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Social Couponing: Groupon's Influence on Brands

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Report

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Abstract

Social Couponing: Groupon's Influence on Brands

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Groupon was founded in 2008 and became the first official social couponing site, attracting widespread attention from many individuals. By putting a new spin on an old marketing strategy, Groupon was able to alter the manner in which consumers viewed coupons. Their social business model took network marketing to a whole new level by capitalizing on the rising trend of social media and online communities. In addition, the company's rapidly growing subscriber base has prompted many retailers to engage with Groupon in an attempt to generate higher brand awareness. This professional report will explore the influence that Groupon has on retail brands by providing an analysis of two case studies that yielded positive and negative experiences with Groupon.

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Chapter 1: Introduction

Social couponing has been a rising trend within the past several years and has successfully gained widespread attention from many online consumers with the aid of social media and online communities. The first company to tap into this new form of commerce among retailers and consumers was Groupon. Groupon operates on the basis of providing consumers deep discounts to increase brand awareness for retailers.

Although this tradeoff seems like an adequate marketing strategy for many companies, brand managers often find themselves debating whether or not to engage in this new social form of couponing. This rising trend has been the hot topic among consumers and retailers alike, and it is critical for companies to evaluate whether it is the appropriate outlet to use when trying to generate awareness and increase overall sales. Groupon may not be the correct strategy for all companies and it is important for companies to recognize whether it is right for their brand.

Several important questions for many brand managers to consider include: Is it effective and profitable for my brand to engage in social couponing? Does partnering with Groupon help or hinder meaningful consumer-brand relationships? And is Groupon the right advertising solution to attract repeat customers in generating brand loyalty? This report will further examine into the influence that Groupon has on retail brands by providing a detailed analysis of two case studies that yielded positive and negative experiences with Groupon.

Chapter 2, “Situation Analysis,” begins by introducing Groupon as the first company to engage with social couponing. In addition, research on consumer demographics and psychographics are examined to determine who is most drawn to Groupon and therefore more likely to purchase online offers. The chapter concludes with data displaying the rise in digital coupons within the past several years, as well as the predicted increase of utilization into the future.

Chapter 3, “The Research,” explains the rising trend in social media and online communities largely contributing to Groupon’s overall success. Also, the Groupon business model is described in great detail with a complex analysis of Groupon’s top competitors within the social couponing realm.

Chapter 4, “Theories to Support Groupon’s Success,” touches on Groupon’s immense knowledge of consumer psychology and how the company was able to use that information to attract more customers. In addition, several theories are introduced to explain how Groupon has been able to evolve into such a successful company. The theories that play a large contributing role include: Maslow’s *Hierarchy of Needs in Online Communities* and the *Theory of Uses and Gratifications*.

Chapter 5, “Groupon Case Studies and Analyses,” examines two specific Groupon case studies: Galaxy Café in Austin Texas and Posies Café and Bakery in Portland, Oregon. How was it possible that one restaurant was able to have a positive experience with Groupon, while the other experienced a very negative one? The analyses and

discussion further explain what specific criteria is required and recommended for a successful Groupon launch.

Chapter 6, "Conclusion," addresses the benefits that Groupon can offer retail brands that are looking to generate brand awareness and increased sales. Also, Groupon's future is expected to be very bright in the coming years as consumers continue to remain excited about new offers.

Chapter 2: Situation Analysis

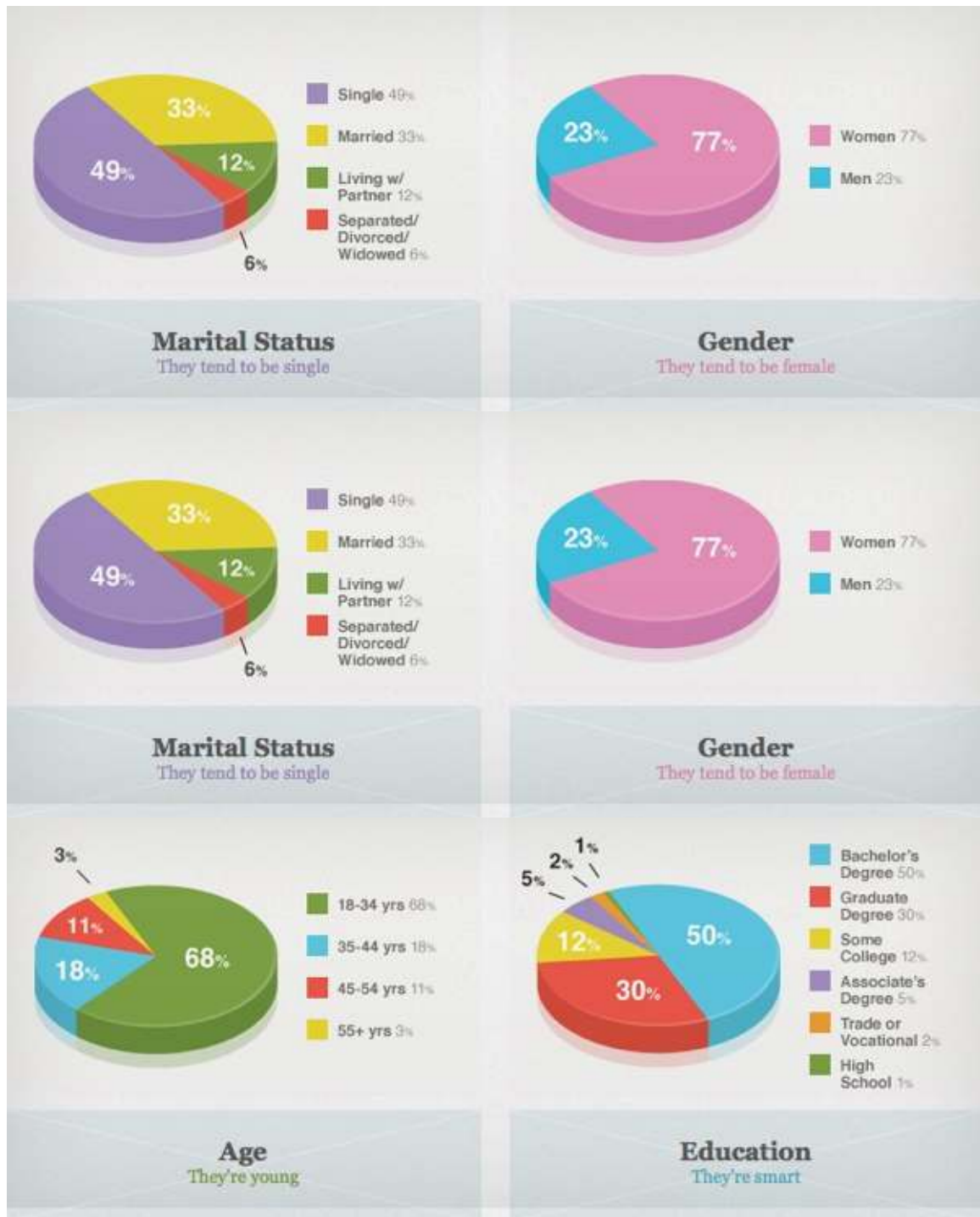
Groupon was the first social couponing company to achieve widespread distribution of retailer deals; however, many competitors quickly followed suit once they noticed the consumer hype that rapidly developed around the new couponing concept. Being the first to tap into the market, Groupon dominated the online realm in offering consumers deep discounts from local retailers who hoped to drive more traffic into their stores.

