

# An Appraisal Of Groupon E-Business Model

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**Abstract:** A new kind of business, 'digital age middleman', which ordinarily may not have been possible, has emerged. An instance is Groupon, an e-commerce platform which allows a small group of merchants to reach a large number of customers using internet and social media technologies to provide discounted deals. Therefore, the purpose of this study is to appraise the Groupon e-business model. Firstly, the brief profile and business model was examined. Thereafter, an in-depth Social, Legal, Economic, Political, Technological, Ecological/Environmental and Competitive (SLEPTEC) analysis of the business model was carried out. Then, the elements of the business model and the resulting growth and advantages that bring about competitive and profits in the modern markets for Groupon were evaluated. The findings shows that simple technologies of email and social media can be leveraged for business success especially in massive subscribers' base as currently witnessed by Groupon. The study revealed the associated problems with the Groupon e-business platform, and thus conclusively recommends how the business model can be improved via considerations of other technological factors.

**Index Terms:** Business Model, E-business, E-Commerce, Merchants, Online Technologies, Social Media Technology, Firms, Marketing.

## 1 INTRODUCTION

Internet and social media technologies have been catalysts for businesses to permeate and compete in markets on the global scale, reach more customers, create efficiencies, reduce cost of manual operations and pioneer new ways of business transactions (Clemons, 2009). Electronic forms of business; e-shopping, e-payment, e-commerce, e-marketing, and even e-contact are the common phenomena in the global businesses. The concepts of E-business and E-commerce have also provided firms the new means to compete, the potentials to modernise their business practices to efficiently provide products and services and new innovations to get better value to their customers. Social media technology integration into electronic business has also further enhanced marketing of information about products, services or promotions the more (Clemons, 2009). The dynamism of the market situation has seen various competitors emerging with different new business models. Customers are also becoming more slippery as they have at their fingertips, the internet and social media tools for product or service and price comparison, to switch between competing firms. Since the competitive advantage is becoming transient and traditional barrier of doing business are becoming insignificant, so, every firm is coming up with its own suitable business model. Hence, the capability and competence of any business organisation to utilise these technologies for the success and survival of its business model determine the attainment and sustenance of competitive advantage within their operating environment ((Bjorkdahl, 2009).

Groupon Inc. founded in November, 2008 by Andrew Mason is an American e-commerce firm with its headquarters in Chicago Illinois with over 11,000 employees and has its presence established in close to 50 countries (Yahoo Finance, 2013). Groupon Inc. manages Groupon businesses all over the world and is worth of multibillion dollars in earnings, shares and stocks (Yahoo Finance, 2013). Groupon Inc. Mission Statement is: To be the world's commerce operating system, increasing consumer buying power while driving more business to merchants through price and discovery. (Groupon Inc. 2013). Groupon is an online local shopping site that offers selected daily deals to large number of customers from merchants on discounts (Mashable, 2013). Basically, the organisation operates majorly in two subdivisions: North America i.e. the United States and Canada; and International, the rest of the world. Adding to parts of its 12 acquisitions in 2012, and in September, 2013 are Plumfare Inc., a mobile gifting application software developing firm, Sidetour and travel app Blink (Groupon, 2013a, Fiegerman, 2013). The conventional ways of conducting small businesses are being reinvented by Groupon; for merchants through provision of sets of products or services including personalised deals, and brand advertising, payment processing capabilities, and POS solutions to elicit more customers and carry out their business for them effectively, and for customers, offer of fantastic deals on the best product to see, eat, buy and do in their geographical locations. . Primarily, Groupon deals with the wide-reaching local commerce markets in the holiday, recreation, food service and retail sectors.

