Deal or no deal? Online discounters face woes

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The reception desk at LivingSocial in Washington in June 2012. LivingSocial is cutting 400 jobs, or nearly 10 percent of its staff, in a retrenchment which follows big losses for the company.

It looks like a tough sell for the online daily deals sector.

After much excitement last year and a hyped public offering from Groupon, the main players are now focusing on saving money themselves as consumers show deal fatigue.

Sector leader Groupon, which went public a year ago with an offering at $20 a share, has seen its stock slide some 80 percent. This week, chief executive Andrew Mason kept his job despite swirling rumors that he was to be ousted.

Rival LivingSocial said meanwhile it was cutting 400 jobs, or nearly 10 percent of its staff, in a retrenchment which follows big losses for the company.

Lou Kerner of The Social Internet Fund said these firms are in trouble because of a "bubble" which inflated their value based on unrealistic expectations.

"Shoppers are very excited about the coupons at first, but over time they get fatigued and usage drops off. The business model needs to evolve," Kerner said.

The firms aim to make money by selling members deals for discounts on activities, items or services and then splitting the money with the businesses involved.

Both firms have been seeking to diversify, but have been struggling to become profitable.

The Groupon logo is displayed in the lobby of the company's international headquarters in Chicago, Illinois. Groupon, which went public a year ago with an offering at $20 a share, has seen its stock slide some 80 percent. This week, chief executive Andrew Mason kept his job despite swirling rumors that he was to be ousted.

"People dramatically overestimated the value of their email lists," Kerner told AFP.

"They have a lot of emails, which is valuable, and people like deals... But they need to get better deals that work better for merchants, that are more attractive to the buyers."

LivingSocial spokesman Andrew Weinstein said in an email that the Washington-based firm is seeking to realign costs "after two years of hyper-growth" in a move to "help us set the company on a path for long-term growth and profitability."

LivingSocial remains privately held, but Amazon, which owns a stake in the firm, has been forced to take a write-down of $169 million recently on that investment under accounting rules requiring a charge against earnings to reflect the lower estimated value of the company.

Groupon in November reported a loss of $3 million in results that came up shy of most analyst forecasts for a small profit, creating more pressure for the Chicago-based firm.

Groupon remains plagued by concerns about its accounting methods, as well as its strategy as it moves into direct retail sales.

Living Social claims to have 70 million members worldwide, and Groupon more than 200 million. But analysts say those numbers don't necessarily lead to profits.

"The type of customer attracted to these deals is often not the type of customer that the retailers want," said technology analyst and consultant Rob Enderle.

"In addition there is a ton of competition, making it very likely that several of these firms will fail."

The two firms are facing competition from small and large players: Google, for one, has a similar service called Google Offers, and recently snapped up the marketing firm Incentive Targeting to give it more tools.

Facebook began an effort in the sector but ended it last year after just four months.

Trip Chowdhry of Global Equities Research remains cautious on the deals sector.

Chowdhry said the deals firms have "a nice concept, a noble concept, but without any strong business model behind it."

"If you have some other business then it's fine," Chowdhry said. "You can drive traffic or business to something else. If you don't have something else, you're losing money."