

SEO Keywords: **Business Model**

Headline:

## Is Groupon's Business Model Sustainable?



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[Groupon grew faster than Amazon, Google and eBay](#) did their first year. Last year Google recognized the profitable business model and offered to buy Groupon for \$6 billion. Groupon declined and is about to go public with a current valuation close to \$30 billion.

So obviously Groupon is making money. No question there. But is their business model sustainable? And what is the ROI for companies who advertise with Groupon?



## How Groupon's business model works

Groupon's business model works like this:

They approach merchants and say, "We can help you sell some of your inventory if you give us a large discount (typically around 50%). On top of the discounted price we will also take a cut." Here's how it would work if your product retailed for \$500.

You would offer a 50% discount and Groupon would also take their cut (\$125). This means you would lose \$375 out of the gate. That's why 26% of companies (see study below) who use daily deal sites lose money.

But the *hope* is customers will come to the store and make additional purchases or become repeat clients. But what really happens?

## Latest research examines performance of daily deals

[Utpal Dholakia conducted a study](#) that examined the performance of daily deals run through five major sites (Groupon, LivingSocial, Opentable, Travelzoo, and BuyWithMe) in 23 US markets. He examined 324 businesses that conducted a daily deal promotion between August 2009 and March 2011. The study revealed:

- 55.5% of businesses reported making money.
- 26.6% lost money.
- 17.9% broke even.
- Close to 80% of deal users were new customers, significantly fewer users spent beyond the deal's value or returned to purchase at full price.

## When asked, "Would you run another daily deal promotion?"

- 48.1% said yes.
- 19.8% said no.
- 32.1% were uncertain.



#### **4 red flags regarding the daily deal industry**

Dholakia's findings also uncovered four red flags regarding the industry as a whole:

1. The relatively low percentages of deal users spending beyond the deal value (35.9%) and returning for a full-price purchase (19.9%) are symptomatic of a structural weakness in the daily deal business model.
2. Less than half of the businesses indicated enthusiasm about running another daily deal in the future.
3. Fully 72.8% indicated openness to considering a different daily deal site.
4. Only 35.9% of restaurants and bars and 41.5% of salons and spas that had run a daily deal asserted they would run another such promotion in the future.

#### **Does their business model leave customers disenchanted?**

As a business owner I look at those numbers and don't like the story they tell. It's great to get the word out to the masses but Groupon's audience are not the ideal shoppers most businesses target. They are the tire kickers and coupon clippers.

Wharton marketing professor David Reibstein says, "The industry's current growth rates are unsustainable. Also, he faults the site's business model, arguing that it will leave customers, suppliers and investors disenchanted."

Many speculate that Groupon's bubble is about to burst. Will they regret passing up Google's \$6 billion offer? Only time will tell.

What do you think of Groupon's business model? Do you think they will continue to dominate their market?