## 2 THE E-BUSINESS MODEL

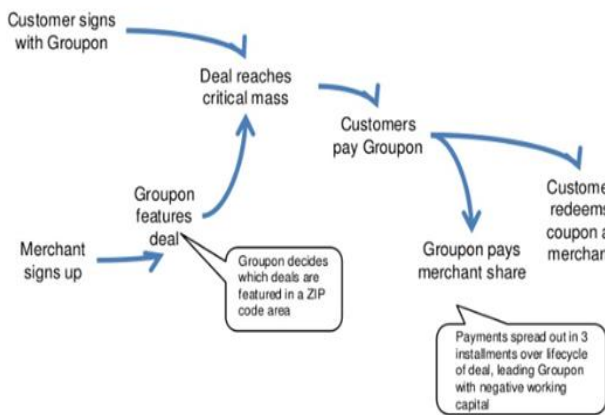
Every day, the firm sends email messages to its subscribers listing lots of deals with discounted offer for goods and services that are available within their locales. These deals are accessed via the Groupon website and mobile apps. The principle of selling is that for a deal to be valid a minimum number of customers is required and if not met, no one gets the product or service offered for the day (Boston, 2009). See Fig.1 for Groupon business model. From groceries to electronic products, local discount are offered to registered members in their localities. During signup, the deal is made more effective as users' zip code, gender and age are requested. This in turn provides for the user not only the deals in their immediate localities but also in their geographical regions. The deal is distributed via various platforms: e-mail messages, its Websites, its mobile applications and social

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networks. Customers purchase Groupons from the company and redeem them with the merchants but Groupon keeps 50% of the value of every deal as its commission. Some other Groupon operations are Self Service Deals, Groupon Goods, Groupon Goods, Group Getaways, Groupon Rewards, Groupon Now and Groupon Live. Self-Service Deals is a free self-service platform created for merchants to promote deals at their discretion. This gives merchants a permanent e-commerce presence on Groupon that can be followed by customers like twitter (Axon, 2010). Groupon shares part of the revenue accrued from this based on number of sales. Groupon Goods was launched in September, 2013, this service enables customers to buy coupons for products directly from the Website (Chicagoist, 2010). Emails is sent to some set of targeted subscriber weekly and are offered products like electronic, home tools and toys. Launched in September, 28, 2013, Groupon Rewards, through return visits by customers allow them to unlock special deals from local sellers. Merchants set the amount the consumer must spend to unlock a reward deal, and they are notified by Groupon when their spending reach the reward eligibility point (Business Wire, 2011). The Groupon operation is interesting as it employs simple technologies of email, social networks and a website, to generate such a large economic value. From a simple perspective, Groupon is a facilitation platform that links people seeking deals with sellers who are willing to offer them. In another view, it is an online couponing system. But neither fairly explains the model. A superior way to gain understanding is to think of Groupon as a monetisation tactic. The company has a very large number of email subscribers and has thought out how to monetise them in a self-supporting worthy way. They equally provide something of value to merchants. Most importantly, the environment where Groupon operates gives them a business success as every individual loves deals.

**3.1 Social Analysis**

Influences of socio-cultural differences from country to country can affect business. Groupon has operations across nearly 50 countries which places it in a varied socio-cultural environment. Groupon needs to address social issues like consumer’s tastes and preferences, disposition to external products and services, the amount of time that consumers can commit for leisure, and age. Taking these influences into consideration will prepare the business to consequently satisfy the needs of the consumer. Groupon has solely changed the old cultural orientation and social stigma attached to couponing systems and discounts. The social acceptance of discounted deals is across all demographics, though with the educated and young professionals on the prowl, as most offers are taken by them (Buchler et al., 2011). Report had it that women of working age are the main customers of Groupon offers. The localisation of deals has further attracted customers to the Groupon site for services and products available within their catchment. Products that are mostly consumed by a particular set of people in their location are sent as deals to them via email messages. In China for instance, the products such as food, tour or travels will basically be Chinese tastes and likes. Therefore, the social acceptability of Groupon business is further enhanced. There is an equally a Facebook and twitter account for each city via which the Groupon communicate and interact with them (Groupon Inc., 2012a). More interestingly, the languages used in Groupon internet platforms in some countries have been localised. Products, services and all social media technology available on the website are enabled and customised in a localised language and culture (Groupon Inc., 2012b). Customer service by telephone is also available in various languages. See Fig. 2 for a sample of localised web platform in Thailand. Not only for Thai people alone, there is an English translation of the site for non-Thai speaker, this draws them to the site as they are able to interact and use all the social tools available on the platform (Groupon Inc. 2012b). This gives the best social interaction between the populace of that countries or region and Groupon deals. Friend’s invitation via the deals of the day products is also given a bonus voucher which further stimulates existing customers to invite friends and thus increase the web traffic to Groupon site via social interaction (Groupon In, 2012a). Groupon’s dispositions to the socio-cultural needs of individual customers are frills to their business.



