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# E-COMMERCE STRATEGIES OF GROUP BUYING WEBSITES,

Case study: Groupon Inc.

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**ABSTRACT**

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Group buying business model has an increasingly high growth rate, surpassing any model in history. This business is fundamentally the brokerage between businesses and customers and receives commission fees from the transaction. However, the model has been criticized by consumers and local businesses for being unprofitable and unsustainable. Thus, the target of this thesis is to find a way to improve strategies of group buying websites based on online consumers' behavior. In order to achieve the goal, the 5C analysis of websites and the application of value disciplines are fully studied.

The paper has used qualitative method with the support of quantitative data from 35 respondents who participated in a structured questionnaire. Additionally, the theoretical evidences are obtained via published and electronic sources of journal articles, books, websites and well-known blog.

Upon completion, the research has found that online consumers are majorly price-sensitive as of deal-seekers, and prone to be affected by information quality and user interface of the website. Moreover, the study has also shown the possibility of mining data from the purchasing patterns of the customer.

Finally, the data was analyzed, and the conclusion was drawn that consumer behaviors and purchasing patterns are to be used to meet the customer demands and needs. As a broker, the group buying websites have to please both the local merchants and the end customers. Thus, by utilizing the data given above combined with the in-hand resources, group buying websites can opt for suitable strategies. The case example of Groupon has shown valuable insights of how a group buying websites can tackle the problem.

Key words: Groupon, group buying websites, 5C Analysis, value disciplines.

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# 1 INTRODUCTION

## 1.1 Background of the thesis

Traditional marketing has increasingly brought customers closer to producers who conventionally are responsible for their product advertising. It is often difficult and impossible, for small and medium sized enterprises, to place properly their products in customers' minds due to the shortage of capital and resources (Gilmore & Grant, 2001, pp. 6-11). Meanwhile, large companies and corporations have enough human powers, capital and production scale to split the marketing cost into a tiny amount per product, which allows firms to be profitable and to continue their operation.

Thus, the group buying business model has proved to be a life-saver for SMEs by brokering the producers and customers together. Traditionally, SMEs rely on the existing partnership to conduct their own marketing and to sell their products (Pallab, 1996). In this model, the brokers will ask the producer to offer a solid discount (30 to 70%) to prospective customers and then the brokers will display the offer in their website for a limited time and quantity with terms and conditions applied. If the quantity demand exceeds the lower threshold, the deal is on for everyone and customers will benefit. Moreover, to attract customers to get to know the deal, the broker sites must advertise themselves using Search Engine Optimization (SEO). Hence, instead of developing their own marketing strategy, the business partners can focus only on production and after-sales services.

With that being said, the group buying market is an extremely large area and concentrated market with thousands of new sites imitating the original model. According to DailydealMedia, a consolidated source, there were almost 10000 sites by the end of 2011. However, this number has bounced up and down in different regions but has overall shrunk down to a smaller amount (Wauters 2012). Given the nature of the industry, opening a group buying website is not a difficult task, nor is its the operation or termination. The website contains virtually no physical assets and inventories, thus, making the market entry tempting for a start-up. Nevertheless, to scale up the business into a nationally or internationally known company is a whole different matter. There are thousands of new sites

opening and closing every year, due to the low barrier entry and exit of this model, showing no interest in pursuing sustainability. Consequently, many customers, who bought the deals but have not redeemed the coupons, cannot use the vouchers anymore because the local merchants stopped allowing redemption from troubled firms. Eventually, other group buying websites suffer from the false belief of previous dissatisfied customers.

## 1.2 Thesis objectives, research questions

The primary objective is to improve the business model of the case company, which will then increase profitability and performance. The improvement will be based on empirical research of a group of customers and secondary data from local merchants. Moreover, the research will explore the current E-commerce strategies employed in fast-growing and successful group buying websites in order to benchmark the case company itself.

As stated earlier, this paper aims to analyze the strategies that facilitate the group buying model to develop sustainably and profitably. In order to achieve these objectives, the following sub-questions are identified:

- Which factors affect the buying decision of the online consumers?
- What are the current strategies that the group buying sites implement?
- How do the group buying sites improve their models regarding the customers' need?

## 1.3 Scope and limitations

Due to the limit of time and network, the survey is assumed to capture only a certain age group's perspective (18-25) while targeted customers of the case company are young, urban and Internet savvy females (Muehlhausen 2011). In addition, the lack of commissioning contract with the case study renders the data used in the paper less accurate and reliable. Hence, the result of the survey may be quite general and only partially applied to the research. However, given the circumstances, all respondents are assumed to have the same characteristics as the targeted customers who live in cities, and actively participate in online social

networks. Moreover, the time constraint of the survey poses a threat to the insufficiency of data reliability. The survey needs a certain number of respondents in order to produce a convincing result that can apply to the whole population. Within the period of the research, however, the author can only manage to collect a portion of respondents which is required to have 10% margin of error.

Last but not least, the author assumes that the case company has superior domination over other competitors and any actions taken by competitors do not affect the case company. Hence, the competitor analysis is only superficially mentioned in order to show the stakeholders of the case company.

#### 1.4 Theoretical framework

The theoretical section of this study is divided into 2 parts: business strategy in electronic commerce and group buying model. Business strategy in online business stems from conventional strategies incorporated in a corporation which can be a click-and-mortar business or a fully-engaged online business with no physical appearance. It is the strategy that emerges and adapt in a virtual environment that connects consumers and producers without middlemen. As an emerging online business model, group buying websites has gained the reputation of the fastest growth and bringing values to customers. Nevertheless, the growth bubble starts to explode as the growth is likely to wane down. Thus, when looking for the case company problems, the author has seen the key issue lying under the strategy of the group buying model.



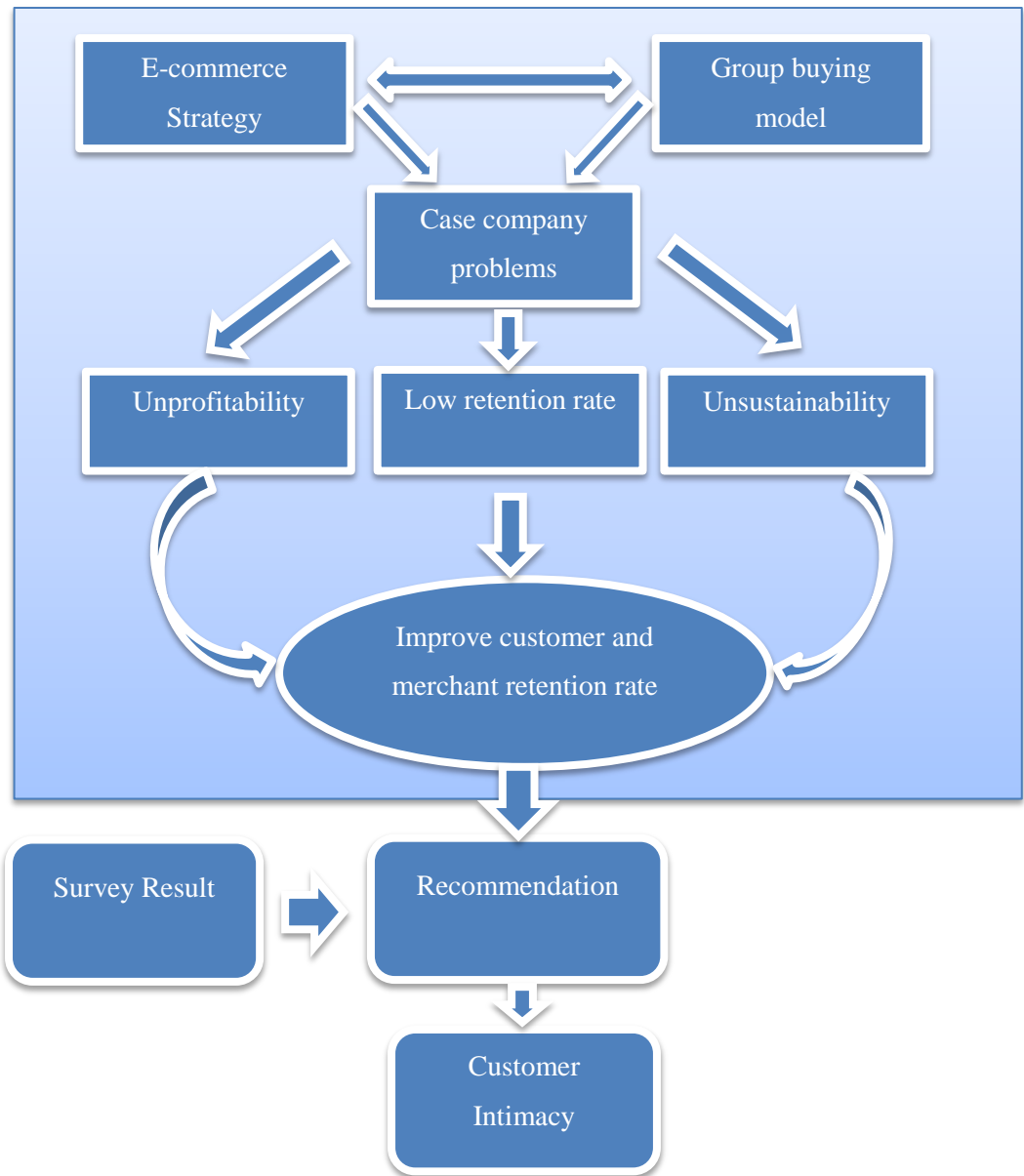


FIGURE 1. Theoretical Framework

For the gathering and analyzing of the research data, the authors chose to use 5C analysis, Porter's Five Forces Analysis and SWOT Analysis. 5C analysis will be used to analyze the internal and external environment of the website, while Porter's Five Forces Analysis will be employed to analyze the group buying industry. SWOT Analysis will be used to analyze the case company.

## 1.5 The structure of the thesis

Chapter 1 describes a brief introduction of the purpose and the context of the thesis. In addition, it states the thesis questions and objectives that will be answered in chapter 4. Then, chapter 2 defines all necessary terms and relationships exercised in the thesis.

Chapter 3 discusses and analyzes the strategies that are employed in the case company. The case company analysis serves to provide a model example of group buying websites which need improvement and consolidation.

Chapter 4 explains the research approach, how the data are collected, processed and shows the process of designing survey. Then the result of the questionnaire is interpreted and compiled to help answer the research question and deduce the recommendation for the case company. Finally, chapter 5 examines the possibility of integrating new strategies into the business model to align with customers' expectation. The last section also suggests for the case company four possible recommendations which are the application of the compiled data and the value disciplines.

## 2 BUSINESS STRATEGIES AND ELECTRONIC COMMERCE

### 2.1 Business strategies

#### 2.1.1 Definition of business strategies

According to Watkins, business strategies are the basis of the decision making pattern which guides people in one company to allocate resources to achieve the key target. Strategy is not to be mistaken for vision, mission or value of a company. Business strategies are the way that resources are allocated to achieve goals (mission) to create value for stakeholders (value) in order to provide incentives and reasons why people in companies should perform at a high level (vision). (Watkins 2007). Meanwhile, Johnson and Scholes define corporate strategy as the way to achieve advantage of an organization by employing resources to meet the needs of customers and stakeholder's anticipation (Johnson & Scholes, 2006).

Electronic business strategy also shares similarities with corporate and common strategies in general. Dave Chaffey describes e-commerce strategy as the approach by which applications of internal and external electronic communications can support and influence corporate strategy (Chaffey, 2011, 230). However, companies often incorporated e-business strategies within the functional strategies, which is dangerous that E-business strategies may not be recognized at a management level.

#### 2.1.2 Porter's generic strategies

In general, Porter's generic strategies are the combination of the competitive advantage of a firm and the scope of the market that firms are doing. The strength of the firm is proposed by Micheal Porter as cost advantage and differentiation. Together, the generic strategies comprise of 3 different ways to follow: cost leadership, differentiation and focus strategy.

TABLE 1. Porter Generic Strategies (Porter, 1980)

Target Scope	Advantage	
	Low Cost	Product Uniqueness
<b>Broad (Industry wide)</b>	Cost Leadership Strategy	Differentiation Strategy
<b>Narrow (Market Segment)</b>		Focus Strategy

### *Cost Leadership Strategy*

This particular strategy guides the firm to reduce cost as much as possible without damaging the quality of the products. The company can sell a product with a price lower than the industry average, thus obtain more market share and customers and may even force small, low-tech firms out of the market. In order to achieve these results, the firm needs to apply in industry-wide scale. Moreover, internal strengths and potential powers are required to succeed in this strategy. By gaining access to a huge deposit of low cost material, achieving Six-sigma improvement and lean manufacturing, the company can sustain a competitive advantage over competitors based on cost leadership.

### *Differentiation Strategy*

Unlike a cost leader, a differentiator can offer customers innovation and amazement. Firms that follow this strategy have to develop a product or service that is unique and brings added values, which are perceived by customers. Normally, firms want to charge a premium price to cover the cost R&D and to be also unique. In order to accomplish this target, firms have to be reputable and excellent in their product qualities. Moreover, firms also have to spend strongly in R&D and have a highly-creative development unit, which combines with a robust sales team, will together generate immense ROI.

