

# US online-deals firm eyes road less traveled

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Online coupons are last year's news. That is the view from number two US online deals firm Living Social, which is battling sector leader Groupon by offering what executives call "unique" or original experiences that are not simply linked to discounts.

From its Washington headquarters, the company is producing and offering events such as yoga boat cruises, trapeze lessons, cooking demonstrations or whitewater rafting tours, acting as its own travel agency in many cases.

"These are new innovations where we act as the merchant and put together a river tour or a beer tasting," said [chief executive](#) Tim O'Shaughnessy.

"People are starting to come to us as a destination."

O'Shaughnessy told a media event at company headquarters a few steps from the White House that Living Social is more than a discount coupon firm and is becoming a "platform to energize local commerce".

So-called [daily deals](#) are still a major part of the business, but that is shifting, he said.

"We get 25 percent of revenue from new products and 75 percent from daily deals," he said. "But daily deals will probably be less than 50 percent of our revenue in a foreseeable time."

A hub for some of the events is their 918 F Street location which hosts "pop-up restaurants," cooking demonstrations and hybrid events like "sippin' and paintin."

The "daily deals" segment made popular through Groupon is surging and has hundreds of firms, but Groupon and Living Social are pulling away while smaller ones are dropping out, analysts say.

"I think there is some fatigue in that consumers are complaining about the number of emails they're getting, but consumers will keep the top two accounts like Groupon and Living Social," said Herman Leung, an analyst who follows the sector for Susquehanna Financial Group.

-- Going after the experience --

Living Social cites research reports that it has 26 percent of the North American online deals market, to 61 percent for Groupon, with a few others sharing the rest.

"It feels like Living Social is going after the experience, Groupon is going after the transaction opportunity," said Leung.

This segment "is important to the ecommerce sector, it is a highly underpenetrated segment and there is room for multiple players to be successful."

Living Social is expanding amid skepticism about firms linked to social media and a rocky period for Groupon, which after being one of last year's hottest initial public offerings has seen its share price sink amid questions about its business model and accounting methods.

Unaiz Kabani of the research firm Yipit said in a recent blog post that Living Social's billings are "accelerating" as it diversifies.

"Living Social has been able to show its subscribers more deals and have them respond by spending at similar rates. While this is a battle of diminishing returns, there isn't a sign of a slowdown just yet," he wrote.

Living Social has 67 million subscribers in 20 countries, and works with some 115,000 merchants. It has attracted \$600 million in venture capital including from Amazon, which owns a 29 percent stake in the firm.

-- More staff than Facebook --

Its 5,000 employees mean its workforce is bigger than Facebook's, and more than 1,000 are in Washington, making Living Social the city's biggest private employer. And it is growing. The company is negotiating with local officials on building a new headquarters.

It also has "boots on the ground" from Texas to Thailand, and has bought up rivals in Australia and Spain.

But with social media under pressure from Facebook's dire stock market debut in May and Groupon woes, executives are not talking about an initial public offering.

Chief financial officer John Bax said the company did not need new capital "the way we have the business configured today."

"I don't talk about it in any significant way," he said. "If the pros outweigh the cons, we would do it... right now there are a lot of cons."

"This is a healthy business, this is a healthy industry," he said.

"There are people who have had doubts, there are people who are rooting against this industry, maybe not because of us... But this is a healthy business that will be viable for a long time."

According to data released in Amazon securities filings, Living Social showed a net profit of \$156 million in the first quarter of 2012 after a loss in 2011, but Living Social cautioned that the numbers may be skewed by exceptional events and stock compensation.

Leung said investors can get exposure through Amazon, for which he has a "positive" rating. He has a "neutral" rating on [Groupon](#), saying he would like to see "steady execution, improved transparency on business metrics, and progress in its newer initiatives" before recommending.

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