**Fig.1:** Showing a skeletal form of Groupon Business Model (Adapted from Dahlen, 2012)

**3 SLEPTEC ANALYSIS**

This section focuses on the SLEPTEC Analysis of Groupon business model. This section examines the Groupon business using SLEPTEC Analysis with a view to identifying the way the firm cope with external factors, gained and sustained competitive advantages using the business model with the supporting innovative technologies. The SLEPTEC stands for ‘Social, Legal, Economic, Political, Technological, Environmental and Competitive’.



**Figure 2:** Showing Groupon website in Thai Language (Source Groupon Inc., 2012b)

### 3.2 Legal Analysis

The legal terms of the E-business at every locality and countries have influence on the business transactions. E-commerce firms have to consider all legal terms before beginning the marketing process. At Groupon, for every facet of business interactions with merchants and customers, a set of legal and ethical terms and conditions are expressly stated by Groupon. At sign up by customers, the popup windows informs the customer of the cookies policy, the validity of an offer, the price and the discount in percentage, the deadline, the maximum quantity of purchase per person, booking format and restrictions based on age, date and time the coupon can be redeemed and other rules (Groupon, 2012c). The customer even get to know before sign up for the deals the name and address of the merchants giving the offer as well as the details components of the offer for health and safety laws. For instance if it is a food item, the constituents are given in details so that only people with needed dietary needs sign up (Groupon Inc. 2012a). The payment at the checkout for the offer which is most sensitive equally contains some legal spellings which customer must acknowledge before the payment is taken; terms of use and sales, privacy policy, coupon cancellation and redemption terms, guarantee and assurance of privacy and security of customer and payment card details(Groupon 2012c). Hence, Groupon expressly gives out its business legal terms which give customers the zeal to continuously patronising the Groupon sites for deals as the trusts and loyalties have been built. **See Fig. 3** for reference.

The screenshot shows a 'New Account' checkout page. On the left, under 'Payment address', there are fields for Title, First Name, Surname, Street Number, City/Postcode, Email, Phone Number, Date of birth, Password, and Confirm Password. On the right, under 'Choose payment method', there are radio buttons for Credit/Debit Card (with VISA, MasterCard, and American Express logos), Maestro, American Express, and PayPal. A 'Submit order' button is at the bottom. Below the form, there is a 'Payment FAQ' section with links for 'What happens after I buy?', 'Can I buy a deal as a gift?', 'Is this safe?', and 'The Groupon Promise'.

**Fig. 3:** Typical legal and ethical statement at Groupon Payment Platform (Source: Groupon, Inc. 2012c)

As part of Groupon terms also, if a customer feels not to redeem a coupon, the amount earlier paid are refundable (Groupon Inc. 2012c). However, this study has not been able to find out how accessible the Groupon site and apps are used by audio and visual impaired people. An improvement that is by law is needed. When firms are law-abiding especially on electronic business transaction with the stakeholders, the trust and loyalty that are built can thus improve the reputation.

### 3.3 Economic Analysis

Economic suitability of a country for business is another external factor that firms should consider when strategising to start a business. A healthy economy is a symbol of disposable income. Tax and exchange rate are factors a firm must also considered before launching its business. It is imperative to consider in short and long terms, the economic atmosphere of a country (Chaffey, 2011; Professional Academy, n.d.). The cheapness of the product or services customers get from Groupon provides them more money; the one they save from a purchased deal to spend on other deals of their interest nearby. More importantly, the lesser a product costs, the lower the tax paid. This in turn encourages customer the more to patronise and shop for more products from Groupon sites. In order to save customers and merchants the exchange rate issues, products and services are offered on the local currency (Groupon, 2012a, 2012b, 2012c). Such products are mostly made top deals of the day and use the viral marketing ability of social media applications to attract even earlier reluctant customers to their sites and signup for deals.

**It took only 44 minutes to sell the first 3,000 kilograms of onions, and the sudden traffic spike crashed Groupon's Indian site**

The screenshot shows a Groupon deal for onions. The main headline reads 'ONLY Rs.9 to Grab a Kilo of Onions -- We Will Be Back Tomorrow at 1:00PM to Sell More'. Below this, it says 'Sold Out' and 'Amount: Rs.9.00'. A 'Deal is on!' notification is visible. The deal is for 5083 bought. There are sections for 'Highlights' and 'Fine Print'. The 'Highlights' section includes 'NOT AVAILABLE' and 'Deal is on!'. The 'Fine Print' section lists conditions like 'Refund credits are not applicable for this deal' and 'Only 1kg per delivery address will be allowed'. There are also 'Share with friends' and 'Like' buttons.