The manner in which these social coupons operate is straightforward and simple to understand. Customers who are interested in receiving these online offers provide their email address and create a simple profile on the Groupon website. From there, the subscribers are able to view the different daily deals and purchase them if they so desired. However, the discount for the product or service could only be claimed if a certain amount of people collectively purchased the deal. This makes it a win-win scenario for both parties in that the consumer gets the discount, while the retailer gets enough customers to make offering the deal worthwhile.

Consumer Demographics and Psychographics

What kind of consumer is most drawn to Groupon and who is most susceptible to purchasing these online offers?

Figure 2.1 – Groupon Subscriber Demographics



Groupon metrics have revealed that the customers who are the most apt to purchase these online offers are young, intelligent, working, single women with disposable income to spend. Some key statistics from the figure above are that 68 percent are between the ages of 18 to 34, 50 percent have a Bachelor's degree, 49 percent are single, 77 percent are women, 75 percent work full time, and 29 percent earn an annual income of over \$100,000.

In addition, Groupon subscribers are also socially active, both online and offline. 50 percent of these individuals go out at least twice a week, and are habitual users of Facebook, Twitter, blogs, and other social media tools (Grouponworks 2010). In sum, this young and ambitious target niche is highly desirable and is also one of the largest, most sought-after audience segments for many businesses that cater to these specific individuals.

Groupon subscribers can also be categorized easily into four audience segments: the economical buyer, the penny pincher, the coup-o-holic, and the current customer (Hunt 2011). The *economical buyer* actively views daily Groupon deals the minute he or she logs onto their computer each morning. Often times, this consumer is searching for deals at a restaurant or local business that he has avoided in the past due to high prices. This individual does not believe in paying full price for anything and is on the constant watch for sales, coupons, and promotions. The economical buyer is also unlikely to

become a repeat customer unless the business continues to carry deals with deep discounts in the future.

Next, is the *penny pincher* who is obsessed with trying new things within their city. These subscribers treat Groupon as an endless buffet offering countless businesses for them to sample. While a business owner may be thrilled about having new customers who are curious in trying new experiences, these penny pinchers seldom think twice about returning someplace a second time around. Rather, they are often too focused on planning new events to conquer next, depending greatly on Groupon's daily deals to assist them in the process.

In addition, there are some subscribers best known to be *coup-o-holics*. These customers see Groupon as a source of free money. A comment that may be stated frequently among these individuals would be, "Wait, you mean I spend \$10 and get \$25? That's like \$15 free!" As a result, these coup-o-holics end up purchasing almost every single Groupon deal that is offered with the mentality that they are getting a steal, and should never pass up an opportunity to save money. Hoarding these Groupon deals has become the most useful cost-saving moments to them, so much so that it drastically alters their shopping behaviors for months at a time because they must live off the stockpiled deals they have accumulated.

Lastly, are the *current customers* who do not waste their time trying new places or purchasing Groupon deals that they may or may not end up using at all. These

individuals are highly aware of what specific things they enjoy doing and will often times stick to the same routines and establishments each week. In addition, these subscribers tend not to get caught up in the hype of Groupon deals for new and trendy places, but do in fact closely monitor the daily deals that are offered. The moment a Groupon deal is offered for an establishment that he visits regularly, he will jump on the opportunity to purchase the maximum allowable number of Groupon deals that are limited per subscriber. These individuals will then continue to use the deals at the establishment in the upcoming months until they see another offer that catches their attention.

