Groupon struggles to balance national growth with 'local' feel

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A week ago, Groupon Inc. offered what it called a "Super Groupon." And it didn't have anything to do with the Chicago company's poorly received Super Bowl television ads.

The $10 Super Groupon coupon was redeemable for $20 in merchandise from bookseller Barnes & Noble. Groupon sold about 700,000 vouchers worth roughly $7 million in a few days - the latest eye-catching statistic in a series of impressive financial milestones for the 2-year-old startup.

To maintain its lead in an increasingly crowded field of me-too rivals, Groupon is pursuing strategies such as offering more national deals, which can generate a higher level of volume than a small local restaurant or spa. But this gambit puts Groupon at risk of losing part of its core identity as a friend to local merchants and a way for consumers to discover experiences that are unique to their city.

Groupon, which spurned a $6 billion buyout offer from Google last year and is reportedly considering an initial public offering after raising $950 million in funding in January, is under immense pressure to keep growing.

To accomplish that goal, "you have to sell brands that you can sell hundreds of thousands of units for, and you can't do that with the little pizza shop," said Martin Tobias, founder and chief executive of Tippr, a competitor that provides daily deals and supplies software to publishers so they can run their own offers.

Groupon spokeswoman Julie Mossler said 95 percent of the company's offers remain neighborhood deals.

"We're never going to stop working with local merchants," Mossler said. "That's the heart of our business."

Groupon, she added, is growing internationally and through the addition of subscribers. The company has amassed more than 50 million subscribers in 41 countries and is running 660 deals a day in more than 500 markets. A year ago, Groupon was in 35 U.S. cities and hadn't yet expanded overseas.

Even with the international push, Groupon's efforts to drive more volume in the U.S. makes sense.

Many of the latest national deals are with online retailers such as Canvas on Demand, a company that turns a photo into a canvas print, and NuttyGuys.com, a purveyor of nuts, dried fruit and candy. These deals are typically targeted to a particular city or group of cities, but can be purchased by any Groupon subscriber because the vouchers are redeemed online.

National deals can be quite lucrative, as Groupon learned in August when it launched its first national offer for Gap. It sold 445,000 vouchers for $11 million, a windfall that it split with the retailer. Compare those numbers with a local restaurant that may sell a few thousand vouchers - a huge amount for that eatery, but just a fraction of Groupon's ever-expanding coupon machine.

The company doesn't disclose its revenues, but a February report by NextUp Research and SharesPost, an online marketplace for stock of private companies, forecast Groupon's 2011 revenues at $920 million, growing to $1.2 billion in 2012 and $1.9 billion in 2015. The report also put the company's market share at 60 percent and projected it would remain steady over the next several years.

Groupon's challengers, however, aren't so sure the industry leader can keep its focus. Having been called the fastest-growing company ever by Forbes, Groupon's extraordinary growth brings its own challenges.

"When you go from zero employees to thousands overnight, it's very difficult to manage," said Dan de Grandpre, editor-in-chief and chief executive of DealNews.com. "You can get very big very fast and lose your ability to innovate. ... There's no question that Groupon is aware they have these potential problems on the horizon, that they could basically run out of steam because they're trying to do so many things so well."

Certainly Groupon's latest effort to take growth to the next level backfired spectacularly. On Friday, after facing a week of criticism for its Tibet Super Bowl commercial, the company pulled the campaign and apologized. This was Groupon's first attempt at TV advertising. While it's unknown whether the negative publicity will hurt the company's reputation more than boost awareness, there are plenty of competitors assessing the misstep.

The daily deals industry has relatively few barriers to entry, and consumers can easily hop from one provider to another in search of the coolest or cheapest offers. Washington, D.C.-based LivingSocial, which is considered Groupon's nearest competitor, ran a national deal of its own in January with an Amazon voucher that sold more than 1 million units. Amazon had invested $175 million in the startup in December.

Wine.com, an online wine retailer, ran a series of deals with Groupon and LivingSocial last year in cities such as New York, Wichita, Kan., and Colorado Springs, Colo. Rich Bergsund, chief executive of

Wine.com, estimates that the offers brought in a combined 20,000 new customers. But he said it's too early to know how many of those consumers will become regular shoppers on the site. If Bergsund decides to run more deals, he has a pool of companies eager to work with him.

After "the first one we did, immediately there's like 20 people calling," Bergsund said.

Wine.com isn't the only merchant looking into multiple deal providers. Michelle Rossfeld, a personal trainer who runs Chicago's Women's Fitness Camps, has already done four group-buying deals, including one on LivingSocial that sold 1,500 vouchers, since starting her business last year. She has two more lined up and is also trying out Signpost, a site where consumers and businesses can post deals and rate them. Last week, the New York-based startup rolled out the Signpost Merchant Center, a self-service platform for businesses to structure their own deals and offer them directly to consumers.

Rossfeld said she was unsuccessful at partnering with Groupon because with just a single location, she was deemed too small. But the increasing number of group-buying companies gave her plenty of options, and she could negotiate a more favorable cut. Groupon typically keeps 50 percent of the revenue earned on each deal.

"It's competitive," Rossfeld said. "You can pretty much ask them (about the rate). I ask right away: What's the deal, and what percentage do I get? Every single one starts at 50 percent. You just play."

To counter such competition, Groupon has launched programs such as personalized deals, which target offers to smaller groups of subscribers. This feature also allows multiple deals to be offered each day. More recently, Groupon introduced a self-service platform for merchants called Groupon Stores, where businesses can offer promotions directly to customers without waiting to be featured as the day's primary deal. The company takes a smaller cut of deals sold through Groupon Stores.

"For someone who's tiny, if anything, we're more suited to work with them now than previously because of personalized deals and Stores," Mossler said. "If you're so tiny that your bottom line can't handle a 50 percent discount, you're welcome to post your own deals in Stores and share them with whomever you'd like."

Don Sritong, the managing partner of Chicago wine shop Just Grapes, offered a $50 tasting card for $25 through Groupon Stores in December, selling almost 200 vouchers. Sritong's loyalty to Groupon dates to the startup's early days, and he's spurned other daily deal providers that have approached him.

"We've really kind of pushed them off and said, 'You guys aren't Groupon,' " he said.

Groupon's foray into self-service tools for merchants puts it in competition with Signpost. But one of Signpost's main features is the ability for users to rate deals. Signpost CEO Stuart Wall said he believes that this community aspect distinguishes his site from Groupon Stores and that his company can better serve small businesses.

As Groupon and its bigger rivals "scale out of the size they were when they got started, they need to look for (businesses) that match that scale," Wall said. "It does create opportunities for companies like Signpost, where we specialize in 15 to 20 units for merchants. ... It's where we're headed, and a lot of people in the industry think that's inevitable."

Not all small businesses are convinced that they should jump on the online deals bandwagon, however. Teresa Frith and Ann Van Damme, owners of A World Class Concierge Service in Chicago, contacted

Groupon and YouSwoop a year ago about running deals but decided against it after crunching the numbers. They haven't considered taking another look at group-buying sites, even though they know competition is heating up between providers.

"It seems like it's a good deal for the consumer, but I don't see how it's a good deal for the average small company," Frith said. "Maybe a big company because of the volume they might do. When we did calculations, it seemed like we would lose money. ... 500 people would put us out of business."