Evaluating Groupon-Style Discount Offers
Agenda

- The basic offer
- What’s new here?
- Evaluating performance
- Legal & regulatory concerns
Boston Gliders – North End
One- or Two-Hour Segway Tour of Boston

McGuiggan's Pub – Whitman
$12 for $25 Worth of Pub Fare

$12
Buy!

Value
$25
Discount
52%
You Save
$13

Buy it for a friend!

Time Left To Buy
2 days 12:36:36

306 bought
The deal is on!
Tipped at 0.40AM with 25 bought

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 session performances

More Great Deals
See All

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

$35
350 value

View it

View Boston (Back Bay)
Hair and Spa Services at Athena Salon Spa. Three Options Available.

View 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
- Limited purchase window
  - “Time left to buy”
- Group buying
  - “The deal is on! Tipped at … with …”
- Prepayment
  - Pay $12 in advance, get $25 later
  - Short expiration of at least a portion of the value

More attractive to users who ordinarily disfavor coupons

Sense of urgency

Purports to explain the large discount

Commitment; breakage
<table>
<thead>
<tr>
<th></th>
<th>Valpak</th>
<th>Entertainment</th>
<th>Restaurant.com</th>
<th>Groupon</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Founded</strong></td>
<td>1968</td>
<td>1962</td>
<td>1999</td>
<td>2008</td>
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<tr>
<td><strong>Restrictions</strong></td>
<td>some</td>
<td>some</td>
<td>some</td>
<td>few</td>
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<tr>
<td><strong>Limits</strong></td>
<td>what is sent</td>
<td>one per book</td>
<td>no</td>
<td>time; quantity</td>
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<tr>
<td><strong>Group buying</strong></td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>limited</td>
</tr>
<tr>
<td><strong>Prepayment</strong></td>
<td>no</td>
<td>no</td>
<td>small</td>
<td>required</td>
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<tr>
<td><strong>Expiration</strong></td>
<td>short</td>
<td>year-end</td>
<td>no</td>
<td>short</td>
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</table>
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
  - 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?
- Expiration
- Cashback
- 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)

Edelman & P. Kominers: “Consumer Protection in Online Discount Voucher Sales.”
Solving the legal problems

- Restaurant.com
- VillageVines/Savored

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

small prepayment
References
