

Google and Groupon

Social-buying gains momentum



Background

The Internet has been buzzing this week over speculation that Google is about to buy Groupon, which is a Chicago-based Web site that specializes in “social-buying” and online coupons. The potential Groupon deal has been estimated at \$6 billion, which would make it Google’s largest acquisition to-date behind Doubleclick (2007, \$3.1b) and YouTube (2006, \$1.65b).

Details

Groupon’s success is often attributed to a very simple but highly-relevant consumer experience. Groupon essentially sends its users a daily promotion/coupon from a local business who is willing to pay more than other companies in order to reach the local users of Groupon’s 33 million regular users across 35 countries. The offer can be and is often dependent on a minimum number of users agreeing to buy the company’s product or service. Why would Google potentially pay \$6 billion?

- First, Google wants to gain a greater share of the small to medium business/local advertising spend. Groupon’s primary client base has been local SMB’s such as restaurants and retailers who are seeking advertising alternatives to newspapers due to diminishing readership. The local ad market is worth \$95 billion in the USA alone; currently just 8% of small businesses advertise with Google.
- Second, Google wants its search users, particularly mobile users, to get more relevant results that lead them to actual local purchase. Adding coupon ability to its new Hotspot feature and local product availability data is a valuable extension to users *and* advertisers.
- Third, Google wishes to counter recent moves by Facebook (Deals) and Amazon (Living Social) to complement their existing platforms with social and/or e-commerce functionality.

Implications

- Most social-buying activity is centered on low-cost items, e.g., restaurant coupons and FMCG/CPG promotions. However, increasingly higher-end purchases are successfully being offered, including consumer electronics and even automobiles.
- Brands with sales and distribution channels need to assess the business opportunity of either directly or indirectly supporting social-buying. For example, brands may choose to provide digital trade marketing assets for local retailers or even go so far as to co-fund certain activities similar to paid search models.

Summary

Groupon is now arguably the fastest growing company in the USA. Groupon also continues its international expansion with acquisitions in Singapore (Beeconomic) and Taiwan (Atlaspost). While the deal has not been done, Google’s interest in acquiring Groupon is a logical plan to effectively merge its strategic interests in search, social, and commerce.