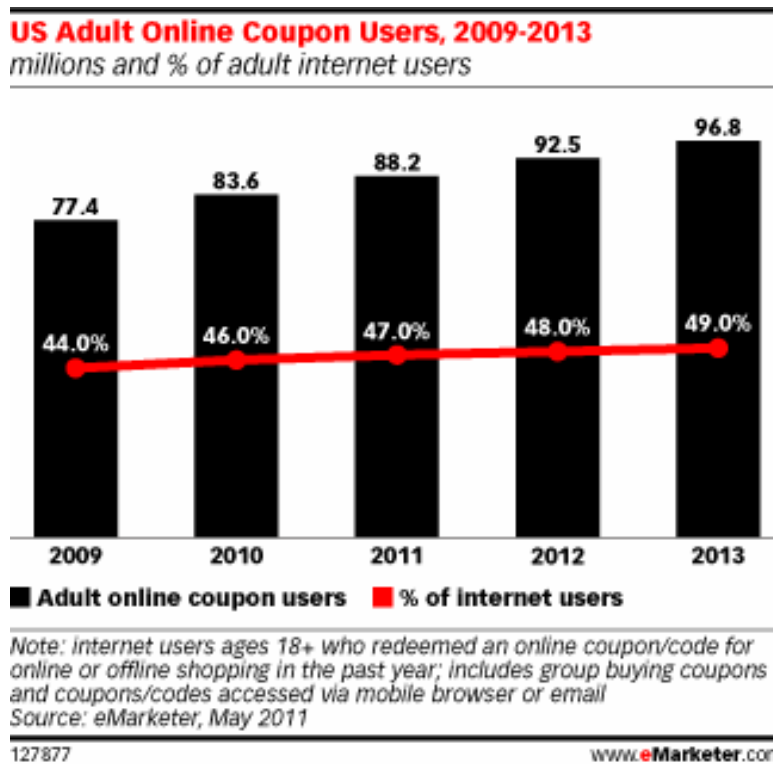
The Rise of Digital Coupons

Coupons originated in 1887, when Atlanta businessman Asa Candler used paper tickets for a free glass of Coca-Cola to market his new soft drink (Tuttle 2010). From that moment, coupons continued to have a presence and boomed during the Great Depression. Often times, a down economy is a major contributing factor that drives consumers to use coupons in an attempt to save money. This was also the case in 2009 when the recession hit the United States leaving many individuals struggling to provide, and thus resorting to coupons. In fact, 3.5 billion coupons were used in 2009, which was 700,000 more than in 2008 (Tuttle 2010).

The recession of 2009 also led to the rise of digital coupons. The digital revolution in couponing coupled with the frugality of the recession combined to make

coupons something of interest. And now, coupon usage has firmly become a part of the online shopping experience for millions of U.S. consumers.

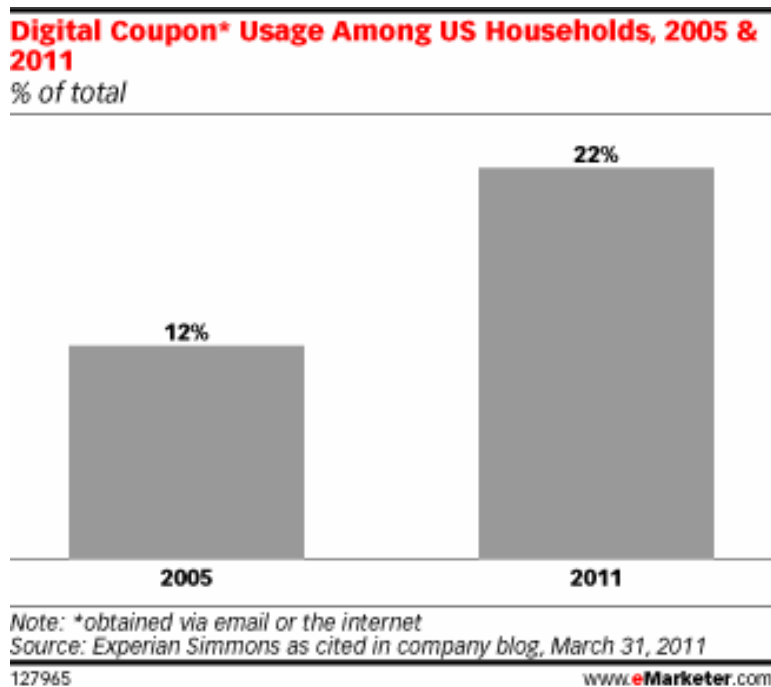
Figure 2.2



According to eMarketer, a market research firm, nearly half of U.S. adult internet users, or 88.2 million people, will have redeemed an online coupon or code for use either online or offline by the end of 2011. And by 2013, an estimated amount of 96.8 million adults will redeem an online coupon. The growth rate for online coupon users is projected to continue increasing as digital coupons become more readily adaptable and accepted by consumers in the upcoming years. Another important piece of data is that the household usage of digital coupons has already nearly doubled since 2005

(eMarketer 2011). According to Experian Simmons, a consumer research firm, twelve percent of households redeemed coupons from email or the web in 2005, and that figure is expected to reach 22 percent in 2011.

Figure 2.3



The manner in which consumers access coupons has greatly changed over time from the traditional approach of clipping newspaper printed coupons to a more modern approach of obtaining them through the Internet on social couponing websites like Groupon. According to USA Today, 59 percent of shoppers now obtain discount coupons and deals from emails and coupon alerts, with 33 percent finding coupons through simple Internet searches (Healy 2011).

Chapter 3: The Research

The Social Media Landscape

Coupons have been prevalent for many years in the past, but social couponing companies have taken this old-fashioned model to a completely new level. Through the advancement of digital technology, social couponing has evolved to become widely adopted among consumers with the aid of social media and online communities. In fact, social media has greatly increased the scale and geographic reach of relationship networks. And through these online communities, individuals are now able to reconnect with others in a way that is more personal and genuine. The Internet is essentially a web of referrals, with word-of-mouth acting as the ultimate form of advertising.

The rise of social media has also greatly evolved over time bringing online users closer to one another by engaging in conversation. Traditionally, consumers used the Internet to simply expend content by reading, watching, and using it to buy products and services. However, consumers are increasingly utilizing platforms such as content sharing sites, blogs, and social networking sites to create, modify, share, and discuss Internet content. This new social phenomenon is what is now known as Web 2.0.

According to the *Journal of Direct, Data and Digital Marketing Practice*, Web 2.0 can be defined as a collection of *open-source, interactive, and user-controlled* online applications expanding the experiences, knowledge and market power of the users as participants in business and social processes. Social media are the social aspects of the

Web 2.0 applications: participation, openness, conversation, community and connectedness (Constantinides 2008). Over time, social media has essentially formed a new communication landscape in which individuals can discuss and collaborate with one another. Currently, there is a wide spectrum of rich and diverse social media sites, which vary in terms of their scope and functionality. Several popular social media sites include Facebook, LinkedIn, YouTube, and Twitter. Social media is essentially a conversation, one that is had among friends, colleagues, customers, and people. More importantly, these conversations are connected to form an online community with word-of-mouth having a very large impact.

With this rise in social media, it appears that corporate communication has also been democratized. Power has been stripped away from companies by individuals and communities that create, share, and consume social media. In addition, communication about brands will inevitably occur, with or without permission of companies. It is now up to companies to decide whether or not to focus on social media and participate in this alternative source of communication, or simply ignore it. Consumers no longer want to be talked at, but rather want to engage and become part of the conversation. Consumers also want companies to listen, appropriately engage, and respond to them as well. Social media has ultimately evolved how companies engage with its customers and Groupon, specifically, has been able to take this Internet platform and transform it to suit its own business model of consumers conversing and collaborating together for the benefit of both their fellow consumers and retailers.

