

Evaluating Groupon-Style Discount Offers

Agenda

- The basic offer
- What's new here?
- Evaluating performance
- Legal & regulatory concerns

Boston

Get Deals By Email +



Refer Friends, Get \$10

Boston Gliders – North End

One- or Two-Hour Segway Tour of Boston



Groupon Now!

Find a great deal to use right now

Enter your address or ZIP...

McGuiggan's Pub – Whitman

\$12 for \$25 Worth of Pub Fare

\$12

Buy!

Value	Discount	You Save
\$25	52%	\$13



Buy it for a friend!



Time Left To Buy
2 days 12:36:36

306 bought



The deal is on!

Tipped at 6:46AM with 25 bought

Share:



Send



Like

35



The Fine Print

Expires in 1 year
Limit 1 per person, may buy 1 additional as a gift. Limit 1 per table, 2 per table of 4 or more. Limit 1 per visit. Not valid for the purchase of alcohol. Not valid for happy hour. [See the rules](#) that apply to all deals.

Highlights

- Eight flat-screen TVs
- Remodeled 19th century building
- Live Irish seisiun performances



Groupon Now!

Find a great deal to use right now

Enter your address or ZIP...

Find Deals Now



More Great Deals [See All](#)

One- or Two-Hour Segway Tour of Boston from Boston Gliders Boston (North End)

\$35

\$68 value

View It!



Boston (Back Bay)

[Hair and Spa Services at Athena Salon Spa. Three Options Available.](#)



Gloucester

[\\$120 for an Introductory Woodcarving Seminar at Calvo Studio in Gloucester \(\\$220 Value\)](#)

Key characteristics of Groupon-style offers

- Modest restrictions
 - e.g. few restrictions on day of week

More attractive to users who ordinarily disfavor coupons
- Limited purchase window
 - “Time left to buy”

Sense of urgency
- Group buying
 - “The deal is on! Tipped at ... with ...”

Purports to explain the large discount
- Prepayment
 - Pay \$12 in advance, get \$25 later
 - Short expiration of at least a portion of the value

Commitment; breakage

Is Groupon genuinely new?



Founded	1968	1962	1999	2008
Restrictions	some	some	some	few
Limits	what is sent	one per book	no	time; quantity
Group buying	no	no	no	limited
Prepayment	no	no	small	required
Expiration	short	year-end	no	short

Are the deals profitable for merchants?

- If a deal attracts customers who spend more than the voucher amount...
- If a deal attracts many new full-price customers...
 - But how to know?
- If a deal attracts many existing customers, who now use a voucher rather than pay full price...
 - But how to know?
- Recognizing new versus repeat customers at POS
 - An opportunity for a savvy POS vendor
- Analysis to date
 - Algebraic model: Edelman, Jaffe, S. Kominers.
 - Ask users about return visits.
 - Analyze merchants with better data, e.g. salons.

Can a merchant fix deals?

- “New customers only”
 - How to enforce?
- “One per customer”
 - How to enforce?
- Raise ordinary prices to all customers
 - Who will pay the newly-inflated prices?
- Raise prices to voucher customers.
 - Customer backlash: FTD/Groupon. Legal risk.

Conflicting visions

Attracting new customers who pay full price later

- Can justify a very large discount at the outset
- It might be rational to price below marginal cost


Attract marginal customers who buy only w/ discount

- Price discrimination
- **Must** price above marginal cost!



Legal complexities

- Alcohol. Other non-discountable products? 27
- Expiration 27
- Cashback 8
- Tax



“gift certificate [means] a writing [in] any ... medium that evidences the giving of consideration in exchange for the right to redeem the ... medium for goods, food, services, credit or money of at least an equal value” (MGL §255D.1)

Solving the legal problems

- Restaurant.com
 - VillageVines/Savored
- } small prepayment

Substantial risk to voucher service & to merchants if terms must be altered retroactively.

References

- B. Edelman, S. Jaffe, and S. D. Kominers. “To Groupon or not to Groupon: The Profitability of Deep Discounts.” 2010.
- B. Edelman & P. Kominers: “Consumer Protection in Online Discount Voucher Sales.” 2011.
<http://www.benedelman.org/voucher-consumer-protection/> .