### *Focus Strategy*

Lastly, if firms cannot maintain strong advantage in a broad, wide market; they will have to focus on a niche market where customers can be better served and more satisfied. Targeting a small market and following either cost leadership or differentiation strategy can discourage other firms from competing directly. This strategy applies well to firms who do not have enough resources or accesses to dominate an entire market and who can tailor-make a broad range of products to adapt to a narrow market segment. However, firms are under serious threats of ever-changing segmental preferences and the adaptation of market leader to compete directly.

#### 2.1.3 Value disciplines

The three value disciplines are a recent development from generic strategies of M.E. Porter. It is comprised of three generic disciplines which are operational excellence (delivering quality, price, and ease of payment), product leadership (providing best products/ services) and customer intimacy (meeting customers' demand) (Treacy & Wiersema, 1992). Many companies have pursued only one of 3 strategies, but the possibility of employing both two disciplines is still an open choice. For example, P&G and Pepsi have combined customer intimacy and operational excellence to reduce cost and increase profit through tailor-made processes and efficient operation (Byrnes 2011).

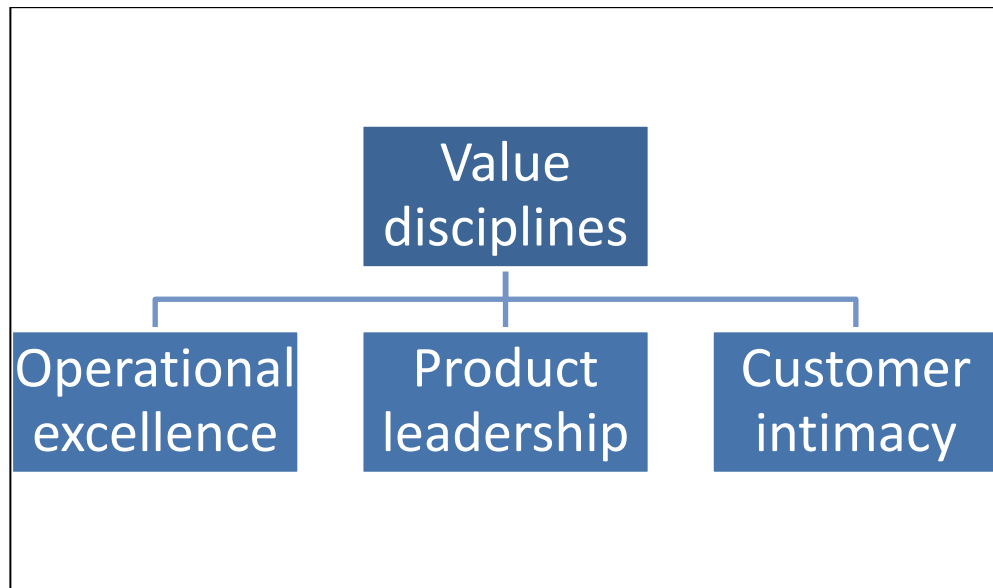


FIGURE 2. Value disciplines (Treacy & Wiersema, 1992)

*Operational excellence* is the strategy in which companies aim to excel in operation, resulting in optimal business processes across organizational and functional limit. Companies that follow this discipline pursue a cost leadership position in which friction and transaction costs are reduced, and disintermediation is occurred. For examples, in the past, Dell Computer has outmaneuvered both IBM and HP by optimizing delivery system. Dell has provided build-to-order service, which removed the middleman of the supply chain, making the products cheap and quickly available to customers.

*Customer intimacy* strategy serves best in firms whose interest is to satisfy customer's strict demands. In order to pursue this strategy, one must be able to customize and tailor order to fit customers' definition of the products. The whole process can be terribly expensive, but the value brought to customers can compromise. The long-term loyalty with multiple transactions is the key factor for which firms are looking

*Product leadership* is adapted to companies who want to produce state-of-the-art products and services. To be able to pursue this strategy, first firms must be innovative to invent the business idea and capitalize it into core business to generate profit quickly. After gaining first-mover, firms should be able to provide solutions to improve their products or services for better quality.

To conclude, in electronic business, firms have to struggle to achieve these disciplines for several reasons. First, because their channels are virtually intangible, so firms are under greater risk of assuming the resource and capital needed for operation. Secondly, online businesses are expected to scale fast in order to grow a large customer base compared to brick-and-mortar businesses. Finally, it is difficult for new venture businesses to compete with existing online companies, many of which already have enormous resources and operational capabilities. (Mather, Golding, & McDowell, 2001)

## 2.2 Electronic commerce in business

There are various definitions of e-commerce available in the theoretical world. Firstly, Gartner Advisory Group, a market research and consulting group has described the computer and the Web are the two fundamental and essential element of the Electronic Commerce. Firms must commit themselves into the external business using computer interactions and Internet participation (Gartner Advisory Group 1999). Alternatively, Damanpour et al, concluded that electronic commerce is the business that utilize the electronic channel which enable firms to reduce transaction cost, delivery times and also improve customer services (Damanpour & Damanpour, 2001). Meanwhile, according to Schneider, E-commerce consists of many trading activities, internal process that companies use to operate the core business with Internet technologies (Schneider, 2011).

Currently, only several main E-commerce business models prevail. According to Rappa, most of the E-business in the world falls into 7 main categories which is described in table 11(Rappa 2000). However, one firm can employ a mix of 2 and 3 models at the same time to fit the company's core competency. For example, Amazon adapts itself into 2 models: merchant and manufacturer. It is one of the biggest online retailers in the world that moves into selling its own Kindle. Meanwhile, NY Times is supported by both advertisers and subscribers, which allows readers to contribute less than actual bundle they would have to pay if there were only subscription model available.

The growth of E-commerce has sharply changed the way we do business. Thanks to advanced technologies, companies' strategies and operations have been fiercely

reshaped. Costs have been reduced; companies are able to do business internationally without middle men, prices are reduced thanks to more competitive market and companies have to choose which market to focus on. (OECD 1999)

Firms' manufacturing process has shifted towards lean manufacturing from traditional method. The usage of EDI and POS system has linked all echelons in a supply chain. Hence, if there is a need of particular products, those systems can help to predict the right quantities to produce. On the other hand, firms' cost structure will be dramatically changed (Deeter-Schmelz, Bizzari, Graham, & Howdyshell, 2001, 4-9). Traditional costs may be decreased, but many new costs will be realized. For examples, sales cost can be cut using Internet conference, email and mobile application. There are many online shops that have no physical appearance but only a website listing all products with related information. These shops can reduce their fixed costs as well as miscellaneous charge occurred when renting a slot in a shopping mall. Moreover, marketing cost can be reduced by implementing an online community in a social network (FB, Tweeter) along with traditional channel (newspaper, TV and radio) (Kempe, Kleinberg, & Tardos, 2003, 140).

### 2.3 Consumer behavior in the online world

Traditionally, consumer behavior often involves the psychological processes that consumers go through in recognizing needs, finding ways to solve these needs, making purchase decisions, interpreting information, making plans, and implementing these plans (Gupta, 2009, 365). However, in an online world, the purchasing process may be a little trickier. Some processes are subjected to disappear, some are lengthened and time-consuming. The consumers can control which web page they can browse, how long they can stay in one page and what information they want to know. Hence, the crucial point is to provide an informative, entertaining and effective website to keep them stay as long as possible. (Mazaheri, Richard, & Laroche, 2012, 540). For instance, in a search-based service such as an online bookstore, viewers want to get valuable information of the book from the website, even the review of the books, to



evaluate the service. On the other hand, as an experience-based service, restaurants' websites should aim to entertain their users – the prospective customers who seek that entertaining atmosphere and might visit the actual restaurant. Meanwhile, a bank's website is expected to provide its customers necessary information due to the nature of high risk and customization.

### **Factors affecting online consumer behavior**

First, not to mention the information, the User Interface (UI) of the website must be neat and uncomplicated. It is the first thing that appears to customers and directly affects the “first-time impression” of the company and website. The website should be user friendly, unsophisticated and adaptable to many online environments. Running many fancy applications (Flash, HTML5) may force customer to leave your website due to the lack of plug-in and browsers' support. Moreover, these applications require a lot of bandwidths which takes forever to load a website full of Flash and Java Script. In addition, many smartphones (running iOS, Android, Symbian, and BlackBerry OS) do not support these apps viewing, which directly lead to no image or information

Secondly, according to Park, information quality is a crucial issue to improve (Park & Kim, 2003, 16-29). Again, it should have sufficient amount of information in clear, simple format, and when needed, there is a link to a full description or explanation that viewers want to know. The information of a website is divided into production information and service information. The product information provides viewers the products' specification, reviews while the service information includes FAQs, membership, delivery information and promotion. The information about the product must be up-to-date, relevant and consistent in presenting choices and options. On the other hand, the service information is expected to provide helpful answers and guidance's and easy to understand.

Thirdly, online customers are victims of serious online scam and fraud which cost them over \$3.4 billion in 2011. Noticeably, the number of fraud has decreased over the past 3 years, but the dollar volume is on the rise, according to Cyber Source Corp., a unit of Visa Inc. (American Banker and Source Media Inc. 2012). Thus, the perception over Internet security is higher than ever; customers are

reluctant to share their card information with the website unless verified by reputable organizations and carefully reviewed.

On the other hand, consumer behaviors are also subjected to their demographic characteristics. (Wu, 2002, 36-53). Their personalities, lifestyle, perception needs and past purchases account for their purchasing patterns which play a highly crucial role for marketers to meet customer's need. In addition, how familiar we are to a source of information in the online world may not influence your purchasing decision compared to traditional Word-of-Mouth marketing (Dwayne D. Gremler, 2001, 45).

## 2.4 Group buying model

The Group buying model belongs to brokerage groups in which the websites act as middle men between companies and customers. Traditionally, it often occurs in B2C sector but now it has grown into B2B market where thousands of companies can acquire a single package or solution with reasonable price but less often (Prweb 2011). The model begins with a merchant who wants to popularize its reputation, product or services. It will contact with the group buying Website to formulate a deal with terms and conditions applied. The deal is normally discounted to 50% of the original price, which could surge the demand. Then, the Group Buying Website publishes the deal and invites customers to buy and refer to their friends. Finally, the customers redeem the voucher at the local business and create the win-win-win situation.

### 2.4.1 Advantages and disadvantages of the model

It cannot be denied that this model saves billions of dollars for customers and also for local business. It has helped connect manufacturers/ service providers and customers together so that every party in this transaction is beneficial and happy. First of all, end customers are the ones who benefit the most, which they can save from 30 up to 70% of the listed prices. On the other hand, some business in the service industry utilize the group buying model to exploit the off-peak hour when they still have to pay for other fixed cost. Others employ discount deal to attract customers' price sensitivity and to increase brand awareness and customers'

purchases. Meanwhile, some retail stores can clear out their perishable inventories in mere several days with the hope of selling more complementary products (Dean 2010). A rush of customers within a limited time is the only thing they expect to empty the warehouse.

TABLE 2. Advantages and disadvantages of the group buying model

	Advantages	Disadvantages
<b>Merchant</b>	<ul style="list-style-type: none"> <li>• Get more new customers</li> <li>• Clear the inventory</li> <li>• Increase popularity</li> </ul>	<ul style="list-style-type: none"> <li>• Cut fee for broker</li> <li>• Initial loss</li> <li>• Damage the old customers</li> </ul>
<b>End customers</b>	<ul style="list-style-type: none"> <li>• Get massive discount</li> <li>• Know more places</li> </ul>	<ul style="list-style-type: none"> <li>• Discriminated and mistreated</li> <li>• Bad and inaccurate deal information</li> </ul>

However, this model is also subjected to many criticisms from the merchants' and end- customer's points of view. Firstly, it has sharply changed customer behaviors in the online world. Most of the consumers become price-sensitive and deal-seekers, not loyalty-seekers which is the goal of the seller. Secondly, 30 to 50% of the revenue of the discounted price has dropped into brokers, leaving the tiny piece to the vendors. For instance, a spa deal with 50% off from \$40 will have a price of \$20. However, the seller can take only \$10 of revenue in a 30-days period, and the website earns \$10 and is able to utilize \$10 in the one-month period to leverage its financial position. Thirdly, it is often said that low price products come with low quality. The premium price of a product or service, in most cases, guarantees its unbeatable quality. If that product is underpriced, the consumers will not perceive real value of the premium. Eventually, the deal could possibly damage the brand awareness and loyalty perceived by customers. Last but not least, running a deal in a short period may put your staffs under a great pressure. The employees must serve vast amount of brand-new customers who are not familiar with the business and consequently it results into low satisfaction and low attitude in employees towards couponers. Consequently, the coupon

purchasers are likely to be mistreated and discriminated by the merchant's employees.

