. He peers over the cluster of sales cubicles, then makes his way through the galley kitchen into the wide-open room where Tavani, Payne, and the rest of the staff have set up their Ikea desks, laptops, lava lamps, and many mustaches.

The \$7,000-a-month rent is chipping away at the venture capital investment from Thanasis Delistathis and the other partners at the Virginia- and Massachusetts-based New Atlantic Ventures, who liked Scoutmob's fresh approach to discounts in large markets. The investors

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plan to pump money into the company, Delistathis says, with the goal of eventually going public or selling Scoutmob. (The company has fielded several offers, Payne says, but none tempting. “They’re not Zuckerberg numbers.”)

CHRIS HUMPHRIES is a Scout in the truest sense and represents the yin and yang of the Scoutmob story. The twenty-eight-year-old engineering consultant and MBA student lives in Inman Park. When Scoutmob first launched here, he was drawn to it for its quirky brand and no-fee structure.

“My wife had the idea of using as many Scoutmob deals as possible as a cool way to have fun touring around the city,” he says.

So one day in the spring, the couple and a friend started with brunch at Cafe di Sol on North Highland Avenue (deal: 50 percent off, up to \$20). Then they hit the nearby San Francisco Coffee for a boost of caffeine (50 percent off, up to \$15). They went up the street to Meringue Clothing, where his wife got a good deal on a shirt and their friend bought some earrings

(50 percent off, up to \$50). From there they went to Fab’rik boutique on West Peachtree in Midtown for more shopping (50 percent off, up to \$50). They headed to Publik Draft House near the Fox Theatre for midday drinks and snacks (50 percent off, up to \$15). Then it was on to Sublime Doughnuts on Tenth Street for the first time (50 percent off, up to \$10). Then, to shake off their sugar and carbs coma, they went to JavaVino Coffee & Wine House (50 percent off, up to \$10). And Humphries wrapped up the night with a glass of Scotch and a stogie at Highland Cigar Co. (50 percent off, up to \$30). That’s eight Scoutmob deals in one day, the current record.

This isn’t to say that Humphries will go only where he can get a discount. But like so many Scouts, he gets satisfaction, personally and financially, from chasing deals.

“I’m a huge fan, obviously,” he says. “You should see the look I give people when they say they’ve never heard of Scoutmob.”

That community of the unaware is diminishing; in Atlanta alone, Scoutmob is getting 600 to 800 new subscribers a day. But in this fiercely competitive industry, the

pool of new merchants to tap for deals is getting smaller, too. It’s crucial that Scoutmob persuades merchants to come back and do deals again and again. And that won’t happen if the Scouts haven’t come back, postdeal, and paid full price.

O’Neill will have to wait to see whether the Scouts return after the Cookie Studio coupon expires. For now, she keeps baking extra chocolate-chip cookies to meet the needs of the deal-hungry customers. She’s trying not to think about the bill that’s sitting on her desk: \$2,100 owed to Scoutmob for the period of May 17 to May 31.

“People are telling me they’ll come back, and they’re spreading the word, so maybe we’ll get an even wider benefit,” she says.

She isn’t sure whether she’ll do a Scoutmob deal again. She’s already fielded repeated, pleading calls from Groupon and LivingSocial, but she won’t even entertain their proposals until she sees whether Scoutmob hurts or helps her bakery over the longer term.

“If I can get a lot of return business,” she says, “then every penny will have been well spent.” ■



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