

Groupon case argumentative essay

[Business](#), [E-Commerce](#)



**ASSIGN
BUSTER**

9-511-094 REV: JUNE 13, 2011 SUNIL GUPTA RAY WEAVER DHARMISHTA

ROOD Gro oupon n e as of On November 29, 2010, the technology industry was buzzing with rumors of Google's bid for Groupon, a two-year-old website that promoted daily deals offering deep discounts from local merchants. Google reportedly offered at least \$3 billion, eclipsing a record rival \$2 billion bid from Yahoo. And as Groupon resisted, Google quickly raised its offer to as much as \$6 billion. Industry expert and financial analysts were sharply divided on Google's move and Groupon's potential value. A multibillion-dollar valuation for a company that is in a business with virtually no barriers to entry and is younger than my toddlers and toddler is absurd Forrester Research analyst Sud, "ail uchitra Mulpuru said bluntly 2 David Kirkpatrick, a former Fortune magazine columnist, sniffed, " Groupon isn't even a technology company, for goodness' sake. It's a discount that happens to use the Internet. " 3 But others regarded the company highly emphasizing its spectacular growth Forbes wrote. "Groupon the "fastest growing company ever," 4 while media industry veteran and journalist John Battelle marveled, "I've never seen anything like it—we since Google And just as Google launched Google, it toppled the Yellow Pages in a fraction of the time, Groupon seems to be on track to do the same to Google. " At the end of a frantic week, Groupon surprised many observers by rejecting Google's offer. Shortly after, the company announced that it had raised \$950 million from private investors, and was rumored to be laying the groundwork for an initial public offering.

The events prompted a broader debate about whether Silicon Valley—which had recently seen very high valuations for Facebook, Twitter, and Zyn er, ngs—was showing signs of another bubble. Jeff Clavier, managing partner at ner SoftTe VC and a well-known angel investor, predicted “There may not be a bubble implosion but, eventually, down the road there will be a bunch of blood and tears.” 6 d Company Origins Groupon, a portmanteau of the words “group” and “coupon,” grew out of Th Point, an online community for collective action The site helped people propose and promote social campaigns such as company boycott and charity fundraiser Each campaign’s creator specified a “tipping point,” the participation level that was required before supporters were called to act. The tipping feature was re _____

_____ Professo Sunil Gupta and Ray Weaver and Research Associates and Associate Dharmishta Rood prepared the case. The authors thank Paul Butler for contributing to online data collection.

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This publication may not be digitized, photocopied, or otherwise reproduced, posted or transmitted, without the permission of Harvard Business School. This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG 511-094 Groupon designed to allocate the community's resources only when a campaign had broad support. It also gave advocates of a cause an incentive to recruit others. The Point was founded in 2007 by Andrew Mason, then a master's student in public policy at the University of Chicago.

When an investor approached him with a funding offer, Mason decided to drop out of school and focus on the project full-time. But with an audience too small for advertising to sustain it, The Point initially struggled to generate revenue. Then Mason noticed that many of the most popular campaigns banded consumers together to get volume discounts from retailers. He decided to try pre-arranging similar deals and promoting them on the site for commissions. ⁷ The experiment was such a success that in November 2008, it was spun off as a separate business, with 27-year-old Mason its Founder and CEO.

Two hallmarks of Groupon—a focus on local merchants and a self-imposed limit to a single promotion each day—were designed to cope with minimal scale and resources. Mason explained: Have a different [offer] but only one every day so our very small community will still be large enough so that if we channel it all into one thing we'll be able to achieve the critical mass that we need in order to make a success.... That's part of why we went local. It

became possible to go around to the people in our office building for starters. We kicked it off with just 500 people that we got signed up on our mailing list. Sales representatives began pitching merchants across Chicago on the idea of promoting their businesses by selling aggressively discounted vouchers for services to Groupon's customer base. In return, Groupon would take a cut of each sale. The concept resonated with both business owners and consumers, and Groupon quickly expanded to other cities, beginning with Boston, New York, and San Francisco. After six months, the company had run more than 100 deals and had acquired 60, 000 email subscribers. 9

Running and Marketing Groupon Promotions Merchant Profiles and Sales

To generate deals, Groupon initially relied on an inside sales team in Chicago that called on local merchants around the country, closing business over the phone and email. Over time, it also began building an outside sales force of account executives based in local markets, starting with large population centers and other cities in which its business had grown rapidly. Though Groupon featured a wide variety of businesses, some themes emerged. Services predominated, though deals for products were not uncommon, especially baked goods and other foods.