The Groupon Business Model

Founded in 2008 by Andrew Mason, Groupon has emerged to become the fastest-growing web company in history, having attained a \$1.5 billion value in only 18 short months (Pogue 2011). This company has capitalized on the benefits of social media and word-of-mouth using them as powerful marketing tools. In addition, Groupon has been able to view the results of this social contagion translate to actual sales generated toward their bottom lines. According to author Robert Kiyosaki, network marketing is “simply a smart idea. The best form of marketing is word-of-mouth, viral, friends-helping-friends type of marketing” (Skrhak 2011).

Another contributing factor to Groupon’s success is the extremely scalable business model that the company has set in place. This versatility has made it simple for Groupon to expand to different markets due to the fact that the company can continue to utilize the same overall structure and resources. Groupon has been successful in leveraging that scalability aspect, and therefore has been able to expand in new markets at a faster pace than many of its competitors. By also understanding the vulnerability of having a business model that is easily imitated by competitors, Groupon has actively taken the initiative in building and growing its subscriber base at a very rapid rate. In fact, there are currently over 115 million subscribers today opting-in to daily Groupon emails in 46 countries across the world (Schonfeld 2011). Groupon has ultimately altered the manner in which consumers now view coupons, and has grown to be an

immensely influential company around the world. According to *Forbes Magazine*, Groupon is “the fastest-growing company ever” (Walmsley 2011).

Due to its scalable business model, Groupon faces several competitors in the marketplace. The most direct competitor from a strategy standpoint is another social couponing site known as *LivingSocial*. On December 2, 2010, *LivingSocial* secured a \$175 million investment from Amazon, confirming a solid partnership with one another (Tsotsis 2010). This served as a major threat to Groupon as Amazon could leverage its bank account and meaningfully integrate *LivingSocial* into its own website. In June of 2011, Amazon started a pilot program for a daily deals site called *AmazonLocal*, which aggregated the best local discounts from its own Amazon service and *LivingSocial* (Gilber 2011). However, this bundle has not yet received widespread exposure among the public.

Another competitor is *Scoutmob*, a far smaller company that approaches coupons a bit differently than Groupon. *Scoutmob* adds an intriguing twist on local deals, and unlike Groupon, does not require an upfront purchase. Instead of buying an online voucher beforehand, a consumer merely needs to download the *Scoutmob* app to view present deals and simply show the coupon to the retailer straight from their mobile phones. Essentially, it is a mobile coupon. *Scoutmob* is a competitor to Groupon in that it has an intriguing, disruptive business model that seems far more preferable from a consumer standpoint.

In addition, Groupon is facing competition from *Google Offers*, Google's own daily deals site. Google Offers has the same business approach as Groupon in which a consumer purchases the deal online to receive a voucher; however, takes it one step further. A user can personalize the deals based on their interests and even view deals filtered by specific street locations through its Google Maps feature. In the future, if Google is able to figure out a strategy to integrate and advertise its own deals into searches on its dominant Google Maps platform and U.S. leading Android operating system, it could have a huge cash cow that will act as a major threat to Groupon. Also, a large majority of online users already have a preexisting Google account, thereby making the registration process simple and quick.

Lastly, another competitive segment is niche companies. While there are a lot of companies doing exactly what Groupon is doing, which is offering discounts at a wide range of locations within a single city, there are also a growing number of services that offer daily deals from very specific market segments (Boorstin 2011). And within these more targeted market segments, there is less clutter and noise, ultimately guaranteeing that the consumer will end up interested in that company's daily deals. Smaller players like *TravelZoo*, which segments its deals into airfare, hotel, vacation, and entertainment, is a great example of a company that uses precision to their advantage. Groupon's daily deals are often fairly scattered, and can quickly feel like spam when a user does not receive a good offer for a long duration of time. These more tightly-focused startups

could potentially steal Groupon customers who are just looking for deals in more specific areas as well as deals that are more focused and relevant to their interests.

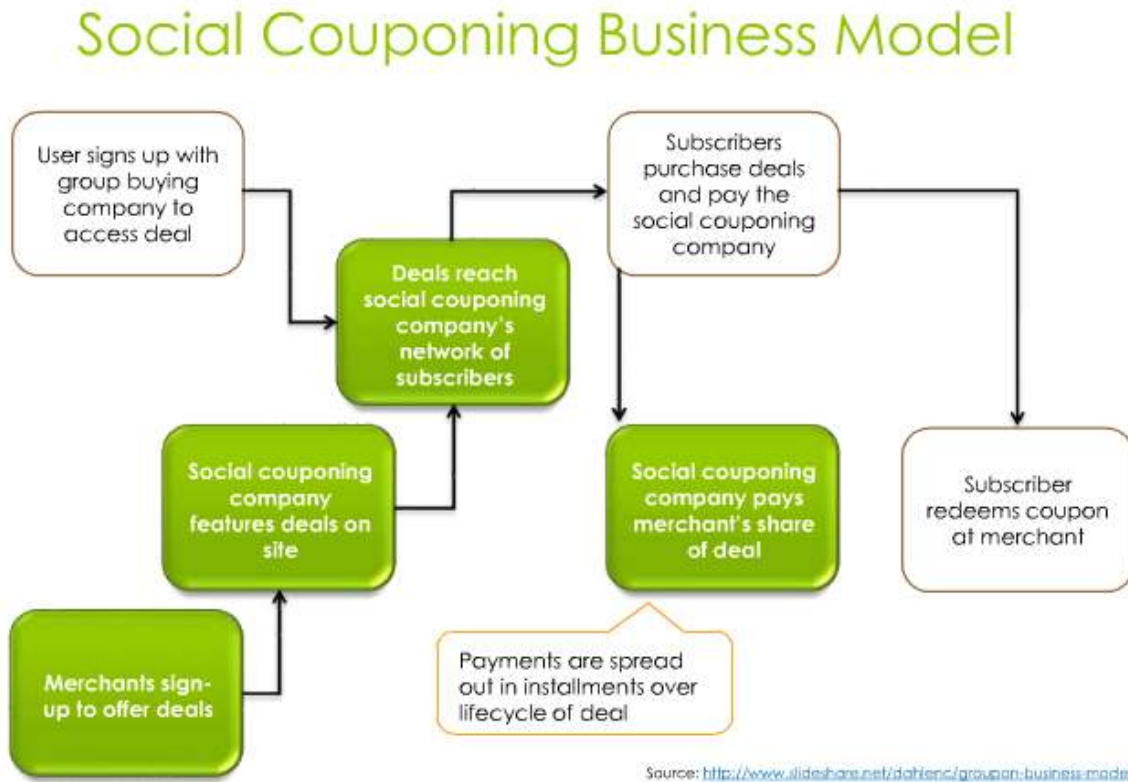
The deals that Groupon provides to consumers fall within a large range of categories from restaurants and specialty stores to recreational events and health/beauty services. And in order for an interested consumer to purchase the deal of the day; however, enough people must first sign up for it to become an actual deal. With that being said, due to the high volume of Groupon subscribers, almost all submitted deals do in fact go through into fruition. In essence, Groupon offers an innovative twist on the tradition of loss-leader marketing. Just as retailers have always used steep discounts in the past on certain items in order to generate more traffic into their stores, Groupon's deals are an easy, low-risk strategy for businesses to attract new customers (Surowiecki 2010).

