

ILLUSTRATION 4.2**Groupon and the sincerest form of flattery**

When a firm identifies a new market niche it must also make sure its resources and capabilities are valuable, rare, inimitable and supported by the organisation.

Chicago-based Groupon was launched in 2008 by Andrew Mason with the idea to email subscribers daily deals of heavily discounted coupons for local restaurants, theatres, spas, etc. Groupon sells a coupon for a product and takes up to half of the proceeds, which represent a big discount on the product's usual price. In return, Groupon aggregates demand from customers who receive emails or visit the website and this provides exposure and increased business for local merchants. The venture rapidly became the fastest-growing internet business ever and grew into a daily-deal industry giant. In 2010, Groupon rejected a \$6bn (£3.6bn, €4.5bn) takeover bid by Google and instead went public at \$10bn in November of 2011.

While Groupon's daily deals were valued by customers – the company quickly spread to over 40 countries – they also attracted thousands of copycats worldwide. Investors questioned Groupon's business and to what extent it had rare and inimitable resources and capabilities. CEO Andrew Mason denied in *Wall Street Journal* (WSJ) that the model was too easy to replicate:

'There's proof. There are over 2000 direct clones of the Groupon business model. However, there's an equal amount of proof that the barriers to success are enormous. In spite of all those competitors, only a handful is remotely relevant.'

This, however, did not calm investors and Groupon shares fell by 80 per cent at its all-time low. One rare asset Groupon had was its customer base of more than 50 million customers, which could possibly be difficult to imitate. The more customers, the better deals, and this would make customers come to Groupon rather than the competitors and the cost for competitors to acquire customers would go up. Further defending Groupon's competitiveness, the CEO emphasised in WSJ that it is not as simple as providing daily deals, but that a whole series of things have to work together and competitors would have to replicate everything in its 'operational complexity':

'People overlook the operational complexity. We have 10,000 employees across 46 countries.

We have thousands of salespeople talking to tens of thousands of merchants every single day. It's not an easy thing to build.'

Mason also emphasised Groupon's advanced technology platform that allowed the company to 'provide better targeting to customers and give them deals that are more relevant to them'. Part of this platform, however, was built via acquisitions – a route competitors possibly also could take.

If imitation is the highest form of flattery Groupon has been highly complimented, but investors have not been flattered. Andrew Mason was forced out in 2013, succeeded by the chairman Eric Lefkofsky. Even though Amazon and many other copycats left the daily-deals business, he struggled to explain how Groupon would fight off imitators and was forced to exit several international markets. In November 2015, he returned to his chairman role and was followed by Rich Williams who stated:

'As CEO, my top priority is to unlock the long-term growth potential in the business by demonstrating everything the new Groupon has to offer.'

Sources: 'Groupon shares crumble after company names new CEO', 3 November 2015, *Forbes*; 'Groupon names Rich Williams CEO', 3 November 2015, *Wall Street Journal*; All Things Digital, 2 November 2012, *Wall Street Journal*; *Financial Times*, 2 March 2013; 'Groupon and its "weird" CEO', *Wall Street Journal*, 31 January 2012.

Questions

- 1 Andrew Mason admits that Groupon has thousands of copycats, yet his assessment is that imitating Groupon is difficult. Do you agree?
- 2 Assess the bases of Groupon's resources and capabilities using the VRIO criteria (Figure 4.2 and Table 4.2).
- 3 If you were the new Groupon CEO, what resources and capabilities would you build on to give the company a sustainable competitive advantage?