



The Groupon Effect Harness the Behavior, Not the Deal

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grail research
a division of Integreon



What...

**Is the hype about
around deal sites?**

Daily deal sites have become a regular fixture in the columns of respected business publications ranging from the Wall Street Journal to the Financial Times

Their growth in popularity with consumers has garnered frequent attention from analysts, highlighting their success only to meet it with equal skepticism

With so much interest in the market, Grail Research set out to look at the business model and the ramifications that daily deal sites have had on consumer behavior

Our study evaluates the impact these sites have made on the market in order to assess how brands can harness the new customer behaviors that have emerged and incorporate them into their own marketing mix

What Does it Mean for the Market?

So What...

Is the impact they have had on the market?

- The buzz is real: growth and user adoption has been significant with the number of US subscribers growing tenfold in less than a year
- The number of deals published are projected to grow in the near-term but the sites themselves have seen a great deal of skepticism around demonstrating that the business model is profitable
- These sites have contributed to a shift in consumer behavior and this along with advancements in technology and social media have led to new norms around how consumers buy and look for deals

Now What...

Does that mean for my Brand?

- Daily deal sites themselves are primarily utilized by local businesses, with only a few larger brands attempting to leverage the channel
- The role that daily deal sites will play in the consumer market in the future is still unclear. As technology changes and consumer preferences shift, the first player in a new market is not always the one who benefits long-term
- However, this new behavior can be harnessed now by established brands as a feature in their marketing mix

The Daily Deal Market is Becoming Impossible to Ignore

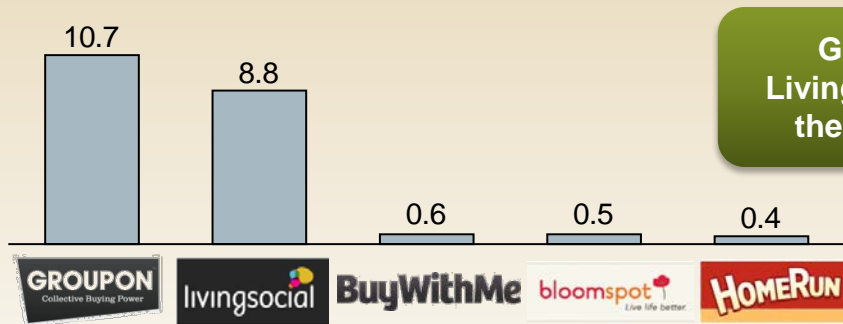
Starting as a new form of marketing for small businesses, daily deals have gained significant traction and become impossible to ignore — and in the process, become a business of their own

How Big Are They?

- As of September 2011, there were over 530 daily deal providers competing in the US
- The US daily deal market was expected to be worth almost \$2 Billion in 2011 and over \$4.1 Billion in 2014
- 65% of visitors to the top 100 retail websites in the US are enrolled in at least one daily deal email program¹
- 39% of those who use daily deal websites say they are buying more deals than they did a year ago
- 63% of consumers receive emails from two or more local daily deal websites
- Daily deals aggregator, Yipit predicted that US consumers would spend \$80-100 Million on daily deal gifts during the 2011 holiday season², an exponential increase from the \$15-20 Million spent during the same period in 2010

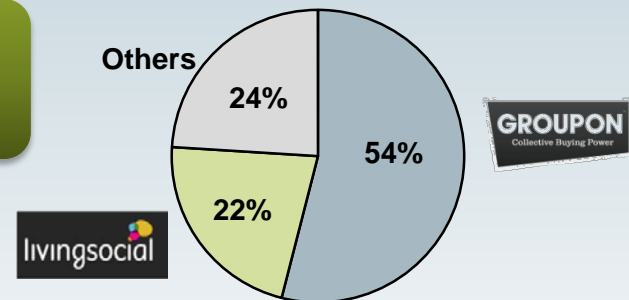
US Daily Deal Market Overview

Top 5 US Daily Deal Sites³ by Unique Visits (Millions)⁴



Groupon & LivingSocial Lead the US Market

Market Share by Monthly Revenue⁵



Note: ¹According to research by Foresee, top 100 retail websites have been defined by Internet Retailer's Top 500 Guide; ²From Thanksgiving to Christmas; ³BuyWithMe was acquired by Gilt Groupe in Nov 2011; ⁴ComScore Media Matrix, April 2011; ⁵Yipit, Sept 2011
Source: Harvard Business School; BIA/Kelsey; Accenture Survey, Sept. 2011; CNBC; PriceGrabber

