

Case Study Groupon



- The Founder and now deposed CEO Andrew Mason:



THE CAT AS A HAT Andrew Mason, founder and C.E.O. of Groupon, once spread a rumor in his office that he owned 20 cats.

References

- <http://en.wikipedia.org/wiki/Groupon>
- <http://www.theverge.com/2013/3/13/4079280/greed-is-groupon-can-anyone-save-the-company-from-itself>
 - Tells the IPO story
- <http://techcrunch.com/2011/06/13/why-groupon-is-poised-for-collapse/>
 - Describes the business model.
- <http://www.vanityfair.com/business/features/2011/08/groupon-201108>
 - Profile of founder CEO Andrew Mason and the business model
- <http://www.fool.com/investing/general/2014/11/07/5-things-groupon-incs-management-wants-you-to-know.aspx>
- <http://www.valuwalk.com/2014/11/rbc-capital-10-questions-groupon/>
- <http://www.valuwalk.com/2014/11/groupon-inc-demonstrates-growth-analyst-day/>
- <http://etfdailynews.com/2014/11/14/groupon-inc-grpn-downgraded-due-to-growth-appreciation-period-gap/>

Wikipedia:

▲ <u>Type</u>	<u>Public</u>
<u>Traded as</u>	<u>NASDAQ: GRPN</u>
Headquarters	<u>Chicago, Illinois, U.S.</u>
Area served	Global
<u>Founder(s)</u>	<u>Andrew Mason</u> <u>Eric Lefkofsky</u> <u>Brad Keywell</u>
Key people	<u>Ted Leonsis</u> , Chairman Eric Lefkofsky, siva surian CEO
Industry	<u>Electronic commerce</u>
<u>Revenue</u>	US\$ 2.573 billion (2013) ^[1]
Owner	Groupon, Inc.
Employees	10,000 (2013) ^[2]
Website	<u>www.groupon.com</u>
<u>Alexa</u> rank	391 (April 2014 ^[update]) ^[3]
Type of site	<u>deal-of-the-day</u>
Launched	November 2008
Current status	Active

Founders:

- Andrew Mason
 - Eric Lefkofsky
 - Brad Keywell
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- Founded in 2007, as ThePoint.com, an online collective action website.
 - In late 2008, ThePoint.com became a collective buying platform and the name was changed to Groupon.
 - Groupon went public in November, 2011 on the NASDAQ stock exchange under the symbol GRPN

Deciding whether to go public (The Verge)

The team sitting around the table at Groupon's Chicago headquarters in the early spring of 2011 were some of the brightest minds in technology and business. Marc Andreessen, the man who created the modern web browser and Silicon Valley's hottest venture capitalist. Mary Meeker, Wall Street's internet oracle. Howard Schultz, the chairman and CEO of Starbucks. And of course, the team from Groupon: the precocious chief executive Andrew Mason, its hard-driving chairman Eric Lefkofsky, and its European czar, Oliver Samwer.

At issue was whether or not the company should file to go public. Andreessen, Meeker, and Schultz recommended against it. The company still needed to mature, to perfect its core offerings. The mantra at Groupon was that it was building the operating system for local commerce, but the technology at that point, according to sources*, was still largely aspirational. Groupon's developers and engineers were too busy putting out fires to build out a great platform. What was really driving the company forward was its ever-growing sales force, which had a total headcount of 126 at the start of 2010 but had grown to over 5,000 by April of 2011.

- <http://www.theverge.com/2013/3/13/4079280/greed-is-groupon-can-anyone-save-the-company-from-itself>

Deciding whether to go public (The Verge)

Mason was on the fence. He wanted Groupon to be a big success, and styled himself as a product visionary, a young Jeff Bezos. But he also wanted to protect the quirky culture he had built at the company and retain the independence that was the hallmark of his character.

