

Groupon and the sincerest form of flattery

GROUPON

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.
3. If you were the new Groupon CEO, what resources and capabilities would you build on to give the company a sustainable competitive advantage?

It is not always easy to determine to what extent an organisation's resources and capabilities are distinct and can provide for competitive advantage. It may even be challenging for top managers themselves to evaluate this. This illustration discusses this in the context of Groupon, which went public in 2011 and was the largest internet business IPO ever at this time. There has since been an extensive debate among industry experts and financial analysts to what extent Groupon's resources and capabilities are inimitable and this illustration exemplify core features of this debate. The illustration can also be used to make an initial VRIO analysis. It illustrates the challenges in making these types of evaluations. Hence, it shows that while it is rather easy to distinguish how some resources and capabilities provide for sustained competitive advantage it is much more difficult for others. This is particularly true for completely new and evolving businesses such as Groupon's.

The first question refers to Andrew Mason's various statements and his emphasis on Groupon's operational complexity. While he made some peculiar statements during his reign as CEO, he is probably right that the complexity of the operations could keep serious competitors out temporarily. It is not easy to enter and grow a business of similar size and complexity as Groupon. The question, however, is if this 'operational complexity' is rare and inimitable and thus fulfils the VRIO criteria, which is discussed under the next question.

The next question involves an analytical exercise in terms of VRIO: value, rarity, inimitability and organisation support. Three capabilities can be distinguished in the illustration. First, the operational complexity that CEO Andrew Mason refers to, second Groupon's technology platform and third their customer base. In the tables below each one of these is analysed according to the VRIO criteria.

First, as indicated in the illustration the customers clearly Value Groupon's services and the capabilities that support these seems valuable. The major questions then rather concerns to what extent Groupon's capabilities are Rare and Inimitable.

Second, then is the question of Rareness. The customer base is clearly rare and no one of Groupon's competitors has as large customer base. However, as indicated in the illustration, if other companies that have even larger customer bases would enter the business this could be a clear threat. Amazon already had their own daily deal model even if it is yet not a direct competitor and Facebook had a similar business for a while, but exited. These larger companies could presumably also handle the organisational complexity, but it is still rare and not readily accessible for many smaller entrants in the daily deal industry. The technologies in Groupon's platform, however, are clearly not rare and they have acquired IT technology from other companies themselves to build this capability.

The next issue is Inimitability. The customer base is not easily imitable as it is subject to network effects or externalities – the more users in a network the better for every customer. It will be difficult for competitors to catch up as long as Groupon's customer base keeps on growing. As the company grows, it also becomes increasingly expensive for competitors to acquire customers as they have to offer them even better deals. However, again, should Amazon, Facebook or Google chose to fully enter they could possibly leverage their much larger customer bases. In addition, Groupon needs to make sure that their customers return to keep the customer base thriving.

While Andrew Mason is right that it is not easy to build their operational complexity including 10,000 employees across 46 countries including thousands of salespeople talking to tens of thousands of merchants every single day, it is still imitable. It may take considerable time to imitate Groupon's operations, but it is still possible and probably easier for larger web-based companies such as Amazon.

The technology platform can easily be assembled and acquired by Groupon's competitors even if it may take a while. There are IT systems and consultant companies readily available on the open market that could be bought.

Finally, we have the issue concerning Organisational support. There is not quite enough information in the illustration to assess to what extents the mentioned capabilities are supported by other capabilities in the organisation, but Groupon clearly exploit all three capabilities in their business.

The third question concerns the overall question of sustained competitive advantage. The VRIO analysis shows that Groupon has temporary competitive advantage in their customer base and organisational complexity and of these two capabilities, the former probably comprise a longer competitive advantage. This is indicated by both 'temporary' and 'sustained' competitive advantage being marked below in the table (see the VRIO table below). However, this extended competitive advantage depends on Groupon keeping on growing the customer base and keeping on investing in it. Of course, it also depends on the moves of the competitors, as mentioned Amazon could enter with similar deals models.

Finally, it can be noted that after being fired Andrew Mason launched his own debut music album of 'motivational business music' with the title 'Hardly Workin' including the leading song 'Look No Further.'

<i>Customer base</i>				
<i>Valuable?</i>	<i>Rare?</i>	<i>Inimitable?</i>	<i>Supported by the organisation?</i>	<i>Competitive implications</i>
No	–	–	No	Competitive disadvantage
Yes	No	–	–	Competitive parity
Yes	Yes	No	(Yes)	Temporary advantage competitive
Yes	Yes	Yes	(Yes)	Sustained advantage competitive

<i>Organisational complexity</i>				
<i>Valuable?</i>	<i>Rare?</i>	<i>Inimitable?</i>	<i>Supported by the organisation?</i>	<i>Competitive implications</i>
No	–	–	No	Competitive disadvantage
Yes	No	–	–	Competitive parity
Yes	Yes	No	(Yes)	Temporary advantage competitive
Yes	Yes	Yes	Yes	Sustained competitive advantage

<i>Technology platform</i>				
<i>Valuable?</i>	<i>Rare?</i>	<i>Inimitable?</i>	<i>Supported by the organisation?</i>	<i>Competitive implications</i>
No	–	–	No	Competitive disadvantage
Yes	No	–	(Yes)	Competitive parity
Yes	Yes	No		Temporary advantage competitive
Yes	Yes	Yes	Yes	Sustained advantage competitive

Source: Whittington et al., (2020)