#### 2.4.2 Group buying model strategies

Together with Groupon, Living Social and Bloom spot are currently dominating the group buying market (Novack 2011). Hence, a quick glance of how these companies are doing will reveal some of the most influential strategies are currently employed.

TABLE 3. Group buying strategies

Group buying website	Strategies	Key notes
<b>Groupon</b>	<ul style="list-style-type: none"> <li>• Expansion through hostile takeover</li> <li>• Reward program and vendor lock-in with over-one-year contract</li> </ul>	<ul style="list-style-type: none"> <li>• Outbid everyone else on paid acquisition</li> <li>• Increase loyalty and involvement</li> </ul>
<b>Living social</b>	<ul style="list-style-type: none"> <li>• Providing a wide range of products</li> <li>• Launching high-end events</li> </ul>	<ul style="list-style-type: none"> <li>• Target many segments</li> <li>• Differentiate itself with premium products</li> </ul>
<b>Bloom spot</b>	<ul style="list-style-type: none"> <li>• Cooperating with merchants</li> <li>• Loyalty points for every deals</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure profit for merchants</li> <li>• Earn points to purchase deals later</li> </ul>

Groupon has used their first mover advantage to dominate the market and create a solid brand awareness to customers. After conquering domestic market, it has expanded to over 250 markets in 44 different countries in the world through hostile takeovers (Inc 2010). In each country, Groupon sets own subsidiaries with similar website layout and appearances, leaving only texts and logos in native

languages. This is done to ensure both the localization and the globalization of the company's existence in developing countries. In addition to that, Groupon has increased involvement of the local merchants by cooperating in a Reward Program that, in the long-term, both parties will gain benefit.

Meanwhile, Living Social is launching a full scale attack on all segments in the markets. Its customers range from general users, tourists, to and family groups and adventure-seekers. This strategy applies well in a second-mover position in which customers are already familiar with the leader of the market. Moreover, the runner-up also offers premium deals (\$100 - \$200 meal) in luxury places. The offers are only introduced by selected high-end merchants who are well-recognized and capable of delivering the service.

On the other hand, Bloomspot prefers more intimated strategies to ensure the sustainability of the business. First, it has cooperated with the local merchants to guarantee a profit for the marketing campaign. The company's specialized algorithm has allowed merchants to generate a holistic view of what will end up after running the campaign. In case of losses resulting from a deal for the merchants, Bloomspot compensates them. This is, compared to their competitors, a remarkably sustainable and innovative way of collaboration. Second, Bloomspot introduced a loyalty plan called Bloombucks which will accumulate the bonus point for every dollar spent on the deal. The process of accumulating points is even made electronically for ease of use. Customers can just take a picture of their receipts and upload it via their smartphones application.

### 3 CASE COMPANY: GROUPON INC.

#### 3.1 Company profile

Groupon Inc, originally started as “The Point” in Chicago in 2008, is the market leader of the group buying industry. The company has dramatically grown since 2009, now with nearly 40 million active customers and over \$2.2 billion of revenue in 2012. Though it showed tremendous growth, the company has found itself into an overgrowth trap in which the growth of new customers and the revenue have slowed down in the past several quarters. Nevertheless, the industry is still new and potential which is the reason why Groupon still holds investor’s belief of prosperity.

TABLE 4. Company key statistics (Nasdaq 2013)

<b>Established</b>	2008 in Chicago, US
<b>Revenue (2012)</b>	\$2.3 billion
<b>No of employee (2012)</b>	Est. 11470
<b>Market capitalization</b>	\$3.7 billion
<b>Y/Y Revenue growth rate</b>	39.8%
<b>Customer network (2012) (unique visitors)</b>	39.5 million

As the latest report came out, Groupon has again made a loss in the last quarter despite an enormous profit gained in Q3 2012. Nevertheless, the company has done a good job of keeping marketing expenses low while push the revenue as strikingly high as \$638 million in Q4 2012. The fact is that the company has struggled for the past 3 quarters as every growth statistics are falling. The problems that Groupon faces are the over expense of sales and marketing in the

new markets while low merchant and customer retention rate in the old markets is reported (Richter 2013). Thus, these known issues have dragged the leader of the industry into, respectively, unprofitability and stagnant growth.

### 3.2 Business model

In step one, the final consumer purchases a deal on Groupon.com. For this he or she pays money to Groupon who in turn send the coupon to him or her. In the second step, the consumer redeems the coupon when checking in the hotel and in turn, receives a service from the hotel. The third step describes the contracts existing between Groupon and the hotel. These contracts specify e.g. Groupon's service fees, amounting to around 50% of the deal price and, the other way round; they specify the terms and conditions of Groupon's transfer of money to the hotel.

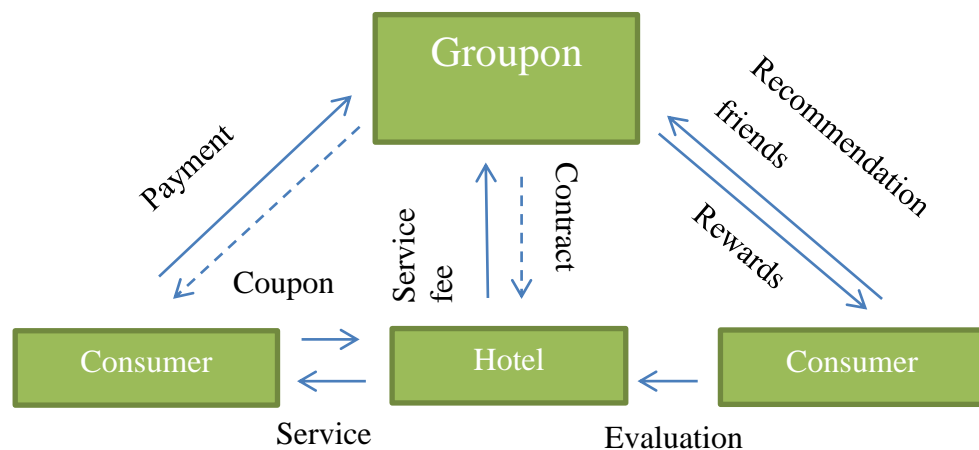


FIGURE 3. Groupon's Business model

These terms and conditions vary from country to country. In Germany Groupon pays the money only if the coupon actually is redeemed. However, in other countries they pay it directly after the customer paid for the deal. The great advantage of the German model is that Groupon can “double-benefit”: Firstly, if people do not redeem their coupons, Groupon does not need to transfer any money to their merchants. Instead, Groupon keeps the money paid by those consumers or gives them a credit usable for other deals. Secondly, if people do redeem their coupons, they will usually do so after some time elapsed since the purchase. This allows Groupon to work with the consumers' money for at least

some time. Thus, Groupon can invest the money and increase their assets. In step four, the roles change: The hotel and Groupon become the “customers” of the coupon purchasers, in which the customer can recommend their friends to get points from Groupon and the hotel can get customers’ feedback after they use the service.

### 3.3 The 5Cs Analysis – An analysis of the website

The 5C Analysis originally consists of 5 elements of internal, macro and micro environmental situation. : Company, Collaborators, Customers, Competitors and Climate. However in an online environment of electronic business, the author saw the necessity of adapting the analysis with steady changes. The adapted 5C Analysis comprises of 5 different aspects of an electronic business: Company, Collaborators, Community, Content and Connectivity. While Company and Collaborators have remained the same, Community, Content and Connectivity are newly introduced to provide better understandings of the elements of a website.

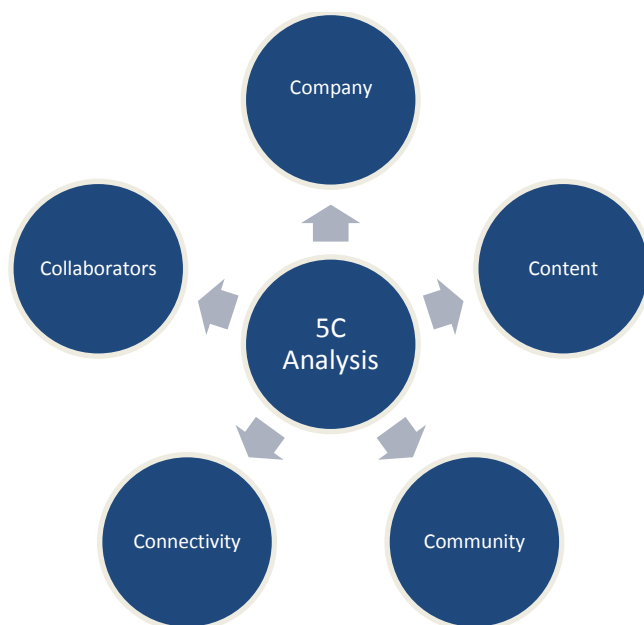


FIGURE 4. Adapted 5C Analysis



### 3.3.1 Company

- Product

There are a number of products offered such as Groupon Locals, Groupon Getaways, Groupon Goods, Groupon Gifts, and Groupon Grassroot. Groupon offer deals in different branches such as Health and Wellness, Food and Beverage, Leisure, Events, Retail and others Deal Channels.

TABLE 5. Products offered by Groupon (US market)

Products	Features	Introduced in
<b>Local Deals</b>	The basic services offered to customers Daily local deals with expire date up to 3 months	2008
<b>Grouponicus</b>	Annual wintertime celebration brings you deals that are perfect for giving and strategic hoarding	2009
<b>Getaway Deals</b>	Travel deal with a package of transportation, accommodation and culinary services	2011
<b>Groupon Now</b>	Instant deals and redemption at day	2012
<b>Groupon Grassroot</b>	Donation for benevolent causes that affect local community.	2012
<b>Groupon Reward</b>	The program uses normal bank card to enable the loyalty benefit. After spending a fixed amount of money, customers can receive a free voucher from the same restaurant.	2012

Local Deals is the basic service that Groupon offer to its customers. Although having started with offering local deals limited to specified cities, Groupon have expanded their business by “National Deals”. This initiative was taken to meet the

needs of consumers from one city who were also interested in deals of other cities. An example of a typical local deal would be discounted haircut, whereas a national deal would rather focus on products or services that are available online such as POSTER XXL or retail chains like THE BODY SHOP (Groupon 2011).

Getaways Deals, this brand new concept of Groupon was launched in July 2011 and is currently only available for US and Canadian residents. The merger of Expedia and Groupon offers travel deals. For Groupon subscribers, this merger offers a wide range of hotels available, given the immense data base of Expedia with around 135.000 hotels worldwide. As with all other deals Groupon's travel deals offer discounts of around 50 percent. (Ford 2011)

Groupon NOW! was another striking innovation of Groupon but its timing was not right. To customize consumers and merchants with this service, there are introductory videos on both the main website ([www.groupon.com](http://www.groupon.com)) and on the merchant website ([www.grouponworks.com](http://www.grouponworks.com)). The idea behind this service is that merchants can publish deals on the Groupon site on short-term when customers stay away unexpectedly. This can play a significant role for merchants having excess capacities and dealing with perishable goods such as vegetables, fish or flowers. Merchants wanting to publish a Groupon Now! deals do this via the web or their smart phone. These deals, within proximity of the merchant's business, target subscribers who can receive Now! deals on the website and their smart phone while on the road. A customer-friendly map of the area where the consumer is currently moving makes it easy to choose the right deal at the right time.

Groupon NOW! was launched in the second quarter of 2011 in 25 North American markets. Although CEO Andrew Mason confidently called the new service "Groupon 2.0", it did not perform as expected. From its launch to September 2011 Groupon Now! has not collected more than \$2, 6 million of total gross billings and less than \$1 million of net revenue. This might also be due to the decreased commission rates. In contrast to the usual 40-50%, Groupon charges only 15-20% for the Groupon Now! service.

Groupon Reward was firstly introduced in 2011 as a beta program and was launched officially in May 2012. Unlike other loyalty program offered in supermarkets or drugstores in which customers receive customer card to swipe in

every purchase, the Groupon Rewards utilized the ubiquitousness of debit and credit card to penetrate among both consumers and merchants. After an amount of money has been spent, the customer can unlock new voucher provide by the merchants. However, this program has some considerable flaws in perceiving purchase behavior of Grouponers.

- Price

Apparently, the greatest benefit of a deal goes to the customer purchasing the deal. With an average price per product of \$25.37 compared to Living social's price is \$30.29, Groupon's deals are even cheaper than its competitors' (Online Marketing Trends 2011). However, Groupon was blamed several times for artificially inflating the prices before discounting them to make the customers feel satisfied and to encourage them to purchase the deal. The truth becomes obvious when we compare prices on the market. For example, a cleaning service was offered at \$45 from normal \$200, but in reality, however, the usual price in the given service area was quoted at \$106. In the end, Groupon was officially blamed for five of such cases while Living Social additionally accounts for three such cases (Davis N. 2011).

