

For online bargains, working together yields deals

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In this photo made Wednesday, Oct. 14, 2009, Andrew Mason of Groupon, a online startup for bargain hunters looking for group discounted sales, stands on the grand staircase of the Art Institute of Chicago, one of his company's clients, in Chicago. (AP Photo/M. Spencer Green)

(AP) -- From karaoke to kickball, some things just don't work without a group of people. A startup wants to add one more to that list: Online bargain hunting.

Groupon, whose name combines "group" and "coupon," offers daily deals on products and services, such as tailored shirts, meals at restaurants and paintball games. There is a catch: A certain number of [people](#) in a given city must sign up for the deal to go through.

So far, Groupon is succeeding where others have failed. In less than a

year, its group-buying business has turned a profit and is expected to be available in more than two dozen cities by the end of the year.

Groupon began in late 2008, growing out of a startup called The Point that lets people organize groups around raising money or taking action on an issue once they reach a certain target - such as a dollar amount or a number of members. For instance, a band raised \$1,000 to go on tour and group of nearly 300 people formed to urge a cosmetics company to stop testing on animals.

Andrew Mason, The Point's 28-year-old founder, noticed that people were using the site to gather groups to get better deals on things such as magazine subscriptions. He decided to find a way to turn that into a business.

Mason, a former University of Chicago graduate student who dropped out to run The Point, knew he was hardly the first to roll out an online group-buying service. Several companies - including one called Mercata, which was backed by Microsoft co-founder Paul Allen - failed during the dot-com boom.

Mercata had offered name-brand consumer products such as DVD players and power tools. Mason bet that by mostly focusing on local deals, and especially on discounts for activities and services, Groupon could prosper. He also figured his timing was better than his predecessors', as people are much more comfortable shopping online now than they were just a few years ago.

For now at least, those assumptions seem correct. Since offering less than two dozen Chicagoans its first deal last November (pay \$10 and get \$20 worth of pizza), Groupon has added 17 cities to its roster and hopes to have a total of 30 by the end of 2009. Just under 1 million people are signed up for daily e-mails alerting them to the latest bargain.

Here's how it works: Users visit their city's Groupon page and click to buy the day's deal. If the deal hasn't yet reached critical mass, the site will encourage you to invite others to sign up for it as well. If it has passed the tipping point, your purchase goes through.

A Groupon user in San Francisco, Gloria Archuleta, has bought several things since discovering the site in August, including \$50 worth of sushi for \$25 and \$70 worth of car detailing for \$30. She bought five of the car detailing "groupoans" - three for herself, two for friends.

"It's definitely introduced me to some new businesses in San Francisco that I might otherwise not have discovered, and I've gotten some good deals," she says.

The company has sold nearly 500,000 groupoans, saving consumers about \$23 million, Mason says.

That is beginning to translate into big money for Groupon. It makes money by taking a percentage of each groupoan it sells, and Mason says the cut hovers around 50 percent. The company, which is based in Chicago, says it became profitable in June and expects more than \$100 million in revenue in the next 12 months.

"It's really exploded in a way that, if I stop and think about it, kind of freaks me out a little bit," Mason says.

Most deals are for 50, 60, or 70 percent off; popular ones have included memberships to the Art Institute of Chicago, wine tastings and meals at restaurants.

There are also items on Groupon that you might think people would be skittish about buying at a discount, such as a skydiving jump that was offered in August by Chicagoland Skydiving Center. However, nearly

1,700 people committed \$129 for the opportunity to jump from a plane with an instructor - a discount of \$100 off the regular price.

The skydiving center's owner, Douglas Smith, was floored. Thatgroupon alone represented almost a third of the number of first-time jumps he sold last year. He says some of the Groupon users have since signed up for additional jumps, while others brought friends along to jump for full price.

Groupon's offerings aren't always swooped up, though. One in particular flopped in Boston this year: Pay \$70 and get two live lobsters shipped overnight to your door. Only seven people signed up, Mason says, and the deal didn't reach its tipping point of 35 buyers.

The occasional dud deal isn't a big problem for Groupon. Because it's not holding any inventory, there's no cost to it or the company offering the deal if consumers don't commit.

That helps explain Groupon's success, says Forrester Research analyst Sucharita Mulpuru. But it also is a reminder of how easy it could be for a competitor to move in. Mulpuru wouldn't be surprised if sites focused on local businesses, such as review site Yelp, attempt something similar.

"I think that once people get wind of success stories like this," she says, "everyone suddenly jumps on it."

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