There was a strong emphasis on leisure, entertainment and recreation (Table A), and occasionally on novel experiences such as helicopter tours and exotic car rentals. Utilitarian services were less popular. One early flop was pet daycare: “ We learned over time that people don't want to experiment with who is watching their animal,” a company spokesperson explained. 10 2 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon

taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG Groupon 5 511-094 Table A e Merchan Category Mix nt M

Category C Activities A Dining D Salon & Spa S Merchandise M Membership (e. g. Gym) M Tourism T Hotel H % of Deals 29% 28% 20% 15% 7% 1% 1%

Source: Steve Carpenter, “ What Makes Groupon Tick,” TechCrunch, Ma 2, 2010. Based on analysis of a deals run in Q 2010. s ” ay d all Q1 A survey cond ucted by mar rketing servic firm Merc ces chantCircle fo ound that loca businesses faced al a vari iety of challen nges in reach hing customer For one th rs. hing, they had very tight b d budgets: more than e half of the 8, 500 bu o usinesses surv yeyed spent le than \$2, 50 on marketi annually. They often lacked ess 00 ing . he expertise to adopt new media and te a m echnologies (Figure A). Consequentl the lure of an ly, outsourced online promotion with no up-fro expense w compellin And comp w ont was ng. pared to tradi itional adver rtising, Group pon’s impact was relatively easy to obse w y erve and mea asure. Figur A re Local Business Mark B keting Budgets and Preferr Outlets red Facebook or other social me edia pro? le Online yell low pages or local n news site Custom emails mer Blog Print yell low pages Direct mail D Print n newspaper 0% 10% 20% 30% 4 40% 50% 60% 70% Source: MerchantCircl Merchant Con le nfidence Index su urvey, February 2 2011.

Prepa aring the De eal When a merch hant signed on for a prom o motion, it wo rked with G Groupon to d decide the sp pecific produ or service to be offered and its disco uct d ounted price, ordinarily at least 50% of list. As wit

The , ff th Point' social camp 's paigns, the de was valid only if the nu eal umber of buy yers achieved a tipping poi set int by the merchant. Other terms included the voucher's ex e O xpiration date and, in som cases, lim on e me mits 3 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG 11-094 Groupon individual or total purchases. Groupon's standard agreement was a 50/50 split of voucher revenues, but merchants sometimes negotiated better terms. Groupon's editorial staff wrote advertising copy to promote each offer. Their descriptions were intended to be entertaining as well as informative, often striking an irreverent and offbeat tone. One early deal for a Swedish massage, for example, was accompanied by a FAQ that read: Q: Where is Sweden? A: Sweden is a moon colony where aliens have been teaching American astronauts advanced massage technique for hundreds of years. Q: What is so special about a Swedish massage?

A: First of all, the technique comes from outer space. Second of all, it is very advanced. Finally, it relieves the body of lots of stress. Q: How big are the masseuses' hands at Lincoln Park Massage? A: Good question, for hand size is extremely important in massage. They're a size 25 on average. Q: That's not like, disgustingly large monster hands, is it? A: No, that's just a little above average for humans. Perfect for masseuses. Q: There's gotta be a catch. Where is the fine print? A: There is no fine print. Here are the completely reasonable stipulations on today's deal in totally normal size print....

The deal terms, ad copy and an accompanying photograph were then assembled for online presentation (see Exhibit 1 for an example, and Exhibit 2 for representative deals in selected cities). Groupon scheduled promotions according to merchant preferences, though it sometimes committed only to a launch window rather than a specific date. Running the Deal Consumers signed up at Groupon. com to get their city's daily deals, and could request notifications via email, Facebook or Twitter feeds. Each deal was posted online at midnight; outgoing alerts followed in the early morning.