On the other hand, the fee charged from Groupon for their intermediary services is perceived as extremely high. Taking away 50 percent of an already discounted price seems to leave nothing over for the merchants if not only advertising. First, this is mainly due to the high costs related to the business model. Groupon highly depends on their subscriber base and, therefore, keen to increase it. Consequently the substantial costs result from marketing activities, which were even higher than half of total revenue of each year. Marketing costs accounted for 39, 85 % in 2010 and even 45, 8% in 2011 of the total operating expenses (SEC 2011). According to Groupon's report to SEC Government Achieves, the money consuming marketing activities are mainly due to the acquisition of new subscribers and merchants, maintenance of existing subscribers and merchants, expansion of the amount and variety of their products and deals and the increase of their brand awareness (SEC et al). In February 2011, Groupon paid around \$3 Million for their advertisement during the Super Bowl Final on TV (CNN Worldsport 2011).

Further marketing costs are incurred from affiliate programs that put Groupon's daily deals on their homepage in order to attract new customers. Therefore, Groupon has to pay a certain fee, resulting in increasing costs of marketing. Moreover, Groupon employs many people for marketing issues, like attracting and consulting potential merchants. Second, Groupon considers itself to obtain a competitive advantage due to their pure high subscriber base which allows merchants to benefit from a broad audience. While both Living Social and Groupon charge 50% of the total amount of the money earned by the deals, Living Social has a subscriber base of 26 Million people compared to roughly 142 million registered on Groupon (SEC et al). Hence the apparently high fee is mainly due to exceptionally high operating costs and the global leading position concerning the subscriber base.

- Promotion

In the beginning of Groupon's history, they started with social network and word-of-mouth advertising due to the fact that these types of promotion tools were significantly cheaper than traditional advertising methods (Dholakia, 2010). By implementing social network advertising, Groupon was able to reach a broad audience and enhanced word-of-mouth promotion. This advertising method is said to be fast, direct, and free of geographic boundaries. Groupon's strategy is to provide subscribers with a deal they can do together and thus talk about it. A real life example could be a couple purchasing a Groupon for a dinner in a restaurant, telling friends to purchase it as well in order to save money first and second to enjoy a dinner together. The discount offered to customers in conjunction with gaining social experience makes people excited and talk about it.

However communication among friends or family members does not create global leading position in the couponing business. It put all effort in the conversion of private mouth-of-mouth promotion to a public and far-reaching communication. To do so, Groupon started to implement social networks like Twitter, StudiVZ or Facebook in their promotion strategy. According to readwriteweb.com this method is extremely successful proven by the fact that from 2009 to 2010, hence in only one year, Groupon's subscribers have grown by 2500% from 2 million to over 50 million (Melanson 2011).

The most famous and successful example of Groupon's social network commitment is Facebook. First, Groupon places active ads on the right hand side of the Facebook webpage along with other advertising. These ads denote the currently available deal and enable people to either click on the advertisement to buy the deal which will be displayed in Groupon page or as a second option, to click the like-button. The latter action implies that people will automatically post on their wall "ABC likes Groupon", which could inform the deal to average 16% of the total friends (Constine 2012).

Second, people that purchase a deal on Groupon's homepage can also make use of the "Tell my friends on Facebook" option to get €6 (or \$10) discount for the next purchase. Moreover, people are able to become fans of Groupon on their Facebook page. In only 4 years Groupon obtained 652 474 fans on Facebook worldwide (Facebook 2013). In addition to all these points, Groupon thereby have the chance to observe the target group's needs, preferences and purchasing behavior and thus adapt their promotion strategy accordingly.

Despite the fact that it has attracted an outstanding number of people, Groupon is currently trying to shift its promotional activities to more traditional tools, which include television, radio and print advertising, loyalty and affiliate programs (Davis 2011). However traditional promotion strategy is a double-edged sword. If the conventional advertising is used properly, it is able to present more information in a short time and avoid an audience from ignoring the information, which might happen with online marketing. Consequently while, social network marketing targets only a limited target group traditional promotion reaches customers from many different segments. On the other hand, traditional promotion tools are terribly expensive. For instance when it comes to TV advertising, companies have to purchase TV spots and limited airtime. Next, there are regulations and taboos in some foreign markets which make it difficult to promote in foreign markets. Just in the beginning of 2011 Groupon experienced such a challenge in which it nearly lost their hard earned reputation. In this campaign, Groupon tried to expand its popularity and to establish a better brand image through broadcast advertising during the 45<sup>th</sup> American Super Bowl football finals. However, it was viewed as the worst Super Bowl ads (Anderson 2011). (See Appendix 1)

- Place

The online presence of Groupon is divided into internal and external parts. There appears a reminder for a registration whenever one accesses the homepage he or she can see the daily deal and all other available features by clicking outside of the presented information field. However people that are not subscribed are exempted from purchasing the deal. Hence, Groupon uses its homepage as an information platform and distribution channel. Instead of just informing people about the deal of the day, the homepage gives visitors the chance to see and purchase deals from all participating cities, just by selecting the respective city. Further Groupon use their homepage to sell national deals, deals nearby, gift voucher and if available Deal Channels and Self-Service Deals. The deals are displayed on their local homepages in a quite enjoyable way. The title and description of the products is kept remarkably straightforward and clear.

In addition, Groupon employs mobility as a platform for its key product. Presently, people increasingly become owners of smartphones. They can not only receive information via Email, but also have the chance to access Groupon directly through an application. The application works on all popular operating systems for smartphones at no additional cost. The mobile application “Groupon Deals” simplifies the access of information about the deals, the purchase process and the redemption. The app was launched in March 2010 and was downloaded roughly 20 million times (SEC et al).

The daily email including a description of the daily deal, sent to their subscribers is crucial for Groupon to get their potential customers informed on a daily basis. This channel is along with the homepage, the most prominent one since it ensures that each single subscriber gets a personalized message with detailed information about the daily deal and has almost no chance of getting uninformed. The email includes a direct link to the daily deal. Thereby Groupon builds constant customer relationships to obtain customer loyalty and thereby generate revenues. In order to sell even more coupons, Groupon sometimes attaches an additional link leading to “More Great Deals Nearby” where subscribers can see additional deals that can be realized close to his home.

On the other hand, almost every coupon seller currently uses social networks as a distribution channel due to the increasing number of subscribers registered in these networks – so does Groupon. Hereby, Groupon profits from an already existing customer base which they can use to broaden their base and further are able to keep in touch with their current subscribers. In order to fit into the corporate design of the underlying platform, Groupon's notifications are adapted to the respective format. Groupon currently is present on Facebook, Twitter, netzwertig.com and many other famous networks.

Last but not least, Groupon has several partnerships with a vast number of online shops, news services or auction houses. These partnerships enable them to display and promote their deals, i.e. embedding Groupon's widget into the partner's homepage. People can then click on the icon and become directly transferred to the official Groupon website where they can purchase the deal. For this particular channel, Groupon has to pay a certain commission to partner in order to successfully use his underlying customer base. Groupon is working with partners from different size. They collaborate with gigantic firms like eBay, Yahoo or Microsoft while it also works with smaller ones like Redbox, a video rental service. In December 2010 Groupon used Redbox's customer base to promote a deal and profited from an acquisition of 200.000 new customers. In March 2011, Groupon gained 290.000 new customers when they used eBay to display one of their deals (SEC et al).

- Financing of the business

Groupon undertook their Initial Public Offering (IPO) on November 3, 2011. With a share price of \$20 per share on the first day of public trading, Groupon earned about \$700 million and was valued at \$12.7 billion. At present, the Book value per Share is 1.22 while the market value per share is \$5.27. The fact the market value of Groupon exceeds the book value by far leads to the assumption that Groupon is overvalued and questions the transparency of the real financial situation to investors. Another indicator that has to be considered is Earnings per share (EPS) which represents the amount of profit generated per share. At the moment, Groupon's EPS is -0.06 which means the company made a loss of 6 pennies for every share it issued. This ratio had increased strongly since the

beginning when it recorded a loss of \$2.74 for every share outstanding.  
(NASDAQ 2013)

- Profitability

In the past three years, the company has experienced an enormous growth in revenue from a mere \$ 15 million in 2009 to approximately \$2.2 billion in 2012. However, in the previous year, the revenue grew by only a single-digit percentage for the first time in the company's history; prior to this, number has increased by two or even three digits. Groupon's slow growth in revenue might be due to the increasing saturation of the couponing market. Hence, the company will soon have to come up with new strategies to ensure future growth. Along with the revenue, the profitability index has no brighter view as Groupon made a loss every year. However, it is expected that Groupon will be able to reduce these losses in the future (Richer F. 2013).

### 3.3.2 Content

The structure of Groupon's homepage is characterized by a rather uncomplicated, however, appealing appearance. The colors black, green and blue dominate the overall theme, leading to a relaxed and comfortable atmosphere while orange is used to stress anything that importance. The homepages of all European countries in which Groupon is available share the same outline, construction and design. However the Canadian and the US homepage differ a bit, which is due to additional services available there. Nevertheless most of the online presence is the same. The amount of information on the home website is kept within a limit, which is the focus lies on the current daily deal. The design of the start screen is always the same, just the deal itself changes: Each deal is divided into two parts, an upper part with an overview of the deal, and a lower part with more detailed information. The lower part of the deal consists of a longer text describing the offer in detail by using emotive language. This is done to convince readers from the uniqueness of the deal. For example:

“While it's attractive to have chiseled features, you'll get the opposite result by actually chiseling your features. Resurface your face with this Groupon.” (Groupon 2013)



The usage of emotional and extreme language might result in different behaviors from consumers. What is very helpful, however, is the “Ask a question” button below the text. Potential purchasers can ask questions about the specific deal, which are then answered by either the merchants themselves or Groupon staff.

### Schnebly Redland's Winery & Brewery

Though they had long been interested in starting an agro-tourism business on their 96-acre farm, Peter and Denisse Schnebly might never have considered a winery were it not for a fortuitous visit from Bill Wagner of Wagner Winery in Lodi, New York. During his stay, Wagner took a look around at the farm's exotic fruits and vegetables and planted an idea in the couples' imaginations: why not draw upon their harvest to create exotic wines? The idea took root, and the couple soon began to experiment in their garage, crafting wines with the help of their friends while sticking to their shared belief in sustainable practices. Five years later, these eccentric wines—infused with mangoes, avocados, and other nongrape fruits—helped their newly opened winery garner a 2008 [Best Winery](#) award from the *Miami New Times*.

Many of the winery's varietals have gone on to win accolades since then, and tours and tastings allow visitors to join in the celebration and gain insights to the process of winemaking in a tropical environment complete with a coral water fountain, tiki huts, and lush plants. [Table wines](#) include Guava, a rose wine, balanced with integrated aromas of plum, black berry, blue berry and exotic herbs. Visitors can also stop in to check out the newest addition to the winery: [Schnebly's brewery](#), where brew masters integrate tropical notes into their signature Big Rod ale or Shark Attack.

Wines and beers pour freely during weekend events that feature live concerts and karaoke. Past [entertainment](#) included Bryan Gonzalez , TreeHouse Band , La Linea, and bluegrass groups distinguished by their danceable songs and innovatively landscaped lawns.

Ask a Question

### Reviews

“ a remarkably beautiful winery with unique wines...definitely worth a trip if you're a Miami-Dade local, visiting the city, or a wine enthusiast.

[Laura Y, TripAdvisor, 6/12/12](#)

“ Wine is incredibly delicious and inexpensive! Their live bands will have you dancing all night long!

[Angie B., Yelp, 7/17/12](#)

- [Daily Beer Review review](#)
- [Miami New Times, Best Winery, 2008](#)
- [13955 Facebook Fans](#)

FIGURE 5. Lower part of the deal (Groupon 2013)

In conclusion, given that the design of deals is always the same, shoppers can navigate very easily and find their way quickly through the site and the offers, making online shopping supremely convenient. There is no need for searching for information for a long time because the side bar on the left side of the upper part briefly visualizes the most notable facts for interested shoppers. The color and the style of the text are remarkably clear and sincere (black font color on a white background) and thus perfectly readable. As the information per deal page is limited to that specific deal, the shopper only has to scroll a little bit and stays focused on deal. The only distracting element is the “Groupon says” section as it often does not have any relation to the offered deal.

### 3.3.3 Community

In this business model, customer interaction plays a vital role for Groupon:

Firstly, spreading the news of a deal in a wide community helps attracting enough people needed for realizing a deal, and secondly, maintaining a community helps protect against competitors. Thus, cultivating an own community is a key part of Groupon's marketing strategy.

TABLE 6. Groupon's commitment to community

	Features	Started in
<b>Live Off Groupon</b>	A story of how to live with only Groupon voucher in an entire year	2010
<b>Groupspawn</b>	A dating service among Grouponers, from which participants can benefit	2010
<b>Groupon+ Flickr</b>	Share photos of customers when using Groupon	2011

Groupon's business relies on socializing Groupon subscribers and purchasers who have the power to attract or tempt others. Communication about Groupon is organized in two ways: self-organized by Groupon's final stakeholders or steered by Groupon. When searching the home website for any means of communication, one can discover that Groupon offer many interacting and networking possibilities. Not only does Groupon steer communities, but also does it organize itself. Interaction among Grouponers takes place via the "reviews" part of a deal where they can evaluate a deal or a merchant according to past experiences. Steering their communities is crucial for Groupon because it can actually actively generate or influence the information they want to be communicated.