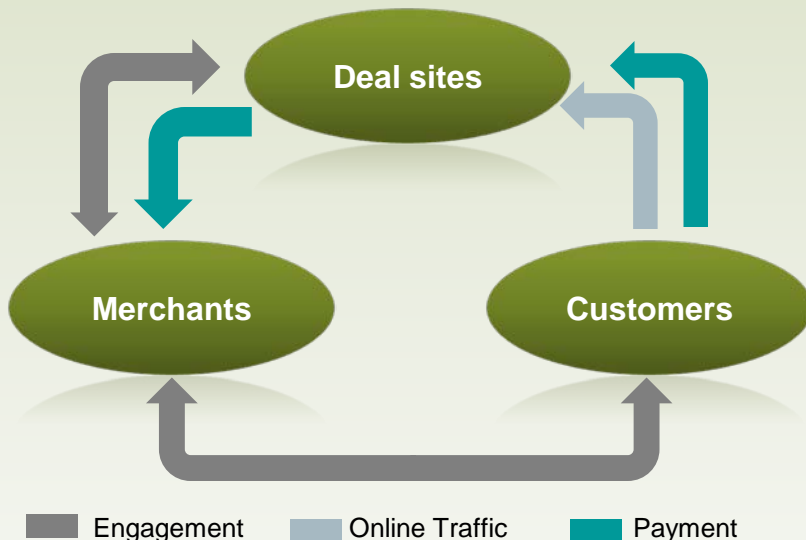
It Claims to be a Win-Win-Win Model

While deals on different sites vary slightly in nature, all daily deal websites follow a similar model to connect consumers with merchants and play the middleman in providing a discount

How Do Daily Deal Websites Work?

- Most daily deal businesses leverage specials, deals or discounts to **connect customers to merchants**
- Deals come in all shapes and sizes, including:
 - Limited time offers
 - ◆ Deep discounts
 - ★ Personalized deals
 - Limited number of items
 - ◆ Buy-in-advance specials
 - ▲ Group incentives

The Lifecycle of a Daily Deal



Value Proposition: A Theoretical Win-Win-Win Model

- For **Daily Deal Websites**, the huge volume of **traffic** provided by discount seekers equips the sites with great advertising value
- For **Merchants**, this daily deal model enables them to run **advertising** and reach a **new client base without upfront investment**. This is especially attractive to local, small businesses when compared to traditional marketing tools (e.g. TV and newspaper)
- For **Customers**, the model enables them to broaden their consumption horizons at **deep discounts**, especially with local merchants

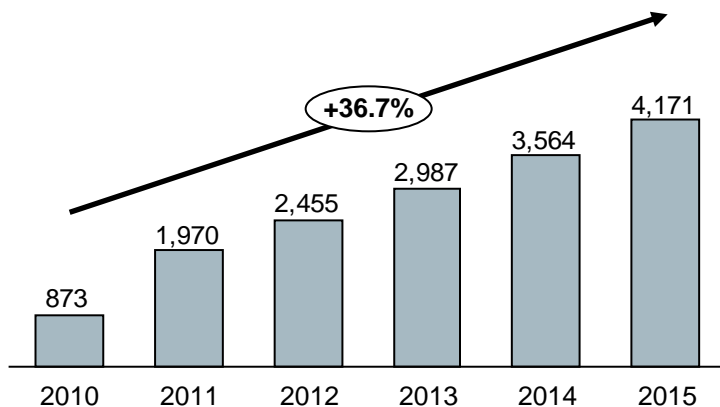
It has Experienced Significant Growth in the Last Year...

