

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. Via the emails or by visiting the Groupon website customers purchase these substantially discounted deals in the form of electronic coupons which can be redeemed at the local merchant. Groupon brings exposure and more customers to the merchants and charges them commissions for the same. The venture rapidly grew into a daily deal giant and became the fastest-growing internet business ever to reach a \$1bn valuation milestone and, thus, became a 'unicorn' (name for start-ups with valuations over \$1bn). In 2010 Groupon rejected a \$6bn (€4.5bn) takeover bid by Google and instead went public at \$10bn in 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 the 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 in 2012. 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. Consequently, Andrew Mason was forced out in 2013, succeeded by the chairman Eric Lefkowsky. Even though Amazon and other copycats left the daily-deals business he struggled to explain how Groupon would fight off imitators. The company was forced to exit over 30 international markets. Lefkowsky later returned to his chairman role and was followed by Rich Williams in 2015. He managed to turn Groupon profitable for the first time ever in 2017, but still did not regain investors’ confidence with the share price still below \$4, far from the \$20 IPO price. Williams, however, was optimistic:

“[Groupon] is one of the first unicorns. It got a lot of praise and attention it didn’t deserve at the beginning. We’ve not recovered from that. Over time, the numbers will speak for themselves.”

Questions:

1. Assess the bases of Groupon’s resources and capabilities using the VRIO criteria.
2. Andrew Mason admits that Groupon has thousands of copycats, yet his assessment is that imitating Groupon is difficult. Why do you think that investors disagreed?
3. If you were the new Groupon CEO what resources and capabilities would you build on to give the company a sustainable competitive advantage?

Source:

- Whittington, R. et al., 2020. Exploring Strategy. 12 ed. Harlow: Pearson Education Limited.