

Challenge to Groupon's model with trio of deals

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In this May 31, 2011 photo, Seth Priebatsch, founder of SCVNGR, is seen in a conference room at the company, in Cambridge, Mass. Priebatsch is also the founder of LevelUp. (AP Photo/Steven Senne)

(AP) -- Groupon's online coupons save people cash, but they're not always great deals for merchants. Some businesses complain that bargain hunters rarely return after scoring a cheap meal or massage.

A new site called LevelUp believes it has a way for restaurants, nail

salons and other [local businesses](#) to keep people coming back. To drum up repeat business, the company offers consumers a series of three deals, each better than the one before.

Online deal sites abound, but LevelUp hopes to stand out by giving people an initial offer that's on par with competitors' - and following that up with even better deals. After three visits, LevelUp figures that customers will be familiar with the merchant enough to return, even without discounts.

It's still too early to say whether enough consumers will be willing to pay full price- a key factor that will determine whether LevelUp becomes a serious threat to Groupon or remains one of hundreds of wannabes.

Groupon created a new marketing phenomenon catering to people's hunger for bargains. It offers the chance to purchase discounts targeted to a person's city and preferences. For example, someone might pay \$20 for a \$40 gift certificate to a spa, restaurant, car wash or yoga studio.

The Chicago-based company's upcoming [initial public offering](#) of stock is expected to be in high demand, even though it lost \$413 million last year on revenue of \$713 million.

The harsh reality of the online coupon business is that the concept of offering customers deep discounts is easy to replicate. All you need is a sales team to craft deals with merchants, and an [email service](#) for blasting those offers to people who sign up on a website.

But rivals have difficulty breaking through because market leader Groupon already has 83 million people subscribing to its daily offers by email, and second-place LivingSocial has 39 million. By contrast, LevelUp has just 100,000 subscribers.

[Small businesses](#) often prefer to partner with a service that can reach more potential customers, even though LevelUp is trying to sweeten the deal for merchants by taking no commission on the first of the three offers.

Others are trying to distinguish themselves by targeting niche audiences, such as nerds or moms, or people with specific interests, such as fitness or food.

Facebook is testing a deals program of its own in five U.S. cities, trying to rival Groupon by tapping Facebook's base of 750 million users worldwide. Google has one, too, rolled out first in Portland, Ore.

LevelUp comes from the folks behind Scvngr (pronounced "scavenger"), a mobile-gaming startup in Cambridge, Mass., created by 22-year-old Princeton dropout Seth Priebatsch.

LevelUp, whose name is gamer-speak for the act of rising to a higher status in a video game, launched in Boston and Philadelphia in March. It plans to expand this summer to major markets such as San Francisco, New York and Chicago, the home turf of market leader Groupon. Most of the businesses it works with are local, but deals have included larger brands, such as Levi's.

Sucharita Mulpuru, a Forrester Research analyst who covers online shopping, says LevelUp will have trouble competing not just because of its size. If LevelUp proves successful, competitors may apply the company's multiple deal model to their own sites. Mulpuru believes Groupon in particular could simply copy LevelUp's idea. In May, it did something similar by offering a half-off card for eight sandwiches at sub chain Quizno's.

But in the tech sphere, it's not unheard of for a tiny newcomer to best an

early leader: Google surpassed Web search pioneers AltaVista and Yahoo, and Facebook triumphed over social networking site Myspace (which had itself trounced Friendster).

Much of Priebatsch's confidence comes from his insistence that the current online coupon model, where sites take a big cut of the revenue from each deal, is unsustainable. Groupon, for instance, takes up to half the price of the coupon, so if an Italian restaurant is offering \$50 worth of food for \$25, the merchant gets just \$12.50.

That's a source of many complaints from merchants. They benefit only when a Groupon customer brings lots of friends who pay full price or comes back later to shop without the discount.

LevelUp is trying to persuade skeptical merchants to offer great deals by taking none of the revenue in the first round. After that, LevelUp takes 25 percent. Priebatsch believes that merchants will be more likely to offer bargains that can be used for repeat visits.

The setup also gives LevelUp an incentive to encourage repeat visits because it makes no money otherwise.

"If we can't get customers to level up, we're not doing anything of value," Priebatsch says.

Boston-based burrito chain Boloco offered \$10 worth of food for \$5 in the first level, \$25 worth of food for \$10 in the second and \$45 worth of food for \$15 in the third. Customers can use one level before buying the next.

Sara Steele-Rogers, who leads Boloco's social media and marketing efforts, says that a month after the promotion ended, the chain saw strong sales growth.

It's hard to tell, but the increase may have been due largely to people redeeming their LevelUp vouchers: Of the customers who bought the first deal, 30 percent also bought the second and 26 percent of those who bought the second deal purchased the third, too.

Still, she says, "in terms of encouraging repeat business, that's awesome."

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