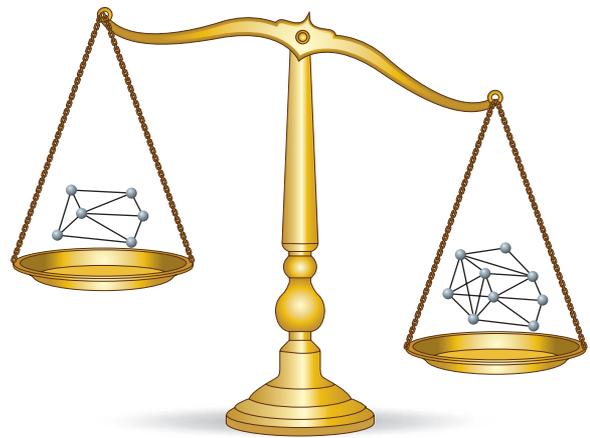


# Managing in the Digital World: The Business of Merging “Groups” and “Coupons”

It comes as no surprise that the Internet has not only helped advance traditional business models, but also enabled entirely new kinds of business models. The Web is more flexible than real-life society in many ways, changing how we communicate with friends and family, changing how we work, and clearly changing the way we shop for products and services. This flexibility is a catalyst for the creation of a seemingly endless array of new types of businesses or the reinvention of tried-and-true business models of the past.

One example is the highly popular Web site Groupon, which prompts consumers to get together with their friends and family, to shop in groups, and buy in volume, in order to benefit from higher discounts from national and local businesses. Groupon’s business model is to partner with established merchants looking to clear out seasonal stocks or excessive supply, or to work with newer businesses looking to build a customer base. As the merchants sell higher volume, the cost per unit decreases (at least up to some point). This is where the “group” in Groupon comes in: A deal only goes through when a certain, pre-determined number of Groupon subscribers sign up for it; once this number is reached, everyone who signed up for the deal enjoys the lower price. Groupon took the old-fashioned business model of using coupons to attract customers, marrying the network effects and economies of scale capabilities of the Internet to create a new and highly successful business model (Figure 2.1).

Being an early player in the group-buying market, and rapidly gaining market share, Groupon enjoyed a first-mover advantage, but due to its success, Groupon has been cloned by numerous other “impersonators” around the globe. In 2010, the company decided to buy up its “clones” to reclaim its identity and, most important, fast-track its expansion into foreign markets in Europe and Asia. Thanks to the expansion facilitated by buying its “wannabe” clones, Groupon now has over 45 million active customers and over 200 million subscribers worldwide. Over 650,000 different merchants have been featured with Groupon promotions.



**FIGURE 2.1**

The network effect is central to many innovative business models.

Unfortunately, Groupon’s inability to distinguish itself from others has so far resulted in lackluster financial performance. While it is certain that high-volume group couponing will continue to exist on the Internet, it is clear that the current instantiation of Groupon’s business model does not provide a sustainable competitive advantage. Time will tell whether Groupon will be able to fine-tune its business model in order to have a lasting presence on the Web, or be another infamous Internet failure like Pets.com, Webvan.com, MVP.com, Kozmo.com, eToys.com, and countless others.

After reading this chapter, you will be able to answer the following:

1. How have information systems enabled new, interesting business models like that of Groupon?
2. What are the key components of Groupon’s current business model?
3. How might Groupon leverage technology to strategically create a competitive advantage?

Based on:

Anonymous. (n.d.). Benefits-Groupon. *Groupon*. Retrieved May 15, 2014, from <https://www.grouponworks.com/benefits-of-advertising-with-groupon>.

Groupon. (2014, April 29). In *Wikipedia, The Free Encyclopedia*. Retrieved May 16, 2014, from <http://en.wikipedia.org/w/index.php?title=Groupon&oldid=606284237>.