Not only has the number of subscribers increased exponentially since last year, but the number of merchants and retailers participating with Groupon has also risen as well. The number of merchants has skyrocketed up to 135,247 through June 2011, from only 12,468 in the first half of 2010 (McNaughton 2011). In sum, Groupon has been able to bring awareness to digital coupons through social networks and online communities, turning these networking sites into word-of-mouth referrals among online users. This strategic use of network marketing quickly became accepted by consumers, transforming Groupon into a prosperous business overnight.

Groupon also considers its business model to be an alternative to traditional media. While most advertising such as television, radio, or print requires an upfront payment without the guarantee of a successful campaign, Groupon takes an opposite approach to guarantee positive results. Groupon will only charge retailers a marketing fee for successfully completed campaigns. If the proposed deal does not reach a critical mass with enough consumers wanting to purchase the deal, then the email blasts to subscribers as well as the 24 hours of exposure on the Groupon website become free of charge (Grouponworks 2010). Also, due to the fact that Groupon features such a large variety of businesses, each deal is also negotiated on a case-by-case basis to ensure that retailers and merchants are catered to appropriately.

If an offer that is released is successful and popular among the subscriber base, Groupon will first collect payments from its customers, distribute vouchers to customers via email after purchase, and then mail checks back to the merchant over the lifecycle of the deal. The Groupon fee will be deducted from the checks paid to the retailers, in which Groupon will then get to keep a percentage of each unit sold in order to make a profit and generate revenue. In sum, Groupon has no working-capital requirement. It pays merchants after deals are purchased by consumers, which means that no money is tied up in stock. With consistent positive cash flow, customers are essentially funding Groupon's growth.

Figure 3.1



In December of 2010, Google offered to purchase Groupon for \$6 billion dollars; however, Groupon decided to remain an independent company thereby rejecting the offer. This was a momentous decision for Google as it would have marked the highest price that Google will have ever paid for another company. The primary reason in which Groupon decided against the offer was due to anti-trust concerns. The company was afraid that a Google-Groupon merger would draw more regulatory scrutiny than any other firm Google has ever acquired (Krazit 2010).

Approximately a year after Groupon rejected Google's offer, Groupon decided to take the company public. At the end of the day on November 3, 2011, Groupon priced its initial public offering at \$20, which landed above the expected range of \$16 and \$18. The stock sale, which raised \$700 million, valued the company at \$12.65 billion (Rusli 2011). In sum, Groupon made the right decision in not selling its company to Google, because the \$12.65 billion value is more than twice what Google offered to buy the company for last year.

Chapter 4: Theories to Support Groupon's Success

Groupon's Knowledge of Consumer Psychology

How did the Groupon phenomenon get adopted so quickly and why do consumers jump on these deals? Bargains are always tempting, but even more so when your friends and peers are pushing you to give into the purchase for the benefit of everyone. This group mentality was the fuel that powered Groupon from day one and continues to do so into the future. One thing that has proven true is that Americans will go out on a limb, especially if they see their neighbors doing it (Tracy 2010). Although Internet-organized group-buying has been done in the past without much recognition, Groupon was able to take the same concept and alter it to their success.

Groupon's sensational rise to stardom also has much to do with consumer psychology and understanding their target market. Groupon's sales staff diligently strives to cultivate deals that suit the audience in each city. For instance, if you are in San Francisco, Groupon may offer tours of vineyards for customers to visit. On the other hand, in New York City, the company may offer music lessons or Broadway theater tickets. This targeted approach caught the attention of many consumers who praised Groupon for thoughtfully making local deals more personally relevant to them and the specific city in which they resided.

In addition, Groupon really capitalizes on the idea of captivating consumers with discounts and ensuring buyer's delight. Although saving \$10 is a great deal, it is often times not a landmark event worth much celebration. For example, when purchasing a car or negotiating a price of a new home, many do not haggle for a \$10 discount even if it is likely that it can be given. However, somehow through the Groupon context, it feels like a steal for many shoppers. There's something about the simple phrase, "\$10 for \$20 worth of merchandise" that really lures in consumers. Furthermore, the coupon is almost always valid for any item in the store, and not simply on sale items that the store wishes to get rid of quickly.

Another key aspect contributing to Groupon's overall success is the "tipping-point" factor, which is the minimum number of takers an offer must have before it becomes a valid deal. This tactic specifically plays to consumers' emotions and the mindset that is now driven to invite others to get the deal. Although this element was created to protect the merchant's interests, it adds a certain thrill for involved consumers who are invested in the outcome.

Lastly, another key insight that Groupon has acquired in understanding consumer psychology is through the use of an expiration date for each deal. The majority of deals purchased through Groupon do not expire for at least six months to a year after the initial date that the deal is offered. Many consumers who notice the long duration of time before expiration feel less inclined to rush and immediately use the


deal. However, this mindset often leads to the notion of forgetting about them over time and even losing them amid all the daily emails that flood one's inbox. And every time a consumer forgets to use the coupon, it is essentially free money for both Groupon and the merchant distributing the deal.