Most Groupons were available for purchase for only 24 hours, and a virtual hourglass counted down the remaining time. The deal page also showed a running tally of vouchers sold throughout the day. Groupon processed consumers' online transactions, then paid out the merchant's cut of the revenue in three equal installments 5, 30, and 60 days later. Online accounts contained each subscriber's available Groupons, which could be printed in advance or presented to the merchant on a smartphone. Groupons for online stores included a unique code to be entered at checkout.

Although the vast majority of Groupons featured local businesses, national brands were occasionally promoted with deals that were coordinated across cities. Groupon ran its first such deal in August 2010 with The Gap, offering \$50 worth of merchandise for \$25. It was a huge hit, generating \$11 million on sales of 445, 000 units. ¹¹ Subsequent offers from Nordstrom Rack and Barnes & Noble were even more popular. And in February 2011, a deal touting new routes on Virgin America sold out in eight minutes. ¹² These big promotions generated buzz that increased Groupon's brand awareness and

motivated new customers to sign up. This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG Groupon 511-094 Groupon Subscribers Marketing Groupon to Consumers Many people first learned about Groupon when friends or family alerted them to deals through email and social media. To encourage this word of mouth, Groupon gave customers \$10 toward a future purchase for each referral. 13 It also set up an affiliate marketing program for bloggers and websites to earn commissions of up to 15% on referred traffic. 4 Facebook and Twitter were Groupon's top referring sites, accounting for 44% and 8% of traffic respectively in January 2010. 15 Groupon also got attention for a contest in which one customer was challenged to "Live Off Groupon" for an entire year. This "Groupawn" would be provided an unlimited supply of Groupons for things to eat, do, and buy across America, but could not spend any cash. If successful, he would win a \$100,000 prize. Several hundred hopefuls applied, and 28-year-old Chicagoan Josh Stevens was chosen as the winner. Stevens began the challenge in May 2010, posting updates and pictures in various social media along the way. 6 Over time, Groupon began supplementing these efforts with paid advertising, spending heavily on Google AdWords and AdSense. And in February 2011, the company launched its first TV campaign with a Super Bowl ad, for which each spot cost a reported \$3 million. 17 The campaign tried to capture Groupon's quirky sense of humor, but became a lightning rod for controversy. Each spot featured a celebrity who first appeared to be promoting a social or political cause, then segued into a Groupon endorsement. Actor Timothy Hutton, for

example, intoned: The people of Tibet are in trouble. Their very culture is in jeopardy.

But they still whip up an amazing fish curry. And since 200 of us bought at Groupon. com, we're getting \$30 of Himalayan food for just \$15 at a Himalayan restaurant in Chicago. Many people took offense, accusing Groupon of trivializing and exploiting the Tibetans' plight. Although Groupon was the second-most mentioned Super Bowl advertiser in online discussions, much of the conversation was unflattering: negative sentiment spiked from 10% in January to 60% the day after the game. 18 One viewer tweeted, "Groupon seems to have achieved the unique feat of paying \$3M to lose customers who previously loved them. 19 Mason initially defended the campaign as tongue-in-cheek, but when criticism persisted, he decided to pull the ads. 20 Consumer Response Groupon became very popular among a customer base that tended to be young, well-educated, unmarried, and relatively affluent. Over three-fourths of subscribers were women (Exhibit 3). Consumers enthused not only about the money Groupon saved them, but also about its convenience, variety, and other benefits. I Love Groupon! From my first purchase, I have been hooked. I have purchased several Groupons and have never had a problem redeeming them.

The merchants have always been appreciative of my participation in the Deal. 21 I think I've gained weight trying all the restaurant and bakery deals! But that's where the cycling and exercise deals come in, along with some pampering specials. I'm on a wellbalanced Groupon diet! 22 5 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by

William Forster from August 2011 to December 2011. For the exclusive use of B. WANG 511-094 Groupon allows me to discover even d nts/activities in NYC—I'm a tourist in my hometown w n 2 th hanks to this savvy group. 3 s Redemptions typically began with a big surge in the f first month a after a deal w run, the was declined to a fairly steady, lower rate and finally spiked again shortly before expiration (Figure B). te, y n ore n Figure B Typical Groupon Redemption Pattern n Source: Merchant Welcome Guide, downloaded from www.groupon.com/pages/day-of-your-feature. But so some vouchers were never used. Buye sometime reported feeling “Groupon remorse” when offers that had seemed irresistible became less appealing in retrospect.