Lefkofsky and Samwer, on the other hand, were adamant. "They wanted this rocket ship to take off and nothing was going to stop them," said a source who attended the meeting. Together, along with Lefkofsky's longtime partner Brad Keywell, those in favor of an IPO controlled over 40 percent of the company and a larger percentage of the voting rights. Against the warnings of the brain trust they had recruited to advise them Lefkofsky and his allies decided to push on. "It doesn't matter who is sitting across from him," said a source who worked closely with Lefkofsky for years. "As far as Eric is concerned, he is always the smartest fucking person in the room."

Groupon went public in November of 2011, raising \$700 million at a market capitalization of \$12.5 billion. Judged by its revenues and valuation at that moment, it was the fastest-growing company in history. But as its board members had warned, it wasn't ready for the spotlight. Its accounting came under fire from the SEC. It was sued by investors and employees. The company repeatedly missed Wall Street expectations and reported increasingly large losses. Its stock at this point (ed. March 2013) has dropped over 80 percent since the IPO.

- <http://www.theverge.com/2013/3/13/4079280/greed-is-groupon-can-anyone-save-the-company-from-itself>

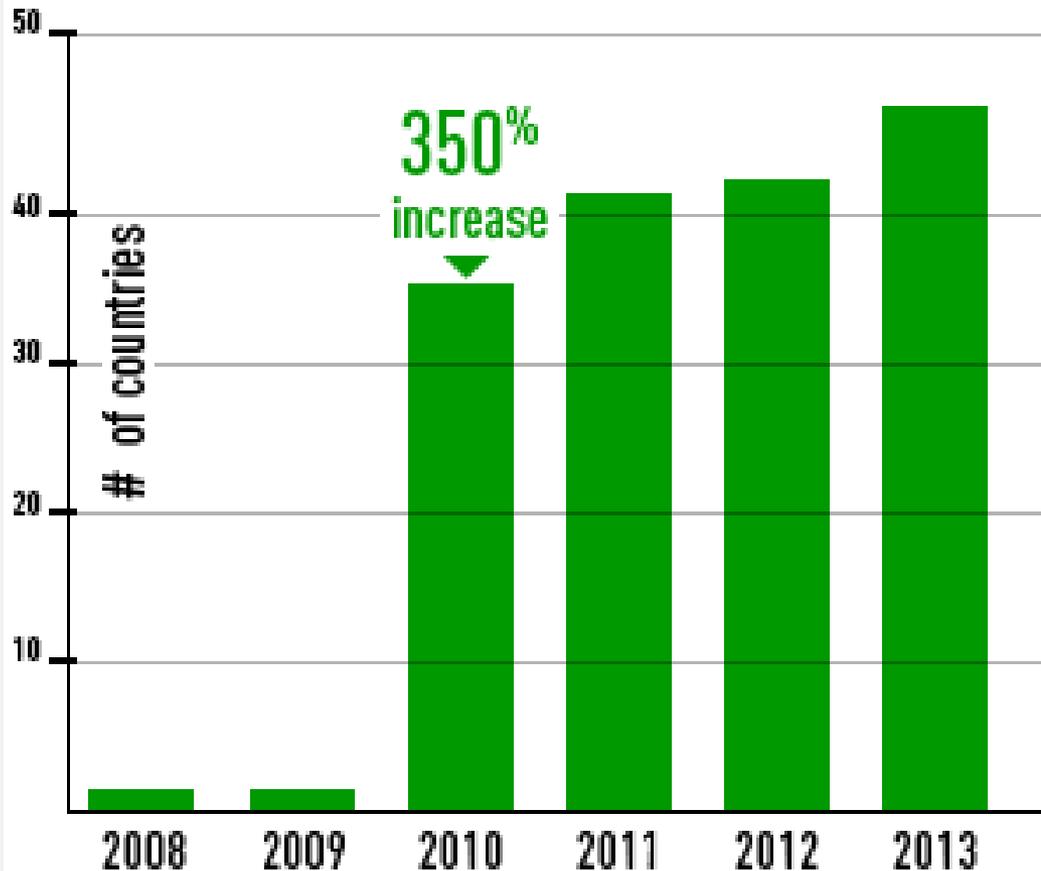
Eric Lefkofsky declined to comment for this article. But we were able to reach his co-CEO, Ted Leonsis, a veteran AOL executive and Groupon board member who is taking over as temporary co-CEO, along with Lefkofsky, until a suitable replacement is found.

