

Point of View Group Buying

The tremendous growth of group buying, the concept of aggregating consumer demand over a brief time period in exchange for deep discounts, is forcing retailers to begin considering it as a component of their overall marketing strategy. Is now the appropriate time to jump on the group buying bandwagon? In this Point of View, the Parker Avery Group presents a five-step roadmap for navigating the group buying landscape.



Background

Mercata developed the foundation for group buying in 1999 with a website that correlated the ultimate price for a product (mostly consumer goods) with the number of consumers who agreed to purchase it during a specified window of time. The more people who bought, the lower the price. However, by January of 2001, the company had become yet another casualty of the dot-com bust. Consumers would have to wait another eight years before Groupon attempted to resurrect the power of group buying in November 2008.

Offering “1 ridiculously huge coupon a day”, Groupon began to attract consumers by offering discounts of over 50% once the deal “tipped” (i.e., a minimum number of people had to buy it). The company took a more localized approach than Mercata and focused its offerings on service providers (e.g., restaurants) in select markets. Merchants clamored for the undivided attention of a growing subscriber base and were occasionally overwhelmed by the response. Copycat services began to enter the market, attempting to differentiate themselves through a focus on a specific niche (e.g., outdoor/adventure activities) or added incentives. Living Social, for example, enables consumers to receive a deal for free if they can convince three friends to purchase it as well.

Growth

In 2010, the group buying market exploded. By the end of the year, Living Social was serving over 100 markets in 5 countries, and Groupon had grown to over 300 markets in 35 countries, with a total subscriber base of more than 50 million consumers. After raising more than \$40 million of capital throughout the year, Living Social received a \$175 million investment from Amazon.com. Meanwhile, Groupon rejected a \$6 billion takeover offer from Google and then proceeded to raise \$950 million to support its growth.



As the group buying companies have grown, their massive subscriber lists have begun to pique the interest of marketers at larger companies. While continuing to focus on localized deals for the markets they serve, group buying companies are beginning to experiment with national promotions. When it offered \$50 worth of merchandise at the Gap for \$25, Groupon sold 441,000 units, generating sales of more than \$11 million. Living Social offered \$20 gift cards to Amazon.com for \$10 and sold over 1.3 million of them worth more than \$13 million. These numbers are impressive by themselves, but their true value is likely even greater. Groupon reports that its redemption rate is north of 80%, and after the initial incentive to make a purchase, many of those consumers will spend more than the value of the deal.

Recommendation

The growing subscriber bases of companies such as Groupon and Living Social have proven that group buying is capturing consumers' attention. Not only are they paying attention, they're buying. Retailers should therefore follow these steps to evaluate the potential role of group buying in their overall marketing strategy:

1. Evaluate market alignment

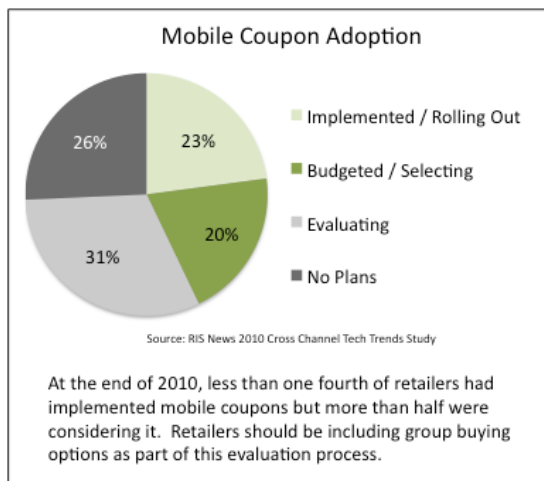
Despite their rapid growth, the group buying companies are still highly localized. As they continue to offer more national deals, their subscriber lists will expand, but for now, their potential is limited to the markets they serve. Brick and mortar retailers must evaluate which group buying companies are most aligned with their store footprint. Catalog and e-commerce retailers must evaluate if the markets served by the group buying companies align with the geographic distribution of their customer list.

2. Create a compelling offer

Group buying customers are attracted by the deep discounts. Many of the dollar amounts are nominal and cover only a small portion of the eventual total bill. Therefore, keep the value small, but don't be afraid to offer a large percentage off. Focus on attracting customers to purchase the deal with a can't miss offer and get them into your store or onto your website. Don't worry; they will spend more once they are there.

3. Prepare customer service

Group buying is a new concept, and many of your employees who interact with customers may be unfamiliar with the logistics of how it works. The last thing you want is to attract new customers and then deliver a poor experience. Make sure that store personnel know how to process both printed and mobile coupons. Create FAQs for customer service agents. Anticipate questions such as "can I use this online or just in the store?"



4. Conduct a pilot

As with any new marketing strategy, retailers should conduct a group buying pilot to evaluate its potential effectiveness. Identify a few select markets to include. Gather data on the costs, both in terms of the fees you will pay to the group buying company as well as the discounts you will offer your customers. Determine the minimum return you will require for the pilot to be considered successful. Finally, compare the results versus your other marketing alternatives.

5. Go national (or international)

If you achieve your target ROI with the pilot, consider a national campaign. The group buying companies are still building their capabilities in this space, so there is some risk, but the potential for an early adopter advantage remains. Talk to the companies about new deal tactics they are interested in testing. Be the first to create a unique national campaign, and then set up alerts to track all of the free press coverage that ensues.

Conclusion

The group buying market is rapidly evolving, and retailers cannot ignore its potential. Your customers are swarming to this new medium. The only question that should remain is how much of your marketing budget to allocate to it.

The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm. We are a leading provider of strategy and business consulting services to retail and consumer goods companies. We work with our clients to help them research and develop strategies, design improved processes and execute change. We specialize in integrating customer insights and multi-channel business models. If you would like to learn more about our vision or understand how you might take advantage of this strategy, contact us at:

770.882.2205

contact@parkeravery.com

www.parkeravery.com