Groupon's vast knowledge of consumer psychology has greatly benefitted the company into the successful leader that it is today. In addition, by using social media and online communities to create buzz and word of mouth among Internet users, Groupon has been able to seize the market opportunity to change the way local commerce is being done.

Maslow's Hierarchy of Needs in Online Communities

Humanistic psychologist Abraham Maslow believed that people were motivated by the urge to satisfy needs ranging from basic survival to self-fulfillment. One also cannot reach the higher-level needs until the lower-level requirements are satisfied. In addition, once an individual has moved upwards to the next level, needs in the lower level will no longer be prioritized. Amy Jo Kim, a noted American author and researcher on the subject of online communities, wrote the book, *Community Building on the Web*, using Maslow's hierarchy to clarify the goals and needs of online community participants (Ray 2008).

Figure 4.1

	Need	Offline (Maslow)	Online Communities
 Advancement in Hierarchy	Physiological	Food, clothing, shelter, health	System access; the ability to own and maintain one's identity while participating in a web community
	Security & Safety	Protection from crimes and war; the sense of living in a fair and just society.	Protection from hacking and personal attacks; the sense of having a "level playing field"; ability to maintain varying levels of privacy
	Social	The ability to give and receive love; the feeling of belonging to a group.	Belonging to the community as a whole, and to subgroups within the community.
	Self-Esteem	Self-respect; the ability to earn the respect of others and contribute to society.	The ability to contribute to the community, and be recognized for those contributions.
	Self-Actualization	The ability to develop skills and fulfill one's potential.	The ability to take on a community role that develop skills and opens up new opportunities.

In tying this to the Groupon community, these online users have surpassed the lower levels of physiological and security and safety needs. Rather, Groupon plays to the affective nature of individuals in the realm of fulfilling a user's *social* need within the hierarchy of advancement. Individuals strive to feel accepted by others and to be a part of something larger than themselves; thus the *belonging* needs explain why consumers visit and join online communities. These needs are satisfied by gathering with others who share common experiences and interests. The Groupon community is open to all users and allows new subscribers to immediately engage and become part of the social couponing space. Once the notion of belongingness is present, the user can then move to *self-esteem* within the Groupon online community. By being an active member and purchasing deals for themselves as well as for the overall well-being of other individuals

who are also interested in pursuing daily offers, a sense of collaborative connection is achieved. This strong emotional bond will ultimately allow users to feel that they can really contribute to the community as a whole.

From this point, *self-actualization* can be reached in the online sense by users spreading word of mouth to other individuals who may not be familiar with the social couponing concept and introducing them into the Groupon community for future growth. In addition, self-actualization can also be achieved by the user taking the process one step further and choosing to enjoy Groupon with their friends by planning activities together with one another, while also sharing personal recommendations to enhance the overall Groupon community.

Uses and Gratifications

The theory of Uses and Gratifications is a mass communication theory, based on an active audience model and the limited effects paradigm. It states that an individual will choose a particular medium and message based on a need that they wish to have gratified (Katz 1973). This theory can also be applied to the overall Groupon concept. Many consumers are constantly on the look-out for deals to ensure that the money they spend accurately reflects the quality and value that the sum of money accounts for. And Groupon comes into play by allowing these consumers to enter into unfamiliar territories and experience new activities without investing too much money. This alleviates the apprehension that may be felt by uneasy consumers who fear

disappointment with a new product or service that does not meet their expectations.

Many online users ultimately look to Groupon to satisfy their affective needs of emotional entertainment. In turn, Groupon delivers the desired results in offering daily promotions to fulfill that consumer desire.

Chapter 5: Groupon Case Studies and Analyses

Groupon has been both successful and unsuccessful in implementing deals for merchants in various retail segments. Some businesses have a positive experience with Groupon and are able to generate more traffic and increased revenue. In addition, the Groupon deal may also bring awareness to new and unfamiliar consumers who decide to engage with the brand and become loyal and repeat customers in the future. On the other hand, Groupon has done poorly with several merchants who feel that Groupon has ruined the retailer's brand image and hindered sales. Below are two case studies that investigate both a positive and negative encounter that merchants have experienced using Groupon.

Case Study #1: Galaxy Café (Austin, Texas)

Galaxy Café was founded by Chris Courtney, Kelly Chappell, and Jay Bunda in 2004. This was the trio's first restaurant concept in Austin, Texas, in which the team decided to position Galaxy Café as an establishment known for having the freshest ingredients, a minimalistic modern feel, and also being environmentally friendly. In addition, the Galaxy Café environment was designed to be a hip, welcoming, innovative and inclusive location (GalaxyCafe.com). According to the company website, it is the perfect place for a delicious breakfast, quick lunch, an afternoon coffee and dessert, or a casual leisurely dinner with a glass of wine. Through the years, Galaxy Café has been profitable and has expanded to include a total of three locations within the Austin area.

Several years later, the founders of Galaxy Café approached Groupon to launch a deal in Austin, Texas, because they recognized the need to change their restaurant marketing tactics to bring in more customers and increase sales. On February 26, 2010, Groupon successfully launched a deal featuring Galaxy Café offering consumers to purchase \$15 for \$30 worth of fresh gourmet fare and drinks. By the end of the day, Galaxy Café had sold a total of 3,341 Groupon deals. In the days after the Groupon launch, the founders noticed an overwhelming number of new customers entering and trying the restaurant. In addition, the first thirty days after the deal was offered in the Austin area, Groupon was able to produce a sales increase for the month, which exceeded numbers generated from any previous March month.

The Groupon deal extended for several months and expired on Memorial Day, which was historically a slow sales holiday for Galaxy Café. With the use of Groupon, the restaurant had a record breaking Holiday Monday for all three locations. In the several months leading up to the deal, all three of Galaxy Café's restaurants were in a sales deficit; however, after the collaboration with Groupon, there have been successful results in attracting new repeat customers as well as increasing overall sales. Through Groupon, Galaxy Café was able to reach their initial goal of raising more awareness for the restaurant and generating increased revenue. According to Jay Bunda, one of the founders, "As three restaurant guys who don't know advertising, we do know that Groupon gives us tangible results that cannot be argued with" (Grouponworks 2010).