"There is a ton of negative sentiment in the press about this company, and I think people don't separate the signal from the noise," Leonsis told The Verge, "We have \$1.2 billion in the bank. We have basically zero debt. And this last quarter, we had an operating profit. Yes, with one-time write downs, there was a loss. But the fundamentals of this business are sound."

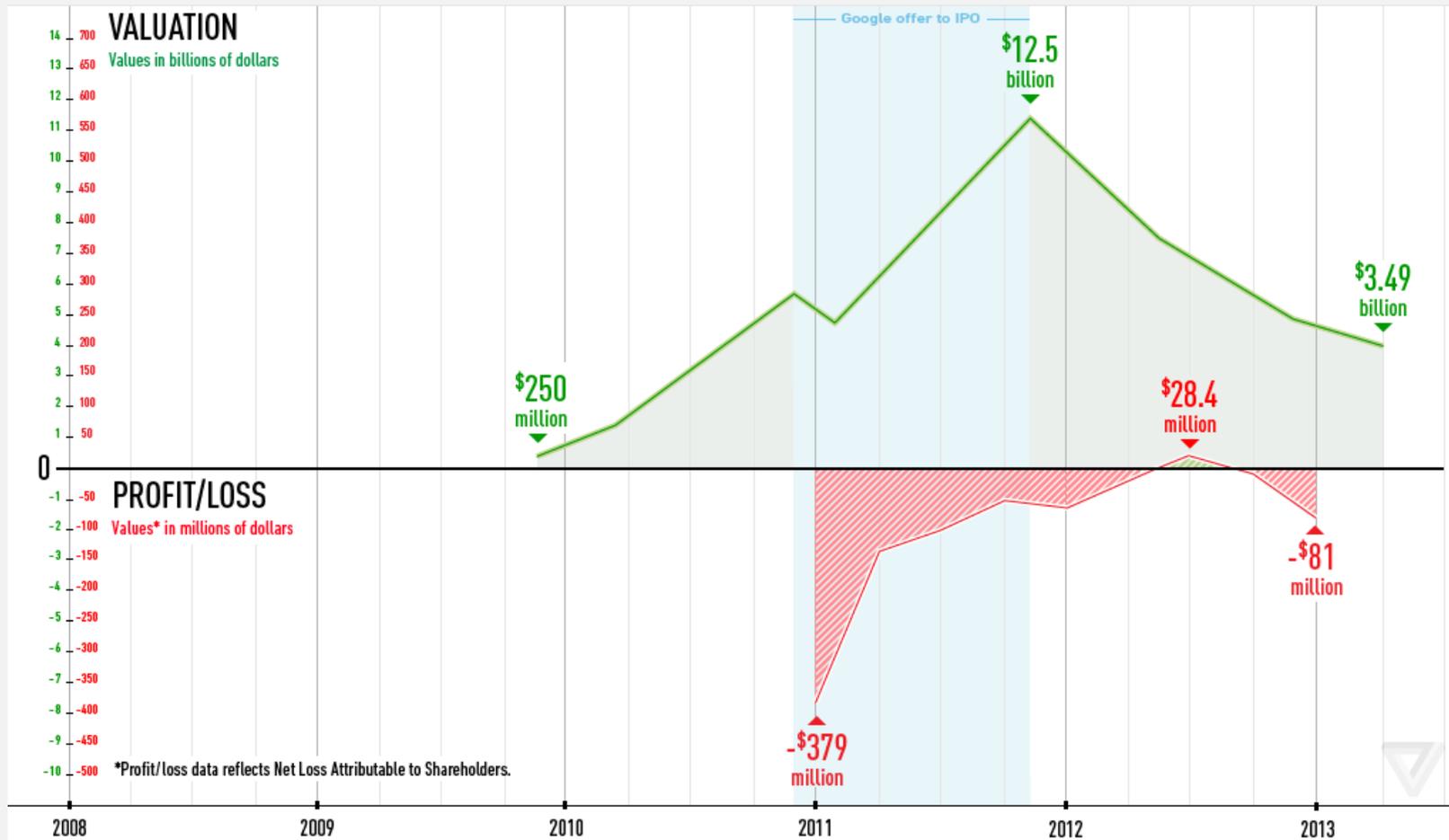
Groupon is in the process of trying to transform from a growth company with a narrow focus on daily deals into a mature firm with a multi-faceted business. It has moved heavily into full priced e-commerce with Groupon Goods, putting it into competition with the likes of Amazon. And it's investing heavily in technology like mobile payments and yield optimization algorithms at its R&D lab in Palo Alto. At the same time, however, companies like Google and Square are pushing into Groupon's turf, working to capture the elusive crown as the "operating system" for small business, giving merchants ways to connect with local and repeat customers by offering deals through mobile apps.