One Chicago resident recalled thinking, “What doesn't wait a Segway tour?” as he spent \$160 for four tickets, only to let them expire because he never got around using them. And a Boston woman with \$25 in voucher hanging from various group buying sites lamented, “There just isn't enough time in the day to do it all. I had to do a spreadsheet, and it's so sad, they're all coming due.” Groupon didn't disclose redemption rates, but various estimates put the number between 10 and 30 percent. 4 Many state laws, however, stipulated that vouchers could be redeemed for their purchase price after expiration, often for several years. The remedy was explained on Groupon's website though it was unclear how many consumers were aware of it. **Value to Merchants Positive Reactions** R Many merchants heartily endorse Groupon for its ability to raise awareness, increase traffic, and acquire new customers. Among them was Gerric Adachi,

owner of Aiea Grill in Portland, Oregon: “The concept is sheer genius. The web-site is savvy, interactive format is so well thought out forward and backwards. Who ever heard of acquiring 51 new, quality customers in one day for free with no money up front? You were also right about the Groupon member being a high grade customer, operating at a sophistication level far above that of the typical bargain hunter or coupon cutter. Bill Raupp of San Diego Desserts concurred: “There is clearly no other program that creates that brand awareness, with a positive direct effect to my bottom line.

Groupon far outweighs any other domestic advertising or free advertising program out there.”⁶ This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG Groupon 511-094 American Apparel ran a popular deal in which it offered \$50 worth of clothing for \$25, selling 133,000 vouchers. Afterwards, a company insider listed several positive effects. First, customers spent an average of \$20 above the voucher's face value when cashing in the deal. The promotion also attracted many new customers: “The killer was email address acquisition.... We converted approximately 25% of in store redemptions into signing up for our email list... which is on track to generate an additional five to six figures in online revenue.” Finally, American Apparel negotiated a contract that gave Groupon “much much less than half” of the voucher revenue.²⁷

Negative Reactions Despite such enthusiasm, Groupon's effect on merchant profitability was hotly debated.

One wellpublicized critique came from the owner of Posie’s Bakery and Cafe, who called using Groupon “ the single worst decision I have ever made as a business owner”: I [told the Groupon sales representative] we would have to get at least 50% to cover our costs of product.... What I didn’t think clearly enough about was that that margin we mark up is what covers all of our other costs... like staff, rent, utilities, etc. Our overhead is roughly \$25, 000/month, and this decision was about to make it so that we didn’t cover any of those other costs. [W]e met many, many wonderful new customers, and were so happy to have them join the Posie’s family.

At the same time we met many, many terrible Groupon customers... customers that didn’t follow the Groupon rules and used multiple Groupons for single transactions, and argued with you about it with disgusted looks on their faces, or who tipped based on what they owed (10% of \$0 is zero dollars, so tossing in a dime was to them being generous). After three months of Groupons coming through the door, I started to see the results really hurting us financially. There came a time when we literally could not make payroll because at that point in time we had lost nearly \$8, 000 with our Groupon campaign. 28 U.

S. Toy, a retailer in Kansas City, was also unsatisfied. It offered \$20 worth of merchandise for \$10, half of which went to Groupon. Customers snapped up 2, 800 coupons, but managers became discouraged by their shopping patterns. Co-CEO Jonathan Freiden said, “ It didn’t drive in new people, and the people that were coming in didn’t spend even our average sale. It was just sad. ” He estimated that U. S. Toy lost money on three-quarters of the

transactions, and that 90% of purchasers were existing customers. 29 Profit Drivers It became clear that the success of any particular daily deal depended on a variety of factors, including the mix of new versus existing customers, upside spending at the time of redemption, and success in converting discount buyers into regular customers. Several surveys tried to measure these and assess merchant satisfaction, often with contrasting results (Table B). b a American Apparel's gross profits averaged 53% of sales, according to MSN Money. b Customer mix was not measured in any of these surveys. It was believed to vary widely, but a common assumption was that half of Groupon buyers were new customers. 7