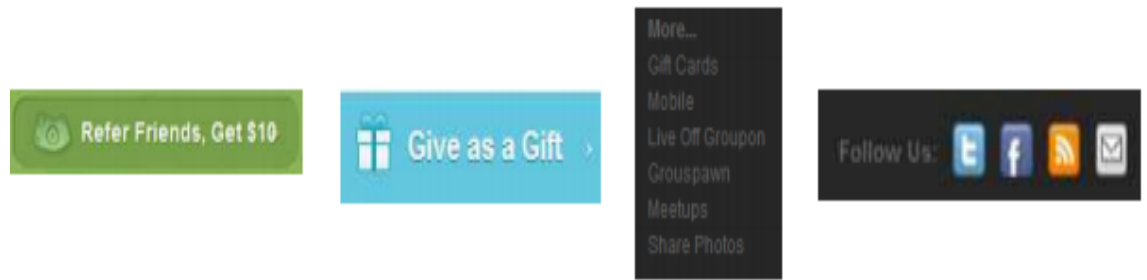


FIGURE 6. Communication steered by Groupon (Groupon 2013)

For example, a blog called “Live Off Groupon” tells the stories of a “Grouponer” living only with Groupon vouchers for an entire year. This blog is highlighting the economic benefits shoppers can get when purchasing as many Groupons as possible. With its 13.783 fans on Facebook, this is a critical strategic marketing tool for Groupon. (Stevens 2013)

Meanwhile, the page “Grouspawn” is as the name suggests, a dating website of Groupon where subscribers fulfilling certain requirements (e.g. minimum age of 18 years) can meet and date (Groupon 2013). The strangeness of the name, the design and above all the motto of the site make many users curious. The page itself serves for posting one’s profile, and potential dates can directly comment on a profile using their Facebook account.

Altogether, one can say that the Groupon site is well connected to social networks and that the company actively and successfully promotes socializing and building communities among their subscribers. Among all the community-forming and maintaining measures taken by Groupon, the most powerful one is a strategic marketing element: the ticker showing the “Time Left to Buy”, the amount of Groupons bought and the information whether or not the deal is on.

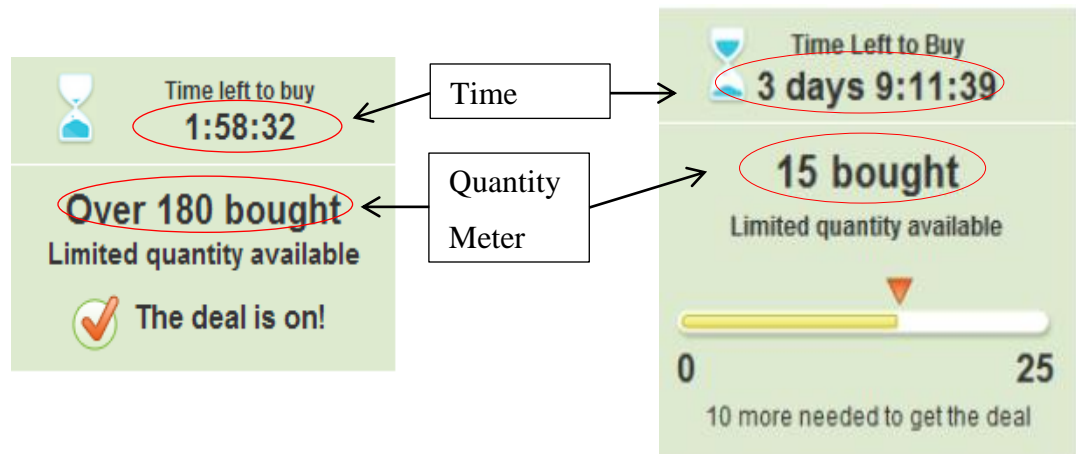


FIGURE 7. Ticker illustration (Groupon 2013)

The ticker, by indicating how long the deal is still offered, creates a feeling of “pressure”, implying that one has to hurry up to purchase that deal before it is closed. Another element, the quantity meter, encourages purchasers to animate others to buy that deal, as long as it is not on yet. The fact that they can only profit from the deal if a certain minimum number of people purchase that deal is a perfect marketing strategy.

In conclusion, users start promoting Groupon without the company making any extra effort – a particularly cheap and highly effective way of advertising for Groupon, who swear by this strategy: “We believe our brand is trusted due to our dedication to our customers and our significant investment in customer satisfaction”.

### 3.3.4 Connectivity

When searching on the web for “Groupon”, the search engines provide an enormous amount of correct hits. Google gives 277.000.000 results, Bing 23.700.000, Yahoo! 23.500.000 and AOL 110.000.000. The hits from Google even show direct links to specific Groupon cities: Stuttgart, Munich, Berlin, Cologne, Hamburg and Frankfurt. The Groupon.com site can be accessed from all popular browsers (Windows Explorer, Mozilla Firefox and Google Chrome). Anytime when switching on the computer and browsing for [www.groupon.com](http://www.groupon.com),

one has to choose a city and enter one's e-mail address. Thus, no one can just "visit" the page without leaving some personal data, which is truly user-unfriendly. Especially when being on the website for the first time, giving one's mail address without even knowing what's behind the page might discourage some visitors. There are two ways to browse through the Groupon page: by just entering one's e-mail address on the start screen or by signing in. However, there is no substantial difference between both ways except for a "profile" section where one can leave some personal details and track one's Groupon purchases.

Navigating through the website is facilitated by two navigation bars; one on the top, listing different deals, and one at the bottom, giving background information about Groupon such as information about the company and services offered. The first navigation bar is used for easy and fast browsing: the Groupon logo, which always stays at the same position, serves to get to the start screen, showing the "Featured Deal" (the deal of the day). When clicking through the navigation bar, the currently chosen link is marked in blue, with the font changing to bold. This again gives a good contrast to the rest, so that the consumer recognizes well where he is browsing. The navigation bar on top also serves for changing the city for which one is searching deals.

A big short-coming of the page is that there is no search engine service, by which the user can search the entire page for a certain term. Given the load of information, this would be hugely helpful. Including a search engine function in the page would thus, be a good idea for the future.

### 3.3.5 Collaborators

To conduct its business, Groupon relies on different kinds of partnerships with *merchants, data centers, and internet platforms*. Partnerships with *merchants* form the basis of Groupon's business as merchants provide the deals offered at a discount. Thus, at present, Groupon partnered with over 250,000 merchants worldwide with the majority based in US (Groupon 2013). The company also provides technical support platform for its partners by offering tailor-made services and sales software like Breadcrumb. On the other hand, partnerships with *data centers* are becoming increasingly crucial for Groupon as the growing

number of Groupon subscribers demands more sophisticated technical equipment and a higher storage capacity. This is why Groupon work together with specialists in the U.S. (Miami, Florida and Dallas, Texas) for the Northern American area and Asian and European data centers for the other markets (Dignan 2011).

*Internet platforms* such as search engines or social networks, and especially Facebook, are crucial partners for Groupon, given their enormous influence on internet users: Teaming up with search engines, e.g. Google gives Groupon a competitive advantage as their ads will pop up first in the advertisement bar and those of competitors further down. Facebook is an extremely valuable partner for Groupon as the latter have their own Facebook pages and use this social network as the main communication platform with subscribers.

### 3.4 SWOT Analysis

According to Albert Humphrey, the father of the famous SWOT matrix, SWOT is an outstanding tool to discover the future opportunities in current strength, eliminate the upcoming threat by knowing the weakness (Foresight Business Consulting Inc. 2008). The SWOT analysis helps give businesses a clear view of their current strategy, which means to understand their internal strengths and weaknesses, as well as their external opportunities and threats. The authors find that the SWOT Analysis is a useful tool when analyzing external and internal information about the case company.

TABLE 7. SWOT Analysis of Groupon

<p><b>Strength</b></p> <ul style="list-style-type: none"> <li>• <i>Market leader</i></li> <li>• <i>Large capital</i></li> <li>• <i>Market diversified, popular brand</i></li> <li>• <i>Large users and merchants network</i></li> </ul>	<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>• <i>Public company</i></li> <li>• <i>Undifferentiated offerings</i></li> <li>• <i>Over leveraged finance</i></li> </ul>
<p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>• <i>Technological advancements</i></li> <li>• <i>Lower marketing cost</i></li> <li>• <i>Generate profit</i></li> <li>• <i>Tech savvy generation</i></li> </ul>	<p><b>Threat</b></p> <ul style="list-style-type: none"> <li>• <i>High customer acquisition cost</i></li> <li>• <i>Economic recovery</i></li> <li>• <i>Declining customers' involvement</i></li> </ul>

### 3.4.1 Strength

Groupon is now the largest company of the industry followed by Living social and Bloomsport. Moreover, it also has a pool of \$1.14 billion from the venture capital (Techcrunch 2013) when held privately and now it has a market value of \$3.1 billion (Nasdaq quote 2013). Thus, Groupon has the power and finance to leverage itself and to create general trends to consumers worldwide. On the other hand, it is presented in over 48 countries (Groupon 2013) and 500 different markets and 5 continents. In addition, the name Groupon came as a portmanteau of Group and coupon in which it reminds consumer of its basic functionality and popularity. Last but not least, with a network of over 39.5 million of registered users and 250 thousand of merchants worldwide (Groupon 2013), this daily deal website has a massive advantage to increase revenue and reduce new customer acquisition cost.

### 3.4.2 Weakness

Unfortunately, being a public company means that Group has to disclose financial data and profitability figure. Revealing annual report and financial data cause Groupon to be vulnerable to public rumor and general economic trend.

Moreover, as the market leader of the industry, however, with hundreds of competitors, Groupon faces massive competition for the market, which is the result of undifferentiated services offered by group buying websites. Moreover, it is also difficult to create unique services or technological advancement to hinder newcomers. For example, the website is easily built on a CMS platform (Drupal, Magento) or even simply created in Wordpress with Plugins (Jonathan 2011).

Finally, Groupon is pooled with over \$1 billion from different venture capital funds and debts (Raice & Ovide, 2012). The consequence is high debt/equity ratio which results into high cost of capital. Thus, Groupon is getting more and more difficult to leverage its finance and obtain more debt in the future.

### 3.4.3 Opportunity

In the past, Groupon has acquired roughly 40 local group buying sites per year. However, due to the fierce competition comes from native market; Groupon has switched to acquire technology firms such as Kima Labs (mobile app), Breadcrumbs (POS solution), etc... All of the solution aim to improve customer and local merchant relationship and to ease browsing experience. Hence, it is expected to create a technological difference to prevent Groupon clones jumping in the market.

During the first three quarters of 2012, Groupon has made a profit of over \$13 million compared to a net loss of \$375 million in 2011. Moreover, it is a shining sign of profitability after about 3 years of losses due to enormous foreign investment and marketing expenditures.

The number of smartphone users and Internet users has grown tremendously in the past couple of years, especially in developing countries (Canalys, 2013). On the other hand, Groupon are fully engaged with their smartphones application and



Point-of-Sale solution to provide to customers and local merchants. The usage of smartphones and tablets are increasingly encouraged as consumers can check instant deals from nearby shops, purchase and redeem instantly.

#### 3.4.4 Threat

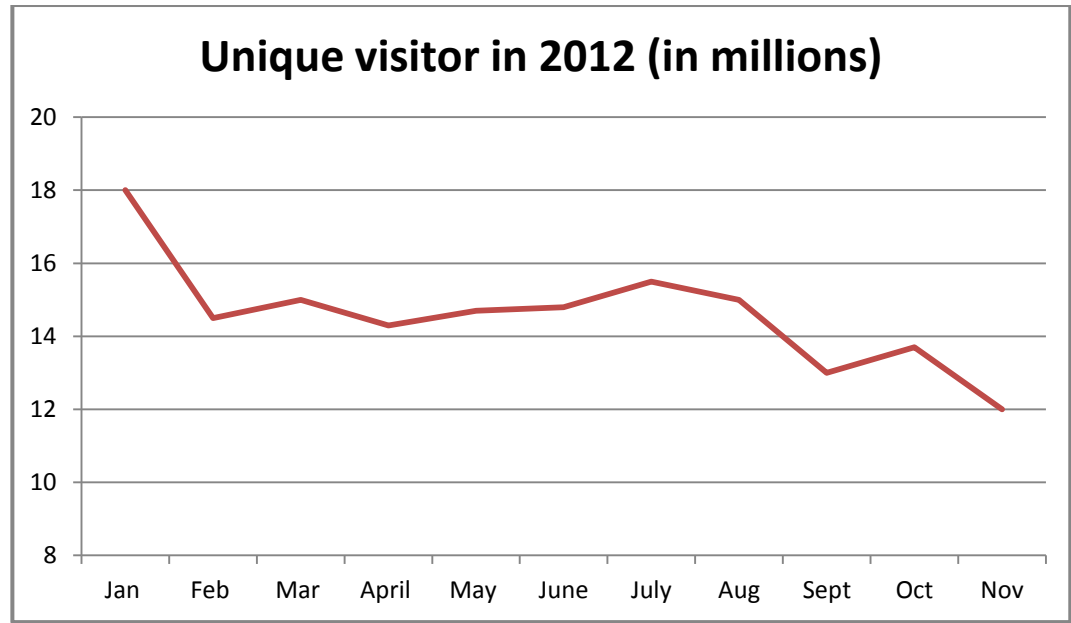


FIGURE 8. Unique visitors of Groupon in 2012 (Compete 2013)

This cost has risen over time as it has gone to \$9 per customer in 2009 and spiking to \$52 in 2012 (Cohan 2012). It is predicted to rise again in the upcoming year due to harsh competition and economic recovery while the number of unique visitors is on the verge of decline. Hence, the waning customers' activity undoubtedly poses a challenge to Groupon. In addition, though it is common for normal industry to get the benefit when world economy recovers, it is the opposite truth that group buying model depends on the economic crisis to prosper (Marrinan-Hayes 2012). As the economy is slow down, consumers have incentives to buy discounted products while local businesses want to get rid of their old inventory and to introduce their brands. Hence, it could be challenging for Groupon to cope with this upcoming economic recovery.