- <http://www.theverge.com/2013/3/13/4079280/greed-is-groupon-can-anyone-save-the-company-from-itself>

YEARLY GLOBAL EXPANSION



Verge graphic:



- In November of 2014 had market cap of \$5.22B

Google Financial chart

7.85 +0.08 (1.03%)

Nov 14 - Close

NASDAQ real-time data - Disclaimer

Currency in USD

Range	7.64 - 7.90
52 week	5.18 - 12.42
Open	7.76
Vol / Avg.	12.99M/18.48M
Mkt cap	5.22B
P/E	-

Div/yield	-
EPS	-0.24
Shares	668.19M
Beta	-
Inst. own	70%

1d 5d 1m 3m 6m 1y 5y Max



Five things GroupOn wants you to know (November 7, 2014)

1. Groupon's local business returns to growth

Billings growth has been slow but is being restored.

2. A more profitable goods business

Groupon is trying to compete in the eCommerce market against the many larger players.

3. Groupon is considering a partial spinoff of Ticket Monster

Acquired Korean based Ticket Monster which has been wildly successful and is a potential candidate for a spin-off.

4. An app-based business

A transition from a daily email model to an app based business and partnering with Apple Pay

5. Groupon's answer to SEO

Pages

Source: (Motley Fool: <http://www.fool.com/investing/general/2014/11/07/5-things-groupon-incs-management-wants-you-to-know.aspx>)

1. Groupon's local business returns to growth

Groupon's management set three primary objectives for 2014, one of which was the acceleration of its growth. At one time, Groupon's daily deals business made it one of the fastest growing companies in history -- that growth attracted attention and fueled participation in its late 2011 IPO. But in the years since, growth has stalled, and Groupon shares have struggled.. Yet, Groupon's management appears to be succeeding:

After three quarters in a row of slow growth, our North American local billings growth accelerated in the third quarter from 1.8% [in the second quarter] to 10% [this quarter], achieving our target of double-digit growth by year-end.

Source: (Motley Fool: <http://www.fool.com/investing/general/2014/11/07/5-things-groupon-incs-management-wants-you-to-know.aspx>)

2. A more profitable goods business

In addition to its local deals, Groupon has been working its way into e-commerce, building a secondary goods business to compliment its core coupons. Unfortunately, its goods business has done little to boost its bottom line, as Groupon has struggled with shipping and fulfillment costs. Though it still lags behind other e-commerce giants, Groupon is making progress.

Our second priority was to improve our goods margins, particularly in North America...We've made continued progress, with gross margins in North America in line with our double-digit target, reaching 10% [this quarter].

Source: (Motley Fool: <http://www.fool.com/investing/general/2014/11/07/5-things-groupon-incs-management-wants-you-to-know.aspx>)

3. Groupon is considering a partial spinoff of Ticket Monster

Last year, Groupon acquired Korean-based Ticket Monster in a bid to gain a foothold in Southeast Asia. Since then, Ticket Monster has experienced rapid growth, outpacing Groupon's expectations. Perhaps in an effort to raise cash, or attract more growth-orientated investors, Groupon is considering a partial spinoff of the company.