This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG 511-094 Groupon Table B Merchant Surveys about Experiences with Groupon and Other Daily Deals Merchant Responses Not reported 80 150 1, 568 Promotional Partner(s) Groupon Groupon and others Groupon Groupon and others Spending Over Face Value avg redeemer spent 60% over face value Not asked 41% of redeemers exceeded face value Not asked % of Redeemers Who Made 1+ Repeat Visit 22% 19% 25% Not asked % of Merchants Who Would Run Another Deal 95% 93% 57% 45%

Source Groupon Yipit daily deal aggregator Rice University marketing prof. MerchantCircle Sources: www.grouponworks.com/why-groupon; Ian Sherr, "Online Coupons Get Smarter," The Wall Street Journal, August 25, 2010; Jim Moran, "Local Social Commerce: The Explosion of Group Buying," blog. yipit.

com, August 19, 2010; Utpal Dholakia, “ How Effective Are Groupon Promotions for Business? ”, September 28, 2010; MerchantCircle Merchant Confidence Index survey, February 2011.

One cartoonist, poking fun at business owners’ potential naivete, summed up the dilemma this way: while Groupon “ may bring in lots of customers,” merchants might “ lose money on every sale” (Exhibit 4). Groupon, however, argued that bad outcomes were rare: 95% of merchants it surveyed were satisfied with their Groupon experience, and 96% would recommend it to others. ³⁰ And in August 2010, the company reported a waiting list of 35,000 businesses. ³¹ Aggressive Growth Encouraged by its early success, Groupon expanded rapidly, replicating its model in new markets. By the end of 2009, the company operated in about 30 U.

S. and Canadian cities, and business seemed to be booming in nearly every location (see Exhibit 5 for a sample). In 2010, Groupon set its sights on foreign territories, primarily by acquiring companies that had copied its model in their home countries—first in Western Europe, then South America, then Asia and elsewhere. The pace of this expansion was perhaps unprecedented: a little more than two years after its founding, Groupon had operations in more than 500 markets in 43 countries (Table C). One media outlet marveled, “ We can’t think of a company—ever—that is so aggressive about going international so big, so fast. ³² The urgency was driven in part by the sense that an early mover could establish a lasting advantage. But some observers questioned Groupon’s ability to leverage its brand and experience overseas. ⁸ This document is authorized for use only by Boshen

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Groupon's Expansion Date	Nov 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11
Countries	1	1	1	1	1	1	18	29	35	43
Cities	1	2	7	18	28	40	150	230	300	500

Subscribers (Worldwide) Savings to Datea (North America) 50k 700k 1. 7M 3M 6M 13M 50M 60M \$4. 5M \$18M \$42M \$100M \$285M \$400M \$900M a Aggregate consumer savings on Groupons sold in North American markets. Aggregate worldwide savings were \$1, 800M as of March 2011. Source: Compiled from company press releases archived at www.groupon.com/press. These acquisitions were funded in part by several rounds of venture capital financing: \$30 million in December 2009, \$135 million in April 2010, and \$950 million in January 2011. As a result of its efforts, Groupon's revenue exploded from \$33 million in 2009 to \$760 million in 2010. 33 Still, significant upside remained: only 6. % of respondents to the MerchantCircle survey had run a Groupon promotion, with another 13% planning to do so in the coming months. And the local advertising market was estimated at \$100 billion in the U. S. alone. 34 Growing Pains Groupon's growth created significant management challenges, not least of which was the training and integration of newly hired and acquired personnel. The company ended 2010 with over 4, 000 employees, up from just 120 the year before. 35 By comparison, Facebook's employee count was less than 100 after two years in business, and around 2, 000 in early 2011.

This environment occasionally contributed to service failures and other snafus. One Groupon in Yokohama, Japan marketed home delivery from a local restaurant of osechi, a traditional New Year's meal. Demand

overwhelmed the business, and many osechi sets arrived late or in poor condition. In response, Mason posted an apology on YouTube, conceding that his company had “ really messed up. ” Customers were given refunds and credited 5, 000 yen toward future purchases. 36 Another incident involved an FTD Valentine’s Day promotion.

