

CHAPTER 10 E-COMMERCE: DIGITAL MARKETS, DIGITAL GOODS

CASE 1 **Groupon: Deals Galore**

(a) The Real Deal With Groupon



VIDEO
CASE

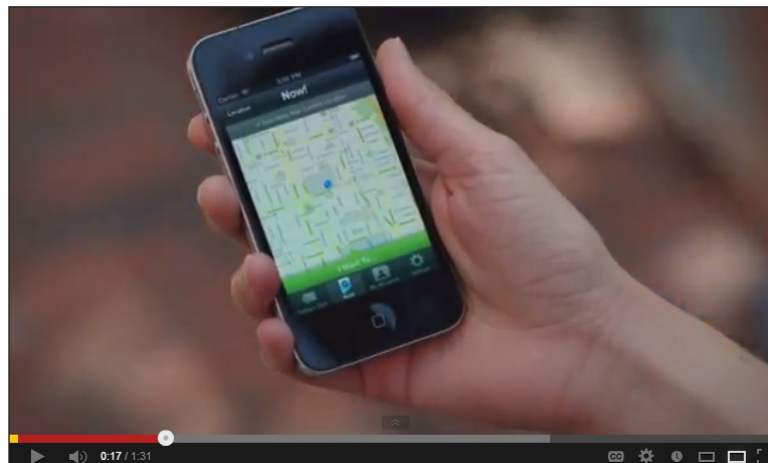


URL <http://www.youtube.com/watch?v=tgeh607ZXA0;L=12:42>

(b) Introducing Groupon Now!



VIDEO
CASE



URL <http://www.youtube.com/watch?v=Vgk1YflnZoM;L=1:55>

SUMMARY: Groupon is the leading daily-deals site on the Internet, with nearly 50 million subscribers. In 2011 it was the fastest growing company in the history of the Internet, but in 2012 it imploded to be one of the fastest falling stocks on Wall Street. Groupon Now! is a Groupon location-based service that finds local deals you can buy and use immediately using your mobile phone. It is one of several new initiatives from Groupon as it seeks to expand beyond the vulnerable daily-deals marketplace.

CASE Groupon's business model is based on the theory that everyone loves a great deal. Groupon is a popular "deal of the day" Web site offering discounted gift certificates usable at local or national companies. Each day Groupon e-mails its subscribers discounted offers for goods and services that are targeted by location and personal preferences. Consumers can also access its deals directly through its Web sites and mobile applications.

Customers purchase Groupons from the company and redeem them with affiliated merchants. The discounts are huge—usually 50 to 90 percent off. But there's a catch: A deal becomes available only if a certain number of people sign up for a specific daily Groupon offer. If the predetermined minimum is not met, no one gets the deal that day. This reduces risk for retailers, who can treat the coupons as quantity discounts as well as sales promotion tools. Groupon makes money by keeping approximately half the money the customer pays for the coupon.

Groupon personalizes "deals" for users who supply some information about themselves, such as their zip code, gender, and age—and it will make sure you see the deals most relevant to you. Subscribers who opt for personalization still receive information about their location's featured deal of the day as well, and they can also pass along deals to their friends via e-mail or broadcast them to their social networks.

Groupon Now! is Groupon's service for mobile users. Subscribers can buy Groupon Now! deal vouchers on a mobile touch site, touch.groupon.com, or through the iPhone or Android app. Most Groupon Now! deals are only valid for a few hours and have a limited quantity.

This is how Groupon Now! works:

1. The user enters his or her location to find deals nearby. The user chooses the type of deal he or she would like to see.
2. If the user finds a deal he or she likes, that person "buys" the deal online via Groupon. The user can print the voucher or bring it up to display on a mobile device.

3. The user presents the Groupon Now! deal voucher to the merchant within the specified time frame and receives a discounted “deal” on movies, restaurants, or retail items.

Groupon grew to \$500 million in revenue in just three years, faster than eBay or Amazon, and now offers more than 1,000 deals each day in over 48 countries. However, since going public in November 2011, Groupon’s stock has fallen about 70 percent, owing to high business costs and a failure to lock in repeat transactions with merchants and customers.

Groupon also faces increased competition from both Amazon.com and Google, which started their own daily deal businesses. Google offered to buy Groupon for \$5 billion in 2011, but was rebuffed. Groupon has attempted to move beyond the group coupon business, into the selling of goods (Groupon Goods) and Groupon Payments (a mobile payment service). In 2012 it rolled out Breadcrumb, a point-of-sale iPad application for hospitality businesses, like restaurants and bars, to manage transactions. The goal, Groupon executives have said, is to turn the company into the back-end engine for local commerce.

Nevertheless, analysts are not convinced that Groupon can ever become a successful online retailer and compete against Amazon, or a mobile payment system that can compete against PayPal. Even in the coupon voucher business, it faces stiff competition, including Facebook. Some analysts argue that its business model is not based on an innovative Web solution for finding customers, but revolves around a sales force in Chicago that calls merchants to propose voucher marketing programs. In the Internet age, a sales force turns out to be very expensive.

VIDEO CASE QUESTIONS

1. What are the weaknesses of Groupon’s business model described in the videos?
2. What features of contemporary e-commerce does Groupon Now! utilize?
3. What value does this service provide subscribing merchants? What value does it provide customers?
4. What kinds of businesses are most likely to benefit from using Groupon?
5. Visit Groupon’s Web site and enter your zip code. What kinds of deals are displayed? Would you use Groupon? Why or why not?

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