### 3.5 Porter's 5 Forces Analysis

Industries may appear on the surface quite different from one another, but the underlying drivers to attain profitability are the same. Therefore, to better understand industry competition and profitability, one must analyze the industry's underlying structure in terms of the five forces determined by Porter. The below figure is a graphic presentation of Porter's Five Forces Analysis.

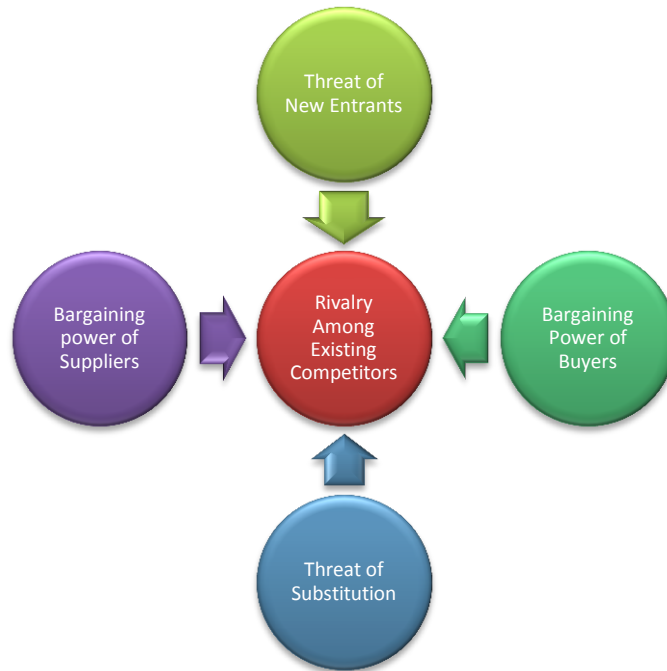


FIGURE 9. Porter's Five Forces (Porter, *The Five Competitive Forces That Shape Strategy*, 2008, 8)

TABLE 8. Porter's five Forces affecting Groupon

Forces	Level	Key notes
<b>Threat of New Entrants</b>	<b>High</b>	<ul style="list-style-type: none"> <li>• No market entry or exit</li> <li>• Really low cost to enter market</li> <li>• But high cost to scale</li> </ul>
<b>Bargaining Power of Buyers</b>	<b>High</b>	<ul style="list-style-type: none"> <li>• Low switching cost</li> <li>• Many alternatives</li> <li>• Not a necessity</li> </ul>
<b>Threat of Substitution</b>	<b>Low</b>	<ul style="list-style-type: none"> <li>• Different channel from conventional advertising</li> </ul>
<b>Bargaining Power of Suppliers</b>	<b>Medium</b>	<ul style="list-style-type: none"> <li>• Large number of local business in large cities</li> <li>• Lack of uniqueness</li> </ul>
<b>Rivalry Among Existing Competitors</b>	<b>High</b>	<ul style="list-style-type: none"> <li>• Low switching cost</li> <li>• Multiple entrants</li> <li>• Price sensitive users</li> </ul>

### 3.5.1 Threat of New Entrants

Though the daily deal business has strikingly low barriers to entry, not every player in this industry can scale to Groupon's size due to the large number of players in the market and high customer acquisition cost. Though the cost to start a daily deal website is just under \$100, which is not a solid obstacle to hinder new entrants, the cost of sales and marketing and expand to other markets are strikingly high (Robles 2012). For instant, Living Social, the biggest competitors of Groupon, alone has spent nearly \$2.3 million on Google AdWords on June 2010 and just to maintain the current number 2 position in the market (Learmonth 2010).

### 3.5.2 Bargaining power of Suppliers

Due to the fact that this service industry does not physically manufacture, there are no real suppliers in the market. However, the supplier in this context is perceived as the local merchants who supplied the products/services to the end customers. A merchant's power is largely based on the size of the market they are in and the reach of the daily deal sites. In small markets, merchants have seen greater control and higher bargaining power on commissions to deal sites while in big cities, merchants have to queue for their turn. Merchants also have strong preferences to do deals through sites with high unique visitors. Although, there are many reports that the effectiveness of the deal campaign is not clearly shown, the number of deals is outpacing the number of sites, which signals merchants' strong demand for daily deal sites (See Figure 10).

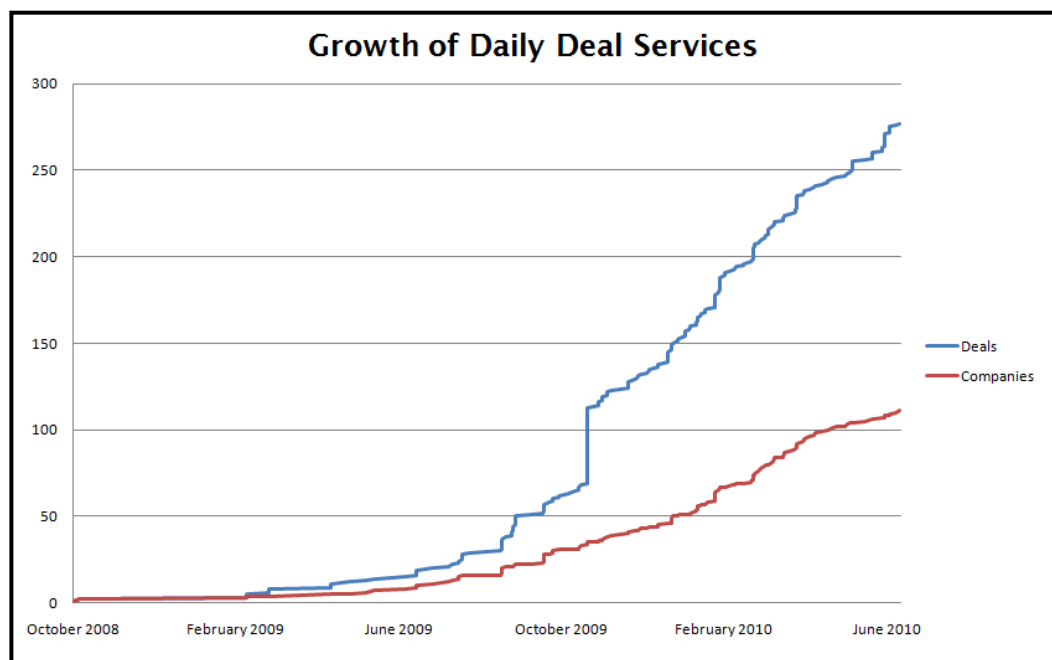


FIGURE 10. Growth of Daily Deal Services (Moran 2010)

### 3.5.3 Bargaining Power of Buyers

An individual customer has no effect on Groupon but since this is a group buying business, the aggregate power of the entire customer base becomes significant. The non-unique nature of daily deals combines with uncompelling consumers creates price-sensitive users who often sign up with multiple deal sites to find the

”best” deal in their favorite location. However, because many sites are closing down and small sites usually offer low-quality deals, consumers have to be loyal to a cluster of influential players in the market, which steadily reduces their control over where to purchase.

#### 3.5.4 Threat of substitution

Daily deals have corrupted the local advertising market, which have relied on print media, and face little threat from the status quo. Interestingly, it is the opposite influence that print and mass media have to fear the threat of daily deals as shown in Figure 11. Over 40% of local business told that they preferred running a group buying deal to spending money into other forms of media. The statistics shows that many entrepreneurs found the deal campaign particularly helpful and worth running.

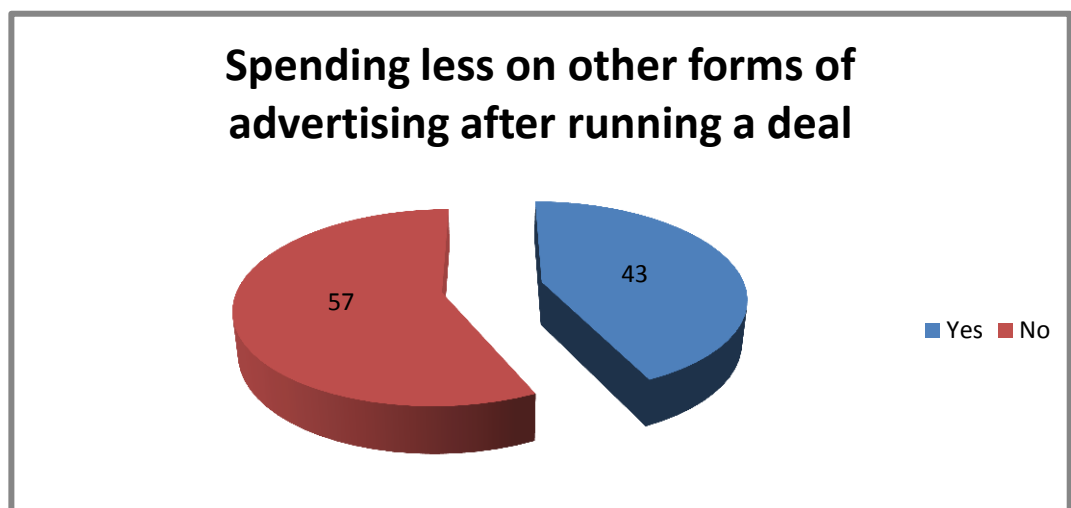


FIGURE 11. Threat of substitution (Moran 2010)

#### 3.5.5 Competitive rivalry among existing competitors

Harsh competition in every area of the daily deal market has narrowed down the competitive environment. Smaller players have attempted to relieve their competitive pressures through focusing exclusively on a niche market. Meanwhile, bigger players have focused on scaling their business to as many markets as possible through company Merger & Acquisition. However, competition is unlikely to dissipate in the near future. Moreover, traditional

commercial companies who have already established a user base and sales team have begun to enter the deal market and will likely further customize deals for their user base. Recently, some corporations like Adidas, implemented along the lines of Groupon's concept a group buying option for their own businesses. They encourage people to purchase the "deal" and promise that, with each previously defined level of quantity achieved, the price will decline. However, because this requires an enormous effort in advertising and results in only a limited effect, this model has not become too popular (Eliason, Frezgi, Khan 2010).

#### 4 CASE STUDY: CUSTOMER BEHAVIORS TOWARD GROUP BUYING WEBSITES

There are two popular research methods. These are deductive and inductive reasoning. Deductive reasoning is the science of logical thinking from a general theory to a particular idea. On the other hand, induction is the way of reasoning from a detailed fact to a general principle. In this paper, deductive reasoning is employed to sufficiently meet the requirement of the research question.

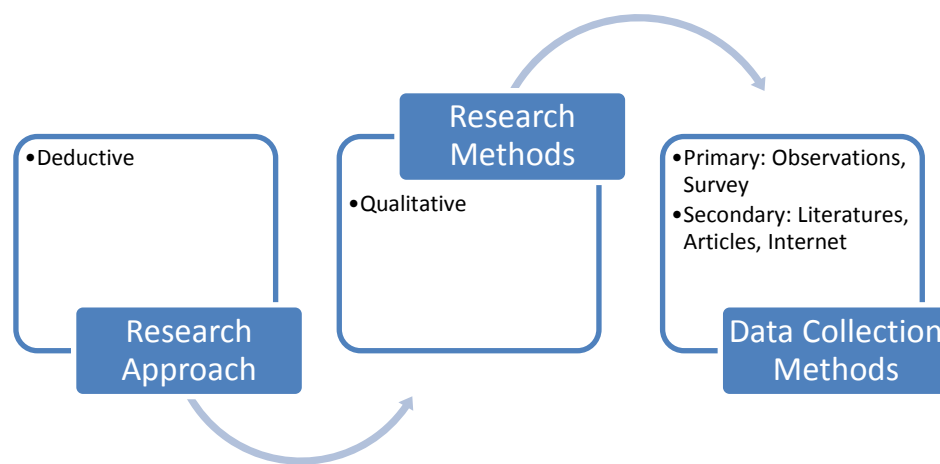


FIGURE 12. Research Method

This thesis is based on qualitative research method in which the main goal is to provide a thorough report that offers an in-depth analysis of the current status quo and recommendations for the future. A qualitative research is always based on real experience from which the case company can benefit. It also guides the company to understand the issues that can be better developed. The theoretical part is based on several literal and electric sources written on the subject of electronic commerce and group buying. The empirical part is implemented by a survey of over 30 questions in which the respondents are LAMK students who can represent the targeted customers of the case company.