The daily deal market is poised to continue its sharp growth as consumers demand more deals and new companies emerge in an industry that presents limited barriers to entry

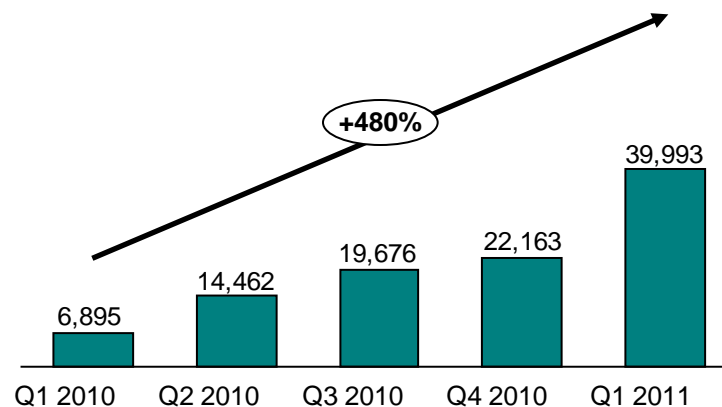
Growth of the Daily Deal Market

- **Market Size:** The US daily deal market was estimated to generate \$1.97 Billion for 2011, increasing 125.7% from \$873 Million in 2010
- **Total Offers Published:** Based on a study by daily deal specialist, *Local Offer Network*, in the first 3 months of 2011 the daily deal market published over 40,000 deals, compared to 63,000 deals for the entire 2010¹
- **Subscriber Base:** The adoption rate of daily deals in the US has been tremendously fast:
 - As of May 2010, there were 5 Million Americans subscribed to daily deal sites²
 - By Feb 2011, approximately 50 Million Americans were subscribers of daily deals websites³
 - In 2011, 39% of daily deal subscribers report using the websites more often than a year earlier⁴

Industry Revenue (USD Million) US Daily Deal Market⁵



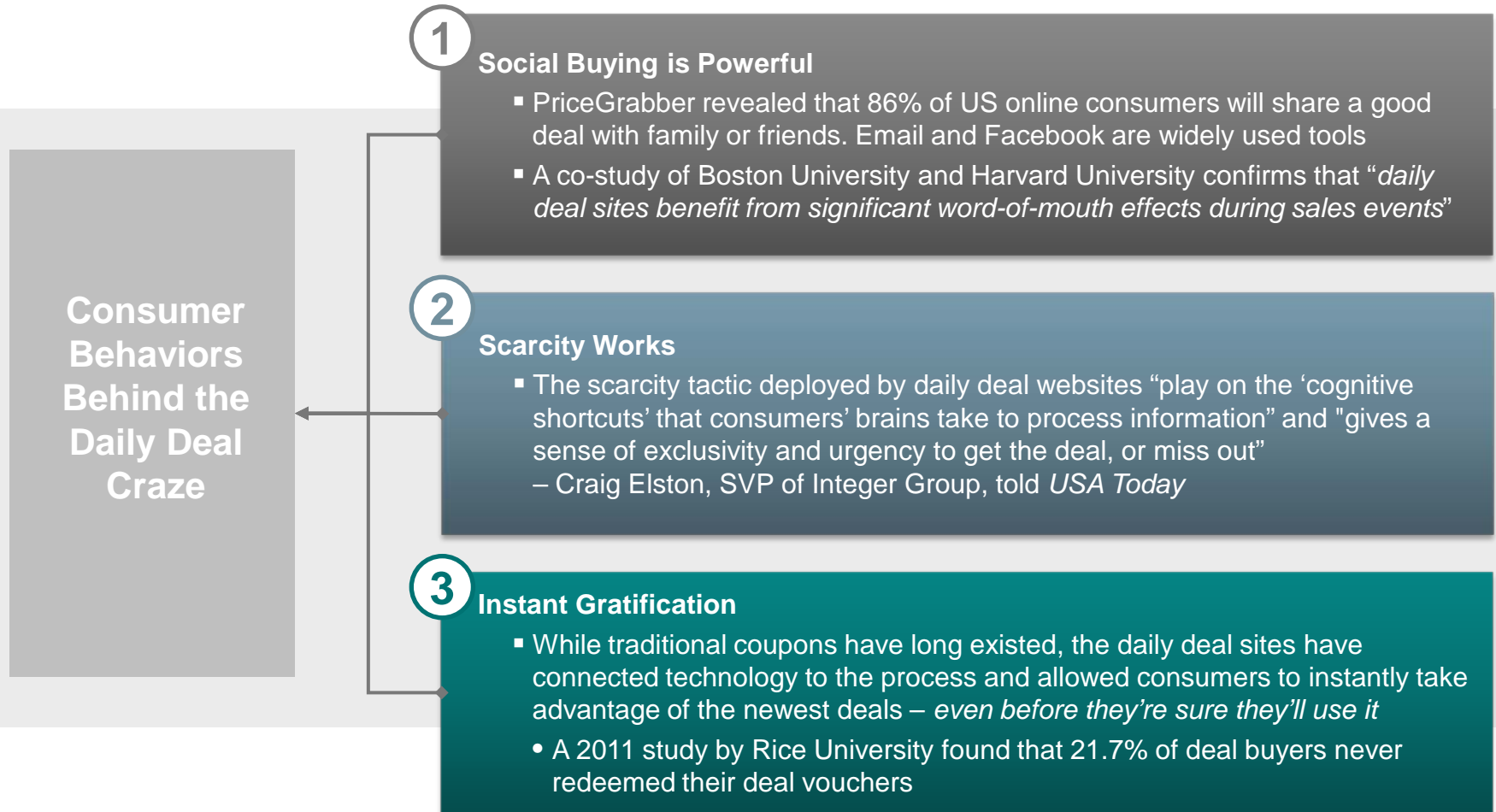
Total Offers Published Quarterly, US Daily Deal Market⁶