**Figure 4:** Showing how Groupon gives Onion Deals in India during Onion Price Inflation(Source: Online Maximizer, 2013).

As a case study, the price of Onion in India is highly political and is an economic factor as the India is the second largest producer of onion aside China (Online Maximizer, 2013). Sometimes in the election campaign the price of onion has always be a discourse. In August 2013 to be precise, India Government banned importation of onions and hiked the price by 100% increment to discourage onion exportation. The Bharatiya party opened stalls and began selling onion at a price less than the market price to embarrass the government. Groupon came up with out of the box marketing strategy. Groupon see opportunity in the economic crisis and capitalise on the cultural consumption patterns and the political situation. They conquered the Indian market just with a vegetable – onion in 7 days deals at 3000 tonnes of onions per day. Deal was first revealed on the Facebook, onion contest was conducted on tweeter. It was reported that Groupon India site crashed when the influx becomes over bloated. In this period orders were delivered in 78 cities across India (Online Maximizer, 2013). In the Groupon business models, aside the reduction in marketing cost for the merchants as their products



get advertised, they gain stable sales and increase awareness of their business in the market place. As the customer looks for good deals which their income can capture equally share shopping experience with friends.

### 3.4 Political Analysis

The political situation has a great influence on the directives for businesses, and the expenditure level and disposable income of consumers; marketing practices of business is dependent on the political situation of a country (Chaffey, 2011; Professional, n.d). Political influence on e-commerce is little; however, the tax, tariff and environmental law and trade restrictions have effects on e-business. The political environment is shaped by the inter play of government agencies, public opinions, consumer pressure groups etc. (Chaffey, 2011). Some political interest could be on products not allowed to be advertised on the site. More so, product offers vary from country to country as well as the tax laws. As in Groupon deals, so far the business is conducted in the local currency, the tax to be charged has been embedded in the payment system for each country and trade restrictions are equally noted by Groupon. Localisation of the sites to indigenous languages has equally given Groupon a politically friendly edge in operating countries (Groupon 2012a, 2012b). As long as a firm operates within the ambit of the regulations set by government, enabling environment will thus be created and customers will keep visiting the firm market for their needs.

### 3.5 Technological Analysis

The technological effect on the way business is conducted has facilitated several business ideas to be sellable via innovations and research and development as regards information technology. The technology is ubiquitous and every firm is using it, most especially to turn around the traditional way of business activities (Chaffey, 2011). Rate of technology change has effects on how company offers its product and services and the way consumers purchase or accept the products. Most orders for products in brick and mortar shops are almost being taking over buy online activities. Customers have at their fingertips the internet technology to navigate several markets to get their products at the lowest rate, or at the best quality. Internet and social media technology on which Groupon business model is based has been a complete turnaround for online couponing system. Groupon model supports all online technologies; login can be made via the previously customer email or even Facebook connect, twitter is available for trending and competition on the deal of the day products, the website is also enabled with Instagram and YouTube, LinkedIn interaction between customer and Group, Groupon blogs where customers give their feedbacks and see the answers to previously asked question (Groupon, 2012a). All these facilitate easy interaction between Groupon website and the outside community. The email means which the firm adopts to contact the subscribers is equally a very cheap technology. Subscribers following the Groupon twitter get easy access to the current deal news and information. Besides the web platform, mobile technology apps in real time which Groupon developed and are freely downloaded by customers have also made purchase or deal search easier for customers even on the go (Etherington, 2013). The benefit of all social marketing means has been taken by Groupon to deliver content to customers. Though these ideas have been copied by

competitors like Living Social and Buywithme, Groupon first mover advantage to some extent the large subscriber base, will take any other big player to catch up with the customer shopping experience Groupon has offered. With the launch of Groupon Now, a real time mobile application, see **Fig. 5**, with an in-built subscriber base is their competitive edge which is harder to easily replicate by competitors.



**Fig. 5:** Showing Groupon Mobile App  
(Source: Etherington, 2013)

Changes in the location of a user are detected at the background and sets of targeted deals are sent via push notifications and this done via a Nearby tag on the app, which is specifically aimed to prompt users that the app exists out of their geographical location and may more likely to be in need of deals at a nearby merchants (Etherington, 2013).