Case Study #2: Posies Bakery and Café (Portland, Oregon)

Posies Café was founded by Jessie Burke in 2009 located in the heart of the historic Kenton neighborhood in North Portland. Jessie was motivated to open this café after visiting various coffee shops throughout the city and noticing that something special seemed to be missing. In addition, she began to feel unwelcome at many of the shops, and desired to create a space in which everyone would be welcome, regardless of age, class or creed. This small Portland establishment serves Ristretto Roasters coffee, and offers a full selection of pastries and sandwiches. Local brewed beers and wines are also available at Posies. To make the café more of a welcoming space for all customers, Posies also offers vegan and gluten-free options. The café also holds events for both children and adults, ranging from music and story-time for the younger kids, to poetry readings and an art walk for the adults (PosiesCafe.com).

Jessie heard about Groupon from a friend who saw that the Pizzeria across the street had launched a Groupon deal and was seeing a huge difference in the amount of customers entering the restaurant. Several months later, Jessie decided to try her luck and approached Groupon to launch a deal in her community. Her personal goal for Posies was to build brand awareness and increase foot traffic into the café. The deal was launched on the Groupon website on March 9, 2010, and offered \$13 worth of items for the low price of \$6, a total discount of 54 percent. The deal concluded at the end of the day with 840 total purchases (Groupon.com/deals/posies-cafe).

Jessie had high hopes for the Groupon deal, especially after seeing first-hand that the restaurant across the street seemed to attract so much publicity; however, she unfortunately did not reap the results that she expected. To express her frustration with Groupon, Jessie wrote about her negative experience on the Posies Café blog that eventually gained national widespread attention.

Within the first three months, Jessie was already experiencing financial problems with a total loss of \$8,000 from participation in the Groupon campaign. Although Groupon brought in new customers to her café overall, it greatly hurt her business as she typically never spent over \$100 on advertising efforts; so much so, that Jessie had to withdraw money from her personal savings just to cover payroll for one month (Burke 2010). In addition, the customers that the Groupon deal attracted did not seem to be the type of customers that would go on more than one occasion. Many visited from out of town simply to use the Groupon deal and never return again, while others were more frugal and attempted to use multiple coupons at once.

Another issue facing Posies Café was the fact that most of the customers did not spend much more than the deal value. According to what Jessie was told from a Groupon representative, the majority of Groupon users spent more money than what is usually presented in the deal; however, she did not expect the extra difference to be only mere cents. In sum, Jessie had a very negative experience with Groupon and estimated that she lost over \$10,000 in hard costs (Agrawal 2011).

Case Study Analyses and Discussion

Galaxy Café and Posies Café share several similarities, one of which is that both are restaurant establishments that serve customers. However, how is it that one had such a positive experience with Groupon while the other suffered such a monetary loss? Below is an evaluation that analyzes potential factors that could have affected the overall outcome with these restaurants' participation with Groupon.

Duration of Time an Establishment is Open before Launching Groupon

The amount of time that each of the restaurants was open before engaging in Groupon may have played a factor in whether the Groupon deal was a success. Galaxy Café was opened in 2004, and engaged with Groupon to distribute a deal in 2010. On the other hand, Posies Café and Bakery opened in 2009 releasing a Groupon offer soon after in 2010 as well. The six year time frame that Galaxy Café was open before offering the Groupon deal gave enough time for the restaurant to adjust and familiarize itself in the community to form a solid foundation to build upon. In addition, the multiple years of operation that Galaxy Café had over Posies Café also allowed the restaurant to implement a systematic flow in place to maintain and ensure that all business functions ran smoothly between employees as well as with customers. Due to the fact that Posies Café was such a new restaurant, it also did not have the monetary groundwork to support such a large collaboration with Groupon. Whereas Galaxy Café was able to accumulate funds in the years prior to launching the deal, Posies did not.

Existing Brand Knowledge of the Establishment

Having an overall sense of awareness from consumers within the community is critical to an establishment's success if they decide to engage with Groupon. Posies Café was only open for business less than one year before launching a deal, which did not allow the restaurant to gain enough recognition within the Portland community. Because Galaxy Café had preexisting knowledge and even positive reviews from customers about the restaurant, many individuals jumped on the opportunity to purchase a deal that they knew would not disappoint them. Many individuals who have had a previous experience with an establishment will not be as wary in purchasing a Groupon deal as another who is blindly purchasing a deal in hopes of a positive experience.

Crowd Surge Preparation

Once a merchant decides to launch a Groupon deal, it will inevitably drive traffic to the establishment. What may separate a restaurant like Galaxy café and that of Posies Café in experiencing a successful experience is whether each restaurant is prepared for the crowd surge. The days immediately following the online deal distribution will attract swarms of customers and it is critical for these restaurants to be organized and ready for the mass amount of people that will be entering. Critical factors a restaurant manager must consider include having enough food to feed such a large crowd as well as employing enough workers to ensure that there is exceptional service

and attentiveness directed towards each customer. In sum, being prepared is vital if the restaurants are hoping to gain repeat customers.

Belief in Advertising

Groupon is essentially a form of advertising to consumers. If a merchant doesn't need or believe in advertising, there really is no reason to waste time on using a Groupon deal because it will undoubtedly cost money. This posed as a problem for Posies Café whose founder, Jessie Burke, did not believe that advertising had much return on investment at all for her business, and refused to pay more than \$100 a month on advertising (Burke 2010). On the other hand, the owners at Galaxy Café did not really know much about advertising or how best to market their business. However, unlike Jessie, they were not against the idea of advertising. Galaxy Café also had excess funds to support the launch of a Groupon deal, while Posies Café did not. Since Jessie was accustomed to only spending \$100 on advertising, she did not realize that Groupon would end up costing more than what she typically spent each month. Thus, participating with Groupon actually hindered her overall revenue and ended up hurting her business rather than helping to gain more customers.