Source:¹Local Offer Network; ²MIT Entrepreneurship Review; ³According to a study conducted by Mashable; ⁴2011 Accenture Study; ⁵Mashable; ⁶BIA/Kelsey, Sep 13, 2011

...And it's had an Impact on Consumer Behavior

For most consumers, daily deal websites are now a staple in everyday purchases or a consistent source for information



But Daily Deal Sites Haven't Actually Been Profitable

Despite the daily deal websites' quick adoption and growth, there has been an enormous amount of skepticism about the future of this business

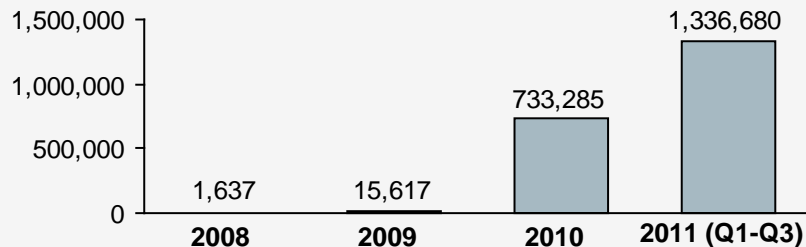
Will Daily Deal Websites Stay?

- The Wall Street Journal reported that 170 of 530 national daily deal websites disappeared in 2011
 - Facebook, with more than 800 Million active users worldwide, exited the daily deals market in Aug 2011 after a trial period in five US cities
- In Oct 2011, BuyWithMe laid off over half its workforce as it failed to raise funds. It was subsequently acquired by Gilt Groupe in Nov 2011
 - *"The capital market's willingness to invest in daily deal businesses has dried up"* – David Wolfe, COO, BuyWithMe
- Groupon raised more than \$700 Million in an IPO in Nov 2011; however, within three weeks its share prices fell below the IPO price of \$20. Analysts cited concerns regarding its ability to generate profits, rising local advertising costs, and increased competition from companies with strong capital and market position, such as Google and Amazon.com
 - *"The momentum is negative now and it is likely to continue negative until they have something positive about the company"* – Edward Woo, Groupon Analyst at Wedbush Morgan

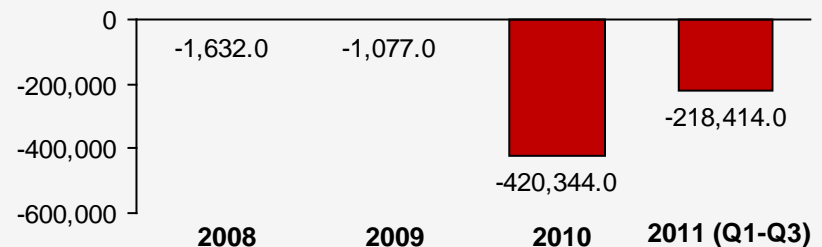
Lack of Profit

Daily deal websites have been making enormous revenues. However until now, even the largest player has **not been profitable**. This is largely due to operating expenses that continue to rise, though Groupon expects them to level off