Research data will be collected from both primary and secondary sources. Primary sources are mainly collected by authors' observation and survey data as the empirical part. On the other hand, published sources such as literature, articles,

journals and information gathered from Internet are used and considered secondary sources.

#### 4.1 Research design

##### 4.1.1 Survey

The survey is based on the 5C analysis framework which covers the external and internal perceptions of customers of the company. In addition to 5C framework, some demographic questions are included in the end of the survey to gain insights into personal preferences.

The 5C analysis consists of 5 different perspectives of internal, micro and macro-environmental factors of the company. The **Company** section describes the value and the performance of the website from which the customer can get the value and benefit. Next, the **content** of the website is a crucial part of communication; it is the user interface and information quality that affect consumers' satisfaction and relational benefit (Park & Kim, 2003, 16-29). On the other hand, if the content provides information to buyers, the **community** built around the consumers will encourage them to make the purchase. Moreover, as part of electronic business, the websites must maintain a stable **connectivity** with their subscribers since there are virtually no physical stores for customers to go shopping. Hence, **customers'** preferences and satisfaction are the decisive factors that influence companies' strategy. Last but not least, demographic questions are essential to the study as it provides insights into segmentation and market

##### 4.1.2 Design the measurement

This thesis aims to improve the strategy of group buying websites by reflecting customer perspectives. To analyzing the behavior of the respondents who will do the survey, two types of question will be created to suit with the right data. First, in the open question, respondents are asked to give their own opinions or experiences about using the online vouchers. On the other hand, close questions require the participants who do the survey to answer the question about the factors



affect their buying decision, their behavior, or give their ideas about the wish prices of these coupons. In addition to those two types above, Likert scale question will be employed to measure mostly purchaser satisfaction and other psychological factors (See Appendix 3).

#### 4.1.3 Process of gathering information

The survey was sent via email to 155 people and only resulted in 35 responses. However, due to the time constraint and scale of the research, the number of respondents could be sufficiently satisfying. The author has made a request to his supervisor in order to gain access to the student mailing list. Although, a small reward randomly chosen for 2 participants has been announced, a low number of responses is unexpected. In addition, the author managed to directly contact his friends in other countries to take part in the survey without any compensation. Surprisingly, the number of his friends responding to the survey accounts for more than half of those respondents. Thus, direct contact is proved to be more efficient and inexpensive than sending emails to anonymous contacts

#### 4.2 Data analysis

According to the statistics from the survey, the featured respondent is a young urban female student (about 23 years old) spending around \$5000 annually (within her budget). She is single and loves to purchase daily deals when she has free time. Her profile also matches with the targeted customer of Groupon, which increases the reliability of the research.

Key notes:

- Only 28% of the respondents said that they would buy extra items from the merchants.
- 69% said that they would have come back if they had been satisfied with the deal even without any discount.
- 86% said that they would recommend the deal to their relatives and friends.

- However, over half of the respondents buy deals a few times per month and the rest buy deals in a less frequency.
- Over 80% of the respondents replied that they would seek deals from other websites in which, on average, they spend under 2 hours to complete a purchase
- Half of the respondents found the information in the website is not sufficient. They redeemed the deal within a week.
- Most of them pay attention to deals belonged to Food & Drinks and Travel categories. They also have knowledge of what they will buy.

### 4.3 Research question and results

Compared to theoretical evidence provided in chapter 2.3, the empirical findings in regard to the influencer factors are quite identical, though, with minor differences. Purchasing decision can be affected by several aspects of a website and its stakeholders: website appearances, the website informativeness and security. However, the most noticeable feature is the increasing price-sensitivity of online consumers. Though nearly 70% of the respondents choose to come back to the business unless they get a special deal, over 80% of the participants compare deals from other websites to select the best offer. This percentage indicates high ratio of deal-seekers among consumers.

The normal strategies that group buying websites are running are deals segmentation, viral marketing through social networks. 83% of the participants confirmed the fact that daily deal sites are sending them the deals according to the preferences, the move that possibly prevents the marketing effort from going to waste. This strategy is gradually becoming the standard of the industry. In addition to the customization, group buying sites has taken advantage of their online identity to immensely stir up the surrounding online social networks, said 92% of the respondents.

However, the industry as a whole is facing several problems. Many have questioned and criticized the business model of the group buying sites for being unsustainable and unprofitable. Thus, there is plenty of room for improvement, especially when the group buying market is likely to shrink. First and foremost,

the websites have to increase customer loyalty by loyalty programs offered by both websites and local merchants. In addition, raising service level from local partners is a must because the satisfaction level scores just above the neutral line. On the other hand, according to the data, half of the respondents find the information in the website insufficiently. Thus, the websites should increase support service on peak hours (4 pm – 9 pm) when most of the purchases are made, and certainly, raise the customer involvement by actively engaging in social network to facilitate the community.

## 5 CONCLUSION AND RECOMMENDATIONS

### 5.1 Conclusion

The paper aimed to answer the above research questions and tried to solve the problems that the case company is facing. There are three conclusions drawn from this research. First, online consumers are more and more price-sensitive and become deal-seekers. By utilizing the power of Internet, customers can compare the price and appearance of products offered by different companies. Even if the quality cannot be compared, there are thousands of reviews made by charismatic newspaper and consumer reviews. Thus, providing added values and services can diminish the price-sensitivity and increase customer satisfaction. Moreover, as the consumers' control over which websites to browse increases, the information quality, user interface and privacy security plays a crucial role in determining the success of a website.

Secondly, group buying websites are employing various strategies which they believe best suit for their resources and capability. The market leader, Groupon is enjoying its first-mover advantage with fierce expansion and acquisition. Based on this leverage, Groupon is also increasing its bargaining power against local merchants when signing contracts. Meanwhile, LivingSocial shows the ambition to satisfy all customers by providing products that are designed for the targeted groups. On the other hand, Bloomspot deploys rather partners-intimate strategies in which local businesses and end customers will get more benefit and satisfaction. However, all group buying websites share the same marketing strategies: they all have customization deals sent via emails and online communities facilitated by social networks.

Thirdly, strategy improvement is the most notable thing to consider when a business gets into trouble. Depending on the resources and the core competencies, a firm should follow a particular way to grow. Under three value disciplines, a company should be able to find a suitable strategy to focus on, be it mastering the product, be it smoothing operation or satisfying the customer. The improvements of the case company can be found in the next chapter 5.2 in which potential recommendations are presented to solve the problems.

## 5.2 Recommendations

The key problem of Groupon lies on both 2 ends of the brokerage model: end-customers and local merchants. One provides the services/ products and the other purchases those services/products. Thus, Groupon needs to increase the retention rate of both tiers of the supply chain by increasing the value of the cooperation under customer intimacy guideline. The recommendation here applies mostly to restaurant, health care and tourism categories due to their business natures. However, the increase of customer retention rate will anyway bring benefit to Groupon and the service providers regardless of the category.

On the other hand, there are severe financial problems that Groupon are dealing with. The overextension of the international market has led to immense financial loss which accounts for the enormous amount of marketing expense in every annual report. Moreover, the international markets always present weak economic figures (revenue, retention rate, profit) compared to the U.S market. Thus, Groupon is recommended to shut its expansion ambition and focus resources on organic growth of new markets. However, due to the limited size of this paper, the author decided to leave this issue for further research opportunity.

### 5.2.1 Increase merchant retention, reduce cost

#### **Enhance merchant's expertise**

Usually, local businesses that run a deal campaign have little knowledge of how much they benefit from this program. They often assume that they will lose and be damaged, which results in poor impression about daily deals. Hence, in order to promote the deal running scheme, Groupon should provide the business expertise of the featured business. Many local businesses do not focus on doing marketing; they just concentrate on their core business which is the basic value that they can offer to customers. Groupon can teach them how to set up a mailing list manager, how to run a loyalty program and other after-sales services that can supplement the value of the products/services the local merchant is selling.

A ROI calculator would roughly show the potential profitability of the campaign. The calculator will take many factors regarding the number of customers and the

cost structure of the business into consideration. For example, voucher price and value, sales expected, number redeemed, total additional purchases... etc. will be included in calculating the net revenue and conversion rate. Although the results will be only a rough estimation of how the follow up number will be, it could tell the merchants whether to run the campaign or not.

TABLE 9. Benefits for local merchants

Added services	Key notes
<b>Email manager</b> <b>Promotion plan</b> <b>ROI Calculator</b>	A tool to manage the email that customers subscribe. The calculator shows the merchants the potential result of the campaign.
<b>Value package:</b> <b>Bronze, Silver,</b> <b>Gold</b>	Each package offers different price plans and services. Apart from Basic, the other 2 packages will apply a fixed rate plus commission fees from revenue with terms and condition strictly adhered.

Groupon can also segment the merchants based on the value package: Bronze, Silver and Gold value. The higher the rank is, the higher the fee is but the lower the commission paid to Groupon. This classification will decide how much commitment Groupon puts into the partnership (See Table 12). The Diamond package offers featured deals on the home page, exclusive staff training and decoration, business consulting for start-up business that often lacks experience and customer network. On the other hand, the Silver package targets the middle market businesses that survived their exuberant teenage phase and are troubling finding their next step. The program includes expansion plan (open customer base in other cities), marketing schemes (promotion, PR events, and advertising) and business consultant. The Bronze package offers the basic daily deals and incurs normal commission fee.

## **Data mining**

The enormous customer network and email list bring a possibility of data mining. Other retailers like Target or Wal-Mart have so far utilized data mining to trigger customers' need, which in an extreme case a father found out about his daughter's pregnancy due to the baby clothes coupons were sent to his house (Duhigg 2012). The Target shop has predicted what to offer from the purchase pattern of the young teenagers. Thus, there are a lot of possibilities to utilize those raw data and turn it into beneficial and competitive advantages. There are 2 possibilities that Groupon can exploit from its data base:

- Highly profitable markets and the most successful deal categories
- Purchasing patterns and preferences of active subscribers

Firstly, with data available in highly profitable market, Groupon can study the characteristics of local businesses: merchant density, popular categories and merchant behaviors; of local customers: seasonal spending, climatic features, and local taste and purchasing behaviors. The correlation analysis will be employed to compile the data which is stored for the past 4 years. Groupon then can base on the analysis result to feature a particular deal that most suitable to the season, local taste and merchant capability to ensure a successful campaign for the merchants, as well as a long-term benefit for Groupon. For instance, in Finland market where it is cold and windy in the winter, so-called cozy deals with a hot drink and warm shelters are the ones people thrive.

Secondly, the purchasing pattern of active customers plays a vital role in deciding which deal should be offered to them. Based on this pattern, Groupon can predict a peak redemption period and inform the merchants to prepare. In addition, a deep categorization of the preference from customer profile will likely show how many people are interested in a particular product/service. For example, after carefully analyzing the preference and purchasing patterns of active customers, Groupon can estimate approximately about 200 people who will be targeted customers of a Spanish restaurant plus the deal will be recommended to other 20 people (10% of 200) in a particular market. Thanks to the data, Groupon then informs the

prospective merchants about the estimation and the potential mutual benefits of both parties.

## 5.2.2 Increase customer retention rate

### **Groupard – The 4-in-1Groupon customer card**



FIGURE 13. Groupards (available in various colors)

To tackle the problem of low customer growth, the introduction of Groupon customer card is necessary (see Figure 11). Unlike the current reward program, the Groupard possesses additional promotion tool besides the advertising benefit. First, the card itself is the bridge that connects 3 parties together and can bring more benefits to the troika. The end consumers can get more discounts, be better served, and receive points to further involve into Groupon. The local merchants can sell more goods/ services and have the possibility to break-even instead of making a loss while Groupon can attract more customers to its customer network. Second, it will encourage purchases among Grouponers, which helps compensate for the initial loss of local merchants. Thirdly, the card signifies the Groupon images across the community whenever the card is used for normal purchase.

The Groupard has a basic 4 features that are included in one plastic card. First, the card is a payment method which is like a normal VISA card. It also allows customers to choose between 2 options: debit card or credit card. The card also has 2 accounts, one for normal transaction and the other for bonus account. When



ones purchase Groupon deal, they can deduct the price with the bonus points which are accumulated previously. In order to use this card, the customers must deposit a small sum (€10 or \$10, depends on different markets) to maintain the card and it can be withdrawn if the customers wish to end the service. This amount of money can help to compensate the initial cost of implementing the card campaign.