When browsing FTD’s website to redeem their purchases, customers noticed flower arrangements with sale prices (for which their vouchers weren’t valid) below the Groupon discounted price. Some accused FTD of overstating its retail prices to make the offer seem more attractive. FTD and Groupon denied this and called the situation a misunderstanding. Again, refunds were offered to the affected customers. 37 Groupons also sometimes adversely affected a merchant’s regular patrons, as one customer expressed in an online vent: I go to a Sushi bar who has offered a Groupon promotion.

When I arrive there, I encounter a busy, under-staffed, ran-out-of-menu items restaurant where my full price is subsidizing the half-off diners who have destroyed a perfectly fine business for the next few days after the 9 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG 511-094 Groupon Groupon offer. It works for merchandise. For services, a Groupon success is a curse for regular customers/patrons. 8 To alleviate such problems, Groupon undertook a variety of measures, notably the expansion of its customer service organization to 1, 000 employees. The company also rolled out new services to help merchants run promotions smoothly, including a capacity planning

tool and a smartphone app for voucher verification and redemption. 39

Widespread Competition For all Groupon's acclaim as a web darling—media had hailed it as “ the next web phenom” 40 and “ the it digital phenomenon of the moment” 41—the operation was at its core remarkably simple.

Groupon neither held inventory nor carried out fulfillment, relying instead on its merchant partners.

Much of the technology required—email broadcasting, transaction processing, and a website that was fairly basic by Web 2. 0 standards—was mature and fairly cheap. In principle, nearly any organization with a customer database and a business sales function could offer its own daily deals. Accordingly, competitors sprang up in droves, numbering nearly 300 in the U. S. by early 2011. 42 Many closely imitated not only Groupon's business model, but its look and feel as well (Exhibit 6). The largest of these rivals was Washington, D. C. -based LivingSocial.

Although significantly smaller than Groupon, LivingSocial was also growing rapidly, and in January 2011 got a big boost by promoting \$20 Amazon gift cards at half off. (Amazon had recently invested \$175 million in the company. 43) Nearly 1. 2 million customers took the deal. By March, LivingSocial had 24 million subscribers, and was operating in more than 200 cities across 11 countries. 44 Established e-commerce properties also scrambled to participate in the daily deals phenomenon. Some of these served particular niches, such as OpenTable (restaurants), The Knot (wedding services), and Travelzoo (travel).

A cottage industry of aggregators also emerged. These sites sourced no deals themselves, instead collecting and presenting a summary of others' offers to earn commissions on referred traffic. But despite the onslaught, Groupon held a domestic market share of over 50%. 45 Some competitors tried to win merchants over by offering lower fees or leveraging other media. One of these was Double Take Deals, launched by Clipper Magazine, America's largest distributor of local coupon magazines. The owner of Haydn Zug's restaurant in Lancaster, PA, was persuaded. When I learned that Double Take Deals could pay out a higher percentage than Groupon," he said, " I was intrigued. But when they offered me a free full-page ad in Clipper Magazine too, it sealed the deal. I knew that was something no one else could offer. " 46 But perhaps the biggest threat came from the web heavyweights. Spurned by Groupon, Google began developing a competing service of its own called Google Offers. Industry experts expected Offers to promote deals that were relevant to a consumer's current location, tying them to mobile phones and Google Maps (Exhibit 7). 7 Similarly, Facebook launched a location-aware product called Facebook Deals. It offered merchants a menu of promotions to suit different objectives, such as attracting new customers or encouraging repeat visits (Exhibit 8). Groupon 2. 0 To stay ahead of competitors, Groupon was developing a variety of innovations, sometimes collectively referred to as " Groupon 2. 0". One of these was Groupon Stores, which enabled merchants 10 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011.

For the exclusive use of B. WANG Groupon 511-094 to set up virtual storefronts on Groupon’s website. From its store, each merchant could launch selfservice deals of its choosing, dictating the number and frequency of offers (Exhibit 9). Groupon took a commission of 10% of sales, rather than its customary 50%, on these promotions. Because this meant that consumers would have access to more than one deal at a time, Groupon created Deal Feed to collect and personalize each subscriber’s current offers. But the reception for these was lukewarm.