Total Operating Expenses (USD Thousands), Groupon¹



Net Profit (USD Thousands), Groupon¹



Note: ¹Groupon Form S-1A, Oct. 21, 2011

Source: PriceGrabber; Rice University; Business Insider; Time Magazine; Reuters

Lessons Learned from the Daily Deal Market

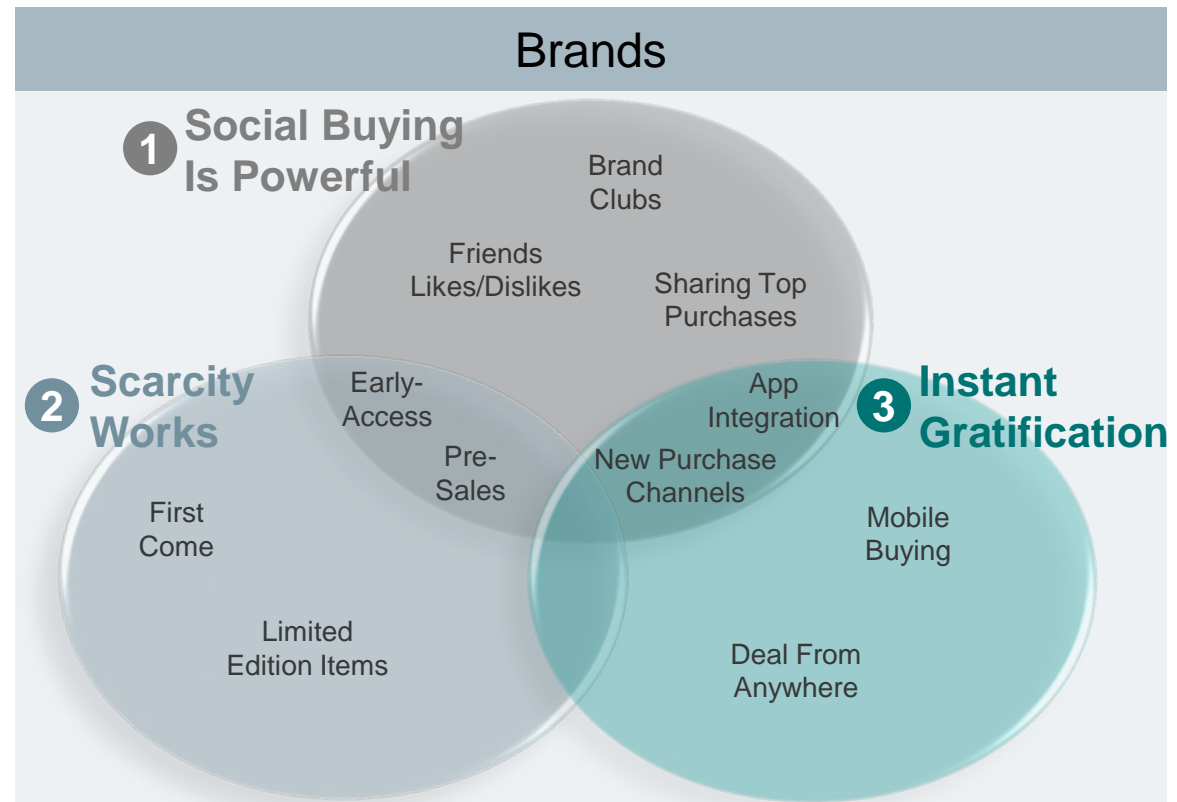
Although, it is uncertain whether daily deal sites will be viable on their own, established companies can apply daily deal lessons to their marketing mix, without the middleman

Future Outlook

- Until now, centralized daily deal websites have captured the “deals” market – but skeptics believe their model may not last
- It is not uncommon for the innovation created by a new entrant in the market to be repurposed by the existing players to take back control in the space:
 - While TIVO once ruled the digital video recording space, the same technology has now just become a **feature** that cable companies implement as part of a **broader offering**
 - Following DropBox’s emergence as a popular stand-alone “cloud storage” service, several larger companies (Apple, Amazon) launched similar offerings, making the business model **just a feature** for established companies
- Brands can tap into this new behavior by evaluating which of their customers are affected by the market, and where they are leveraging daily deal sites in their purchase process. With this knowledge, brands can use the necessary levers to drive that behavior back to their own promotions

Harnessing the Behavior, Not the Deal

- **Customer reactions are associated with the time-limited deals, not the sites. Established brands, can leverage key elements of daily deals as a marketing feature**



Source: Grail Research Analysis



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