### 3.6 Environmental Analysis

The future of our planet is a social concern. Technology has equally been seen as detrimental to the environment, but the e-commerce and social marketing have environmental benefits (Chaffey, 2011), Companies like Groupon, also make cost savings as it position itself as environmental friendly. Online shopping and home delivery of products are reducing traffic to shops by customers, and have also reduced quantity of CO<sub>2</sub> emission from automobiles. Lowering of inventory as the merchants only produce products in proportion to the number of coupons claims. Online shopping and marketing results in fewer printed materials as online e-newsletters, e-flyers and adverts by Groupon has equally replaced the physical equivalent, so saving paper and distribution cost (Chaffey, 2011). This is part of technological issues as related to ecological and green issues. Digital marketing has greatly saved a lot of products advertising in papers, billboards and other materials that may not be environmental friendly. The cost of disposing or even recycling them is higher. Groupon is using the internet and social media tools to communicate with the customers in a safe and environmental friendly ways.

### 3.7 Competitive Analysis

The economic buoyancy and competitive environment of various countries will determine the potentials of e-commerce activities in the short and long term (Chaffey, 2011). Business managers before deploying e-commerce strategies often

consider environment that are technologically developed for the business to get supporting tools. Groupon is in serious competition with Google, Microsoft, Eversave, BuyWithMe (sold to Gildcity) and LivingSocial on deals offering (Jaswal, 2012; Yahoo finance 2013b). With Groupon having a various local products in marketplace and establishing a more integrated online couponing process, it is considered to have an advantage over other competitors. Groupon ability as earlier mentioned in personalisation of websites for different countries, culture and language and as well differentiates deals in local, national, and international markets corresponding with their range of offerings are beneficial. The comparative analysis with the current competitors as done by Jaswal (2012) and adapted by this study gives the brief view of competitive analysis in **Table 1**.

**TABLE 1**  
COMPETITIVE ANALYSIS OF GROUPON AND  
COMPETITORS

(Source: Jawal, 2012)

	Is the deal core of their business	Offers	Deal type	Product Customisation	Subscriber Level
	✓	Offers of the day	Local services and products	High	Highest
	✓	Offers of the day	Premium products and services	High	High
	✓	Offers catalogue	Local services and products	High	Low
	X	Offers of the day and catalogue	Local services and products	Low	Low
	X	Offer catalogue	Local services and products	Low	Low

#### 4 GROUPON GROWTH AND SUSTAINABLE ADVANTAGES ANALYSIS

Having carried out the SLEPTEC analysis, it is found out that Groupon has been using Internet and social media applications which it employed and embedded into its business model to cope with the external environment and in turn attained economic growth, competitive and sustainable

advantages. This majorly results from the subscriber base, merchant's affiliations and the economic and business values Groupon provides to the international communities. Followings are the factors that sustain and provide Groupon business success. The revenue based of Groupon is increasing exponentially as the firm after selling the Groupons to customers, charges commission which is the half value of the deals. Another factor that has further sustained Groupon business is the customer base which by expansion is in the nearness of 200 million subscribers and 500,000 current merchants and over 60 million users of mobile apps which are still on the increase (Groupon In, 2013b). Sometimes ago, its partnership with eBay on a daily deal offer to their customer base; Groupon acquired over 290,000 new subscriber through that offer alone (Buchler et al., 2011). The influence of first mover advantage with the use of all the internet multimedia and social media technologies are equally another advantage which contribute to growth in Groupon Business. In addition, the extension of email communication, to other deals aside the local deals like Getaways, Groupon Live, Groupon Reserve and Groupon Goods is bringing substantial return and positive response from merchants and customers to several market deals (Groupon Inc. 2013b). The launch of mobile app has drawn Groupon business closer to the user and thereby gives them a much more value in term of interaction and transaction with Groupon as a business; people prefer to access online products through mobile appson their phones than through web, which is further giving Groupon to penetrate more households (Etherington, 2013). Group has recently launched a Pull Market place; the world's first local ecommerce market place featuring a massive selection where customers can browse or search for deals on demand (Groupon Inc., 2013b). Moreover, the payment system of Groupon has been further enhanced by the launch of a Breadcrumb which is fully integrated with Groupon Payments. This a real time online payment system, that the company states to be the lowest cost alternative for merchants taking credit cards(Trefis Team, 2013). The payment system is also embedded into the iPhone and iPod touch of Groupon Merchants app. Apart from the lower cost of the payment service, the merchants gets their credit card deposits in 24hours in comparison to the 2 or more days deposit settlement offered by other credit card service company (Trefis Team, 2013). Pre-Payment that Groupon collects for services provided by merchants are paid to them in advance. This is a great benefit to merchants due to the time value of money. Merchants can use this money to expand their operations. More so, this prepayment is also beneficial to merchants when there are non- redemptions. In addition, sales opportunities that are available for merchants participating in Groupon as well as skipping levels of distribution chain and deal directly with the buyer endeared the merchant to the firm and in return increase the brand loyalty of Groupon (Buchler et al, 2011). This ultimately locks on merchants on to Groupon business as they gain more frame through social network. In short, Groupon delivers customers to merchants using a mixture of a promo, a price discrimination service and a prepayment service (Arabshai, 2010). Groupon is even seen by consumers as a mechanism for price discrimination (A nice word for discounted deals), though the notion is to maximise deal acceptance by customers to further increase its revenue from the offers. The Groupon promise of refund of any online purchase is a fulfilment of distance selling law, which is a fanciful way of assuring customers, which though eats into