Asian businesses are growing at an accelerated pace, driven by [Ticket Monster]. During the third quarter [...] billings grew over 60% year-over-year, as that business continues to thrive and gain market share [...] As a result of the significant growth opportunities that exist [...] we've hired financial advisors to help us evaluate range of financing and strategic alternatives [...] [But] we're not looking to sell all of [it].

Source: (Motley Fool: <http://www.fool.com/investing/general/2014/11/07/5-things-groupon-incs-management-wants-you-to-know.aspx>)

4. An app-based business

Groupon's business is continuing its mobile transition. In its earnings release, Groupon defined mobile as representing more than half of its business -- during its earnings call, Lefkofsky elaborated:

*Our percent of mobile transactions continued to increase [...] including some countries that are approaching a mix that is well above 65% mobile. Spend for customers who buy through mobile remains significantly higher than for those who don't, and this past quarter, we were selected to be a launch partner for **Apple's** new Apple Pay product, which allows us to integrate with many of the hundreds of millions of credit cards they have on file.*

The transition away from daily email blasts was a headwind for Groupon initially, but the widespread adoption of its mobile app appears to be benefiting the company. Its use of Apple Pay could ease check-out and entice more consumers to buy, though it remains to be seen if it will have any effect.

Source: (Motley Fool: <http://www.fool.com/investing/general/2014/11/07/5-things-groupon-incs-management-wants-you-to-know.aspx>)

5. Groupon's answer to SEO

In an effort to raise its profile with search engine users, Groupon has built Pages -- a platform that gives local businesses and its merchant partners dedicated landing pages on Groupon's website. Groupon introduced Pages during its last earnings call, but didn't roll it out in earnest until this quarter. According to Lefkofsky, Pages is doing well:

To date, we've built more than seven million Pages in North America and have released over 500,000 of them to be indexed, which will grow significantly with the roll-out of each new city. In just the past few months, we've seen strong consumer interaction with pages. We've collected and displayed more than 20 million ratings and tips for our consumers to read, letting customers know how many people recommend a particular merchant. In addition, over 400,000 people have begun following our merchants or have hit request-a-deal.

Source: (Motley Fool: <http://www.fool.com/investing/general/2014/11/07/5-things-groupon-incs-management-wants-you-to-know.aspx>)

Questions from <http://www.valuwalk.com/2014/11/rbc-capital-10-questions-groupon/>

- 1) How has Groupon progressed against its previously outlined operating initiatives and what should we expect going forward?
- 2) How does Groupon plan to execute on its long-term goal of growing both Gross Billings and Gross Profit at least 20% annually over the next five years?
- 3) What percentage of users search on Groupon's site? How can Groupon grow the percentage of people that search?
- 4) What marketing channels have worked well for Groupon?
- 5) What is the long-term growth and take rate outlook for the Local segment?
- 6) Now that we have seen a sequential improvement in North America Local Gross Billings growth, how should we think about Local Gross Billings growth outside of North America?
- 7) What is the long-term growth and take rate outlook for the Goods segment? How does Groupon plan to improve Goods Gross Margins from here?
- 8) How does Groupon view its positioning in the Travel segment, and what is the company's growth strategy from here?
- 9) How are Groupon's new initiatives (including Pages and Gnome) progressing, and how could they impact the business going forward?
- 10) How does Groupon intend to reduce the Rest of World segment losses / bring the segment to profitability?

Questions:

- Evaluate Groupon's strategies for growth. Do you think Groupon has done a good job in terms of identifying the most fruitful avenues for growth, or do you think Groupon should have been more creative in its growth strategies?
- Make a list of things that Groupon hasn't done that you think have indirectly contributed to its growth.
- Some observers have questioned whether Groupon's pace of growth is sustainable. Briefly make the argument for and the argument against the sustainability of Groupon's growth.
- Do you think Groupon's business model and its basic approach is sound?
- Do you think Groupon will remain attractive to businesses and consumers?
- Of the current challenges facing Groupon, which one do you think is the most threatening? If you were the CEO of Groupon, how would you address this challenge?