

Case 7-A

Who needs advertising?

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Everybody loves a bargain, and in 2008 at the onset of the American Great Recession, Andrew Mason decided he could capitalize on it. He founded a web-based firm called Groupon, which in the years since its founding has been controversial in a number of ways.

Mason's business model was simple. He would ask local merchants in individual cities—he began in Chicago—to provide an electronic “coupon” for their services. The discount on goods and services: 50 percent. When the coupon was redeemed, the merchant retained 25% of the proceeds with the remainder going to Groupon. Merchants thus paid no upfront costs. The initial coupon deal was offered to a certain number of people, and if a target threshold was reached, then everyone who signed up on the website got the coupon and the discount. If not enough people were interested, then the entire deal was off. Groupon avoided all forms of traditional advertising by working on a social media model, and a financial juggernaut was born. Today, Groupon is in about 500 markets in 44 countries. The corporation has gone public and, at one point, was expected to be the fastest growing web based company ever, achieving \$1 billion in revenues in record time.

Consumers generally loved the possibilities, but because Groupon targeted local businesses in individual cities, its results for merchants were mixed. Offering 50% off services could result in small businesses being literally overwhelmed, particularly if those services were things like massages which required a set amount of time and employee effort regardless of price. One small English bakery that normally produced about 100 cupcakes per month was slammed after a Groupon offer, having to produce 102,000 cupcakes in the same amount of time. Many merchants discovered that their Groupon-inspired customers came for the bargain only; the bargains did not result in repeat business. The Groupon offers meant that merchants could keep only 25% of the sale price for goods and services; for some, this meant a loss-leader of significant, and sometimes crippling, proportions.

Groupon also faced other troubles, including criticism for a SuperBowl ad the firm ran and some problems in the US with state regulators for goods such as alcohol. At least one consumer sued Groupon, claiming that there was no expiration date on Groupon deals but that merchants were unwilling to honor them past a certain point.

In 2012, Groupon also launched a VIP club where, for a \$30 subscription fee, consumers would get a 12-hour jump on the latest offerings.

Initially, there were no serious competitors to Groupon, but about two years after the firm took off, Living Social became the website's first national competition.

In addition, media organizations—which saw potential advertisers either walking out the door or failing to buy ads—got into the business of acquiring Groupon-like firms in an effort to recapture at least part of the revenue stream.

Micro Issues

1. For most of the past 20 years, news organizations have been under enormous economic pressure to justify their product. Groupon and its imitators are providing

- similar pressures on traditional strategic communication. What does strategic communication have to offer that firms like Groupon do not? Is there an ethical base for what strategic communications professionals do?
2. Groupon hires many people to write copy for coupon announcements. Analyze this role in terms of ethical obligations—to the firm, to consumers, to other strategic communication professionals

Mid-range Issues

1. Working with Groupon had some expected consequences for some merchants. Ethically, was Groupon in any way responsible for these problems. Does the concept of let the beware help you justify your response.
2. Groupon relies on a community of sorts to make its business model work. Using the notion of philosophical anthropology, critique how Groupon conceives of consumers.

Macro Issues

1. Does Groupon pass the expanded TARES test?
2. If you had to outline a business model for a Groupon-like service that your news organization or advertising agency is developing, what would be the central elements of that model? How does ethical theory inform, or fail to inform, your thinking?
3. How would you respond to the following: The biggest challenge my generation of strategic communications professionals is going to face is convincing businesses, non-profits, and consumers that advertising and public relations have something to offer beyond the cheapest prices for goods and services.