revenue of Groupon, cost very little, relatively to entire profit margin on any deal (Arabshai, 2010). Every business faces a major problem on discounting concepts as a lower product's price may be taken to mean of inferior quality. This is because price and quality are two sides of a coin and they show a reflection of each other. Any mismatch can become suspicious to the customers. However, the Groupon provides a guarantee of quality for their deals when offered. The promotional message sent to subscriber via the email is framed in a way that confirms the reduction in price is due to exclusivity of the offer rather the inferiority of the product. This assurance by the Groupon has reinforced the premise of the product quality and they gain customer loyalty the more for their competitive advantage (Buchler, 2011). Customer also provides feedback via Groupon links on Facebook, twitter and the Groupon chartroom. These feedbacks are further reviewed by Groupon to improve their business.

## 5 CONCLUSIONS AND RECOMMENDATIONS

This study has carried out an in-depth study of Groupon and SLEPTEC analysis of its business model and as well discussed the factors that facilitated attainment of sustainable growth and advantage. Currently, Groupon is having over 200 million subscribers and half a million merchants globally, which implies that the discount deal business can be an immediate hit as it gets stimulated across this massive subscribers base. It is noted from the findings that the sales of online coupons will increase at a much quicker rate as the largely e-commerce marketplace continues to advance. For Groupon, the mobile app format if fully accessed will facilitate the customer to move more to online shopping via Groupon deals. The company's sustainable advantage depends on its widespread reach, which makes it easy and quick to market new products and services. There is also an increase in the social benefit as both merchants and buyers will end up with a higher value. What Groupon has done is to exhibit the economic possibilities of using simple web, email and social media technologies to address basic needs of customers within their locales through coupons. As Groupon looks to the future, it must find its purpose in the greater e-commerce business and embrace a greater innovative model that will not be imitable by competitors. The prospects are there for Groupon to create next generation platforms to leverage internet, social media and other technologies that may also emerge for deals offering. In summary, the current business setting is developed for Groupon's to still sustain the exponential growth, but must assess and make the most of their capabilities if they aim to maintain the current leadership advantages in the online couponing industry. It is also found out that redemption issue is identified to be a drawback to the business model as overwhelming demands in redemption centres frustrate the coupon holders as they wait for days before opportune to redeem them. This negative encounter does eventually impact on Groupon and my affect future buying decisions. Merchant capabilities to fulfil redemption must be considered before deals are marketed. It is recommended that Groupon management refines the deal recommendations methods to subscribers in order to gain more advantages. This is possible via building a database of consumer preference, to prevent Groupon mails from being seen as spams, personalise the service the more using optimally social network and internet technology, aggressively further attain a loyal merchant base and, more notably, gradually develop loyal repeat customers

for merchants and Groupon. Effective use of social media applications can assist them great in achieving the recommended business improvement. Stability in repeat customers and brand loyalty will be a success for the business model and can further provide higher value in sales through the Group digital marketing.

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