Groupon's Relationship with Brands

Companies that decide to collaborate with Groupon will inevitably gain brand awareness among consumers, simply from the nature of the online social couponing tool. However, is it effective and profitable for brands to engage in using Groupon deals

to attract more customer traffic? Judging from the two case studies discussed earlier, Groupon can either enhance or damage a brand's image. According to Rebecca Pate, the Texas Groupon regional sales manager, Groupon is a great vehicle in driving more customers to the establishment, but then it becomes up to the retailer to create memorable and positive experiences to generate repeat customers. In an interview, Pate specifically stated that, "It is not Groupon's job to create loyalty, simply exposure." The reason that Galaxy Café experienced such positive results with Groupon is essentially because the restaurant was prepared for the vast amount of new customers and able to create a memorable experience for them. By providing exceptional service, Galaxy Café was able to build loyal customers who would return in the future.

Groupon can also be a great tool for many new businesses to gain high brand awareness at an affordable price in comparison to using other traditional media such as television or print. However, it is important not to abuse this marketing strategy by overusing the Groupon benefits. Once consumers become accustomed to seeing a retailer constantly appearing on social coupon deal sites, they will learn to wait and only visit or purchase from the retailer when they see a coupon. Pate specifically referred to this trend as the "Pizza Effect." This is primarily due to the fact that a large majority of pizza chains consistently hold so many deals and promotions that customers will never pay full price again. In sum, it is important for a merchant to only invest and utilize Groupon merely once or twice a year so as not to devalue the brand. If used correctly, Groupon can be a great tool in creating long-term success for brands.

New Upcoming Brands vs. Well-Established Brands

The rise of Groupon allowed consumers to try new things at an affordable price within a multitude of categories, and provide an opportunity for them to engage in new experiences that they may have not been able to afford in the past. In addition, Groupon can be applied to new upcoming brands as well as well-established brands.

For new upcoming brands, several factors may play into how successful it will become. First, is the concept of the retail business novel or compelling? Many consumers are interested and on the look-out for trends and creative concepts to feed their hunger for new activities. In addition, it is critical for Groupon and the merchant to agree on an accurate price point for the new brand. Although consumers are interested in trying activities they may have never done in the past, it still has to be a great value for them, especially because it is foreign in nature.

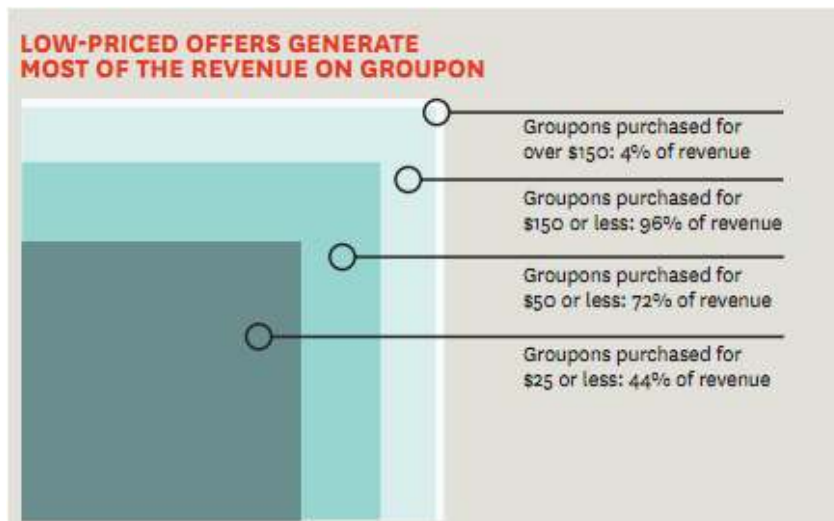
On the other hand, Groupon can still serve to be a great means to promote a business that is already well-known within the community and even nationally. An example of this would be Groupon's collaboration with The Gap on August 19, 2010, with a proposed deal of \$50.00 in merchandise for only \$25.00, a total savings of 50 percent. By the end of the day, 441,000 Groupon deals were sold bringing in a little over \$11 million (Swallow 2010). This was Groupon's first national deal, and the results proved that the offer was an immediate success. Providing national offers is a good strategy for Groupon to pursue in the future because of its ability to attract a broader

audience in locations where they may not have had a presence yet. In addition, tried and true brands already have loyal consumers who will make purchases regardless of deals offered. The Groupon deal merely serves as an added incentive for the customer to make another purchase without having to think twice because of the familiarity and credibility that the consumer has built up over time for the brand.

Chapter 6: Conclusion

The use of Groupon deals has skyrocketed over the past several years as consumers continue to purchase and obtain deep discounts from various merchants. However, many retail brands struggle to understand what makes an effective Groupon promotion. Over time, Groupon has been able to discover a sweet-spot emerge and see which deals have been the most successful in terms of pricing. A deconstruction of Groupon promotion results concluded that low-priced offers generated most of the revenue on Groupon (Butler 2011). A total of 96 percent of total revenue was from Groupon offers purchased for under \$150, followed by additional high sales from deals under \$50. The pricing offers from a specific retailer brand may be dependent on the type of business and category it falls under; however, it is important to note that consumers are not looking to spend over \$150 on new Groupon deals.

Figure 6.1



Groupon has been in existence since 2008, and it may seem like Groupon fatigue has set in. However, a recent Rice University study concludes just the opposite. The consumers in the United States are still head over heels for deep-discounted deals with their top preference site being Groupon.com. A survey distributed to nearly 1,000 U.S. online users revealed that consumers were not yet tired of daily offers, but rather continued to remain enthusiastic and even embrace Groupon deals. Only 21 percent expressed attitudes of lost interest in the Groupon brand or slowed purchasing behavior (Patel 2011).

In sum, the future outlook for Groupon is predicted to be one of immense success, and it would prove beneficial for retailer brands to take advantage of this marketing tactic in reaching a broad range of consumers who have potential to become repeat customers in the future. Groupon also has a solid foundation built through social media and online communities with consumers engaging in conversation with one another and spreading word-of-mouth of daily deals offered. With a compelling concept and an accurate price point, brands can successfully and effectively engage with Groupon to achieve profitable goals and increased sales. In addition, if retailer brands can create a memorable experience for new customers, brand loyalty is likely to occur in the future.

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