One industry insider, noting that Groupon had quietly removed the “ My Deal Feed” link from its navigation header, speculated that Groupon Stores was “ dead on arrival. ” 48 A more ambitious initiative was Groupon Now. Its vision —similar to those of Google’s and Facebook’s new products—was to offer just-in-time, hyper-local promotions on GPS-equipped smartphones. Groupon Now featured a simple two-button interface: “ I’m Hungry” and “ I’m Bored. ” The product was still in trials, but Mason made his ambitions clear: “ It makes Google’s market look quite small if we get it right.

It’s really tapping into the largest part of commerce in the U. S. —local. ” 49 Looking Ahead In a little more than two years, Groupon had transformed from an unknown startup into a global enterprise with 6, 000 employees in more than 40 countries. A few months after Groupon turned down Google’s \$6 billion offer, Bloomberg Businessweek reported that the company was in negotiations with bankers for an initial public offering that could value the company at \$25 billion. 50 To some, Groupon appeared to be an unstoppable juggernaut.

But detractors rattled off a laundry list of concerns. Could Groupon maintain the high fees it extracted from merchants? Would it be able to fight off Google, Facebook, and an army of copycats? Was the daily deals phenomenon a hot fad that would inevitably cool off? Some even questioned Groupon's fundamental business model: did it deliver lasting value to merchants? Forrester's Suchitra Mulpuru warned, " Everyone thinks this hyper growth is going to continue. If these merchants come to realize these consumers are not coming back, they're not going to do more Groupons.

And if they don't do more Groupons the whole model falls apart. " 51 Andrew Mason was acutely aware of these risks, laying them out in a 2010 year-end internal memo that cautioned his employees against complacency and challenged them to secure Groupon's place among the great Internet businesses: 52 Not only must we continue to beat the thousands of clones who lifted our idea and began at roughly the same time as we did, but now we must also beat the biggest, smartest technology companies in the world. They are coming HARD.

If you feel a little like Frodo climbing Mount Doom, you can't be blamed. Is it hopeless? How can we avoid the fate of the Internet darlings before us – Yahoo, MySpace, Friendster, AOL – that crashed as magnificently as they rose? Companies don't lose to competitors – they lose to themselves. MySpace lost to itself, not Facebook. MySpace essentially handed Facebook the keys to the castle by devolving into a service that wasn't delighting its customers. For whatever reason, it got stuck. It stopped innovating.

By this time next year, we will either be on our way to becoming one of the great technology brands that define our generation, or a cool idea by people who were out executed and out innovated by others that were smarter and harder working. 11 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG 511-094 Groupon o Exhibit 1 Example Daily Deal D Source: Gro oupon. com. 12 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011.

For the exclusive use of B. WANG Groupon 511-094 Exhibit 2 Deal Profiles for Groupons Run in Various Cities Median Deal Terms City Austin, TX Boston, MA Charlotte, NC Chicago, IL Kansas City, MO Omaha, NE Phoenix, AZ San Francisco, CA Tampa, FL Vancouver, BC Launch Date Sep 2009 Mar 2009 Oct 2009 Oct 2008 Nov 2009 Feb 2010 Aug 2009 Jun 2009 Sep 2009 Apr 2010 Voucher Price \$43 \$42 \$32 \$37 \$31 \$29 \$33 \$42 \$28 \$46 Retail Value \$110 \$109 \$86 \$94 \$90 \$85 \$96 \$106 \$82 \$116 Tipping Point 59 94 25 130 51 24 37 56 42 54 Months Valid 5. 7 7. 6 7. 7 7. 3 7. 4 6. 6 7. 1 8. 1 7. 7 6. 9

Source: Compiled by case writers from deals run 10/08 – 12/10, archived on Groupon. com and ThePoint. com. 13 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by William Forster from August 2011 to December 2011. For the exclusive use of B. WANG 511-094 Groupo on Exhibit 3 Groupon User Demogra U aphics Source: [http p://www.grouponworks. com/w why-groupon/demographics. e](http://www.grouponworks.com/why-groupon/demographics) 14 This document is authorized for use only by Boshen Wang in MACC 402 - Groupon taught by

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Exhib 4 bit A Cartoonist's Take e Source: Tom Fishburn Marketoonist. com.

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Quarterly Results in Selected Cities Source: Compiled by case writers

from archived deal results on Groupon. com and ThePointsot. com. 16

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