

Groupon case study

Business



. Coupons have been around forever, so why has Groupon become successful? I believe that Groupon has become successful for many different reasons. First of all, Groupon was the first to transport the traditional "Coupon clipping" to the online world. This opened many opportunities. It was something new, exciting to consumers that they hadn't seen in this way.

So Groupon had a first mover advantage even though they only connected already existing ideas and technologies in a new way. By being online Groupon could reach many, possibly millions, of people at once.

This was a strong argument when Groupon talked to local merchants. As most of these merchants did not have an extensive marketing budget and were not necessarily familiar with new online marketing techniques, this was a great opportunity for them to attract customers without a big investment. Groupon was very smart to lure local merchants by forgoing any up-front payments and letting them decide about specification of the offer such as the tipping point: the merchants thought they had nothing to lose.

Groupon also realized very fast that local merchants respond well to face to face interaction and instead of just trying to make business over the phone and via e-mail Groupon started to build a sales force of accounts executives based in local markets. Furthermore, Groupon was very aggressive when it came to negotiating discounts. Opposed to regular coupons that might vary in the percentage of discounts given, Groupon only gave out vouchers with a radical discount of at least 50%. Being able to find such high discounts on a regular basis for many different products and services all in one place, made Groupon very attractive to consumers.

It was very convenient that the offers were local but not limited to a certain store or product/service.

And the offer was also very simple to use for consumers. They pay for the voucher online at their Groupon account and take the voucher to the merchant where they will get offered item/ service. Secondly, the whole concept of Groupon was very different to the regular “ coupon clipping”. As the name hints, Groupon is a mix of the words group and coupon. The group part is an important variable.

While coupon clipping is something everyone does individually and in privacy, often it is regarded as an embarrassing act and related to “ being poor”, Groupon is a group activity. People have to bond together in order to get a certain offer. It is nothing embarrassing. It stresses the power of consumers bonding together to achieve a discount. Groupon, being online, attracted a very different audience than the regular housewife that clips coupons.

It reached young, educated and relatively affluent people. Groupon also found a new way to introduce coupons to this kind of audience.

They did not simply place boring, informative coupons on their site but they hired special editorial staff to make the coupon descriptions entertaining as well. The new target audience responded well to this approach of mixing real benefits with entertainment. Another important factor is that this audience is highly connected through social media such as Facebook and Twitter and they love to share information with their friends. Groupon hugely profited from this interconnection of their audience. The typical Groupon user values peer-

opinions very highly and Groupon enables them to share their purchases and interests on vouchers with their peers through social media. The smartly integrated concept of the “ tipping point” strongly facilitated this sharing.

In order to get a certain discount I really want, I can increase my chances if I share this opportunity with as many people possible and social media makes this as easy as never before. Another factor that contributed to Groupon's success was that offers were very limited in terms of time. When Groupon started out there was one offer available per day and therefore this offer was only valid for 24 hours. This has a strong psychological effect on consumers.

They are lured to do an impulse action rather than make a rational decision that is thought through. Making the offers timesensitive triggers a feeling in consumers that they might miss out on a chance that will not repeat itself if they don't act now.

Many even bought vouchers that they never redeemed, just not to miss out on an opportunity. In this sense Groupon is speaking to the risk-aversion of the majority of people. The thrill of seeing how much time is left on a coupon and how many others are acting as well, appeals to a person's addictive behavior. We want to repeat the thrill of the bargain hunt.

Groupon then made many moves to foster and expand its initial success. It expanded rapidly into more cities and later on even more countries.

It fostered its connection with social media and the online world by setting up an affiliate marketing program that allowed bloggers and websites to earn commissions. This online referral was also expanded by giving consumers a direct incentive to refer Groupon by offering them a 10\$ reward towards a

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future purchase. Groupon also heavily invested in paid search engine advertising and even created an ad that was shown during half time of the super bowl.

So, to sum up, Groupon made sure that its existence spread as fast and as much as possible. 2.

Local merchants have a mixed reaction about Groupon. What is your opinion- is it good for merchants or not? In my opinion Groupon is not a ready-to-go solution to the problem of low marketing budgets of many local merchants. If Groupon is good or a bad for a merchant first of all depends on the understanding the merchant has about Groupon and the effects that a Groupon-participation might have on his business. One cannot say that Groupon in general has a good or a bad effect for merchants.

In fact, I believe merchants need to consider many factors specifically for their own case and decide if a Groupon promotion can add value to their business or not. It is a case by case question and decision.

One thing merchants have to consider is that Groupon, while being a cheap way to advertise their business, forces merchants to give a high discount on their products or services. Merchants need to calculate under which circumstances it is profitable for them to give such high discounts. They definitely need to consider their fixed costs that need to be covered.

For example merchants could set the tipping point of vouchers at the point when all fixed costs for the period of the offer are covered. Another important fact to consider in this context is that consumers first pay Groupon, which then in turn pays the merchants in equal installments 5, 30
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and 60 days later. So merchants need to be aware that the profits from the Groupon transactions come in delayed.

Merchants also need to consider what kind of people they want to attract to their business. They need to know that Groupon? audience is mainly young single people with high technological knowledge and education as well as that they are mainly women. If a business for example mainly targets an older, wealthier and more sophisticated audience, then Groupon may not be the right promotional tool to reach these target customers. In fact, if merchants do not consider these effects, they might be surprised to find the Groupon bargain hunters to be very different from their regular customers, who in turn might be disturbed by the arrival of the new crowd of customers and lose touch and identification with your business.

Coupons with such high discounts as they are offered on Groupon are also promoting an image of being “ cheap”.

If a business wants to create the image of being exclusive and high-class, Groupon may not be the ideal way of promotion. The same is true for businesses that have a lot of regular customers that have been willing to pay regular prices for a long time. If these regular customers are not the typical Groupon audience, they might feel that they were not rewarded for being loyal to the store while others now get the same products / services for a much cheaper price.

Merchants might be wise to educate their regular customers on the upcoming Groupon promotion so that these customers are definitely able to

reap the benefits of this promotion. Furthermore, merchants need to consider that Groupon can also have a bigger effect than expected.

If interest in the promotion is high they need to make sure to limit their offer to an amount of people that they can actually serve without depleting the quality of the experience. Overall merchants need to consider that Groupon can easily raise trial of your business. But Groupon does not promote brand preference.

It is an easy and cheap way to get consumers into your store for the first time, but then it is up to you to make sure consumers have an experience that makes them want to return or buy other things in your business. Groupon is not a promotional tool for the long run. Many Groupon consumers are interested more in the bargain they can make than in the actual offer.

Merchants have to use the opportunity that Groupon creates of new clients coming in and then need to delight these clients in their own way to make them a customer of their business instead of just a Groupon customer.

If merchants are aware that Groupon is a promotional tool that they need to evaluate in the specific context of their business and if they take into account all the factors mentioned, then Groupon may be very good and valuable for a business. Others may decide that it is not the right tool for them. To sum up, there is no answer to the question if Groupon in general is good or bad for merchants. It is a casespecific question that requires a case-specific answer.