TABLE 10. Top Features of Groupard

Features	Key notes
<b>Payment card</b>	The customer card acts as a bank card and have 2 services: <ul style="list-style-type: none"> <li>• Debit card: pay money you have in your account</li> <li>• Credit card: purchase within the credit limit</li> </ul>
<b>Bonus card</b>	The bonus point is calculated as shown in table 15. However, regarding to the amount of money spent on extra items, the bonus point is calculated based on twice of that sum to give incentive to couponers buying extra products. Moreover, merchants will have to compensate to Groupon commission fee.
<b>Preference storage card</b>	The customer's preferences about seat place, notes about the deal (special service) are listed to the local merchants.
<b>Discounted card</b>	If the service is not running any deal, the customer can still use the card to get a 5% off the list price on a given day or off-peak hours (Monday, Wednesday, 9-11, 14-17).

Second, the card itself acts like a bonus accumulating card that calculates the bonus points from the coupon value and the amount of money used to purchase extra items. With regard to the data survey, over 70% of the respondents do not want to buy anything when they redeem the vouchers. As a countering measure, the value of the extra items will be doubled to calculate the point to reward in order to incentivize Grouponers to purchase complementary products/ services. In the end, the total bonus point is the bonus point from the coupon value and the

extra items (the products or services bought during visiting time) purchased. Nevertheless, the bonus point can only be used to buy Groupon vouchers and cannot be transferred to Cash Balance.

Third, it also acts as a preference storage card that allows waiters/ employees to know any demanded specific services/ items or seat preferences in advance. Then when the coupon is redeemed, the customer can enjoy the service without inquiry. The extra items will be charged normally and accumulated into bonus points.

Last but not least, after a successful deal campaign, Groupon customers can use the Groupard to have a discount of 5% down from the list price in off-peak hours (9-11, 14-17) or on given Happy days (Monday, Wednesday). The discount will act as local merchants' good faith toward Groupon customer. However, the discount is applied only to customers who have purchased deals from that local business and no bonus points re stored up from this service.

At present, the current Reward Program can be used instead of Groupard. It is more cost-efficient and convenient for current customers. The Grouponers can scan his/her receipt to obtain points which are accumulated from extra items and the coupon. However, the scanning method is quite tricky because not everyone has access or owns a smartphone or a scanner. Only just over 50% of customers in developed countries own a smartphone, and it will be a long time before it gets widespread merchant and customer adoption (comScoreMobiLens 2012).

There is also an alternative method that can replace the card in the future. The NFC (Near Field Communicator) devices (mobile phones, tablets) can be seen ubiquitously in the next 5 years (Deloitte 2012). This mobile solution is perfectly suitable for transmitting small amounts of information (payment, redeeming vouchers) with ease and haste. However, at present, the infrastructure of NFC service is not yet fully functioning for every retail service and even if the system is installed everywhere, the usage of NFC devices is still required, in which case most of the NFC carriers are unaffordable for the majority of consumers. Thus, the plastic card is proven to be the better choice to the solution

### **Educate staff (raising service level, reduce customer discrimination)**

As mentioned above, the customers with vouchers going to a restaurant are likely to be mistreated by the staffs because the staffs do not get commissions from the purchases of users and they have to serve the consumers in off-peak hours. Hence, the mistreated customers will not come back to that place and their faiths in Groupon deals are also decreased. This systematic problem leads to many negative results. First, the deal campaign will be counterproductive and in vain. While the aim of the campaign is to attract more new customers, the bad attitude of the employees will not attract but only repel the new buyers. Second, facing that discrimination, no one will ever try to purchase extra items from that business. The fact is that if the merchants want to break-even, they have to rely on complementary products/ services sold to compensate for the initial loss of the deal.

Thus, to counter this problem, local merchants have to follow strict common code of conducts that regulate the personal behavior of each employee to increase service attitude. Moreover, a random check-in from undercover quality control Groupon staffs (this could be outsourced) will inspect the service level of business. If there are any unpleasant feedback or reviews from customers about the service, Groupon will have to put that business a red list, and after several times the business will end up onto a black list. In addition to the strict regulation, it is the merchants' responsibility to educate and train their staffs to understand the campaign's target. In the long-run, the more customers come the more commission and benefits the staffs get.

### 5.3 Reliability and validity

The thesis data is gathered mainly from online sources which are considered unofficial and secondary. However, due to the novice nature of the industry, the author can only find few articles related to the study. On the other hand, since Groupon is a publicly listed company, the author can find necessary information regarding the operation and finance. The survey is conducted within a small population (Finland and Vietnam) which severely impairs the validity of the data. On the other hand, the characteristics of the respondents fit with the targeted

customers' profile of the case company, which increases the reliability of the research.

#### 5.4 Suggestion for future research

During the research of the case company, the author has found several problems as well as open opportunities regarding the group buying industry. The next study can explore many aspects of group buying websites and go deeper into the operation (technical service, sale service, etc.) of Groupon.

The future research should obtain data from a much larger sample size in order to increase the reliability of the study. The minimum respondents must be large enough to sustain a low margin of error. For example, 111 respondents can represent a population of nearly 1700 while guaranteeing a 3 % margin of error (Bartlett, Kotrlík, & Higgins, 2001). Additionally, getting expert opinion and some key information from confidential sources are undeniably essential for the next study.

As stated above, growth strategy is ignored in this paper due to the size of the research. Thus, in the next phase, there is a possibility to examine the expansion tactics that Groupon used. Currently, Groupon has grown inorganically in over 40 countries in just over 3 years, which costs a large sum of money. Moreover, because the marketing cost makes up a large portion of the revenue of Groupon, a reduction plan needs to be conducted in order to gain profit and competitive advantage over other competitors.

## 6 SUMMARY

The main objective of this thesis is to thoroughly research the group buying industry to improve the current strategies of group buying websites. The second goal of the paper is to find out how consumers respond to online marketing, which and how factors affect online customers using the 5C analysis and the quantitative data obtained via the survey.

The study has successfully achieved the objectives and found several key findings. Firstly, the online consumers are prone to be affected by website information, user interface and online security. Furthermore, they are sensitive to the price difference among online marketplaces in which price comparison is inevitable. Secondly, group buying websites emerge as prominent businesses with incredibly high growth and low investment. They all use segmentation tools to better serve the customers who are also triggered by the online community built by these websites. However, those similar websites are susceptible to market saturation and customer indifference toward loyalty. Thus, group buying websites must tackle these problems by differentiating themselves and increasing customer, as well as merchant retention rate. The case example of Groupon has provided potential improvements for the group buying companies as a whole.

To summarize, this thesis provides theoretical and empirical information on factors affecting online consumer behaviors, the strategies that are currently employed in group buying websites and how to improve the group buying strategies.

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## APPENDICES

### Appendix 1: Groupon's Super Bowl Ad

In the ad, Groupon made a joke about the plight of Tibetans. "Their culture is in jeopardy. But they still whip up an amazing fish curry." This ad suggests, while Ti-beta culture is threatened by Chinese government and the people there are still suffering, the actor Timothy Hutton enjoys Tibetan food with vouchers in Chicago Tibetan restaurants. After broadcasting this ad, Groupon found them overwhelmed with thousands of critical comments. Besides, it also brought a negative impact to Groupon's expansion to China Market, because local customers doubt Groupon's credibility and resist the use of Groupon. In the end, CEO Andrew Mason apologized and pulled the ad

### Appendix 2

TABLE 11. Electronic models

Model	Description	Example
<b>Brokerage</b>	Brokers are market-makers: they bring buyers and sellers together and facilitate transactions. Brokers play a frequent role in business-to-business (B2B), business-to-consumer (B2C), or consumer-to-consumer (C2C) markets. Usually a broker charges a fee or commission for each transaction it enables.	Groupon eBay
<b>Advertising</b>	The web advertising model is an extension of the traditional media broadcast model. The broadcaster, in this case, a web site, provides content (usually, but not necessarily, for free) and services (like email, IM, blogs) mixed with advertising messages in the form of banner ads. The banner ads may be the major or sole source of revenue for the broadcaster. The broadcaster may be a content creator or a distributor of content created elsewhere.	Yahoo Google NY Times
<b>Infomediary</b>	Data about consumers and their consumption habits are valuable, especially when that information is carefully analyzed and used to	Double Click Cool savings

	target marketing campaigns. Independently collected data about producers and their products are useful to consumers when considering a purchase. Some firms function as infomediary (information intermediaries) assisting buyers and/or sellers understand a given market.	
<b>Merchant</b>	Wholesalers and retailers of goods and services. Sales may be made based on list prices or through auction.	Amazon Barnes & Noble
<b>Manufacturer</b>	The manufacturer or "direct model", it is predicated on the power of the web to allow a manufacturer (i.e., a company that creates a product or service) to reach buyers directly and thereby compress the distribution channel. The manufacturer model can be based on efficiency, improved customer service, and a better understanding of customer preferences.	Dell Computer
<b>Community</b>	The possibility of the community model depends on user loyalty. Users have a high investment in both time and emotion. Revenue can be based on the sale of ancillary products and services or voluntary contributions; or revenue may be tied to contextual advertising and subscriptions for premium services. The Internet is inherently suited to community business models and today this is one of the more fertile areas of development, as seen in the rise of social networking.	Wikipedia Flickr Frendster
<b>Subscription</b>	Users are charged a periodic -- daily, monthly or annual -- fee to subscribe to a service. It is not uncommon for sites to combine free content with "premium" (i.e., subscriber- or member-only) content. Subscription fees are	Netflix Economist Financial Times

incurred irrespective of actual usage rates

Appendix 3

TABLE 12. Questionnaires

Company	Have you ever buy a deal from daily deal websites (Groupon, or local group buying sites)
	Do you buy deal only from 1 website?
	Do you still purchase them without the deal if you are satisfied with them?
	Do you actively search deal in those groups buying websites?
	Does the websites offer loyalty plan (cumulative bonus point, gift cards, and vouchers)?
Content	Do you pay attention to daily deal sites that offer discount?
	Do you get enough information about the deal from the websites without inquiring the customer services?
	If you inquired the websites about the deal, would you get proper response?
	Do the websites categorize deal in group?
	Which category are you interested the most?
Community	Do you recommend the deal to your friends or relatives?
	Do the websites have a FB/Tweeter or other social networking account?
	If yes, how often does the account update new information (status, photo, video, and event) in estimation?



	How often do you buy a deal?
	Do the websites offer customized deal to your email?
Connectivity	How much time do you spend buying a deal?
	Have you experienced disconnection or lagging, image disruption?
	If yes, how often does it occur?
	Do your local websites implement mobile application (iOS, Android, BlackBerry)?
	If yes, how satisfied are you with the mobile app (regarding user interface, features, stability)
Collaborators/ Customers	Do you spend extra money on other related products/services when redemption?
	How satisfied are you with products/services provided by the local merchants?
	How long do you use a deal after buying it?
	When do you buy the deal?
	If you purchase a deal, how familiar you are with that product/service?
Demography	Age
	Country
	Occupation
	Estimated Annual Income (USD)
	Marital Status
	Gender

TABLE 13. Value package

Value package	Benefit	Price plan
Gold	Normal benefit	50% cut from the revenue
Platinum	Expansion plan Marketing plan Business consulting	Annual fee of \$4000 plus 25% of the revenue (2-years contract)
Diamond	Build customer network Exclusive staff training and decoration Business consulting	Annual fee of \$10000 plus 15% of the revenue (5-years contract)

TABLE 14. Bonus table

<b>Tier</b>	<b>Value Range</b> €	<b>Points value</b> €	<b>Point / higher</b> <b>limit %</b>	<b>Point / lower</b> <b>limit %</b>
<b>1</b>	10 - 29	0.5	1.5	5
<b>2</b>	30 - 59	1.5	2.5	5
<b>3</b>	60 - 99	4	4	6.7
<b>4</b>	100 - 179	8	4.5	8
<b>5</b>	180 - 299	15	5	8.3
<b>6</b>	300 - 499	27	5.4	9
<b>7</b>	Over 500	50	N/A	10

Note 1. The further the deal value goes to a higher limit, the lower the percentage the customer gets. The system hereby incentivizes people to purchase high value deal to get more bonus points.

TABLE 15. Example of calculation

Items	Value	Bonus point calculated
Coupon for 2 people <i>Gourmet steaks with red wine and mashed potatoes</i>	20 (Real value 40)	0.5 (Tier 1)
2 portion of Pommes frites <sub>extra</sub>	5 x 2	
2 glasses of Soft drink <sub>extra</sub>	2.5 x 2	
2 portion of Salad <sub>extra</sub>	3 x 2	
<b>Total extra items</b>	21	1.5 (Tier 2)
<b>Total Cost</b>	41	2 bonus points accumulated