Location Based Social Commerce
- How will it affect local businesses?

Image source: http://www.socialcommercetoday.com/

Courtesy of Social Commerce Today. Used with permission.
Introduction

Objective

- Examine characteristics of location-based social commerce services and effects on local economies

Critical Questions

- Is this business model successful?
  - Strengths? Opportunities?
- Is this platform sustainable for the local businesses?
  - Threats? Risks?
- Winners / Losers?

Approach

- Analyze workings of location-based social commerce
  - e.g. Groupon, LivingSocial, Yelp
- Evaluate potential stakeholders ("2-sided market")

- Primary research on benefits
- Extrapolate findings to discuss economic implications
The Evolution of Social Commerce

- **Group buying: Old concept**
  - 10 yrs ago...
  - Mercata & Mobshop

- **E-Commerce & Digital Coupons**
  - First half of 2009...
  - ~10M digital coupons redeemed
  - Redemption rate ~15-20% v. 1% for paper coupons

- **Advent of Web 2.0**
  - Use of social media outlets
  - Social interaction in purchases of new products and services
  - FB & Twitter

- **Mobile Phone Adoption**
  - in Smartphone Users

- **Globalization**
  - Launch of group coupon ad sites (Asia, Europe, U.S)
Two Types of Social Commerce

1. **Residence-based** (ex. Groupon)
   - Labor intensive deal making process
     - Online / Offline
     - 6-8 week process
   - Extremely “Easy” to use
     - Sign based on location
     - 1 deal per day
     - Automatic updates through email
   - Solid monetizing model
     - $1.35B valuation (< 2 years post-launch)
     - 14.5M Groupons bought, takes 50% of deals
     - Fast expansion in global market
       : Acquired “DealsOn” (Korea, 10/2010)

2. **Real time Location-based** (ex. FourSquare)
   - Users’ self recommendations
     - Personal network based
   - “Convenient” in new locations
     - “Check in” with your mobile
       (based on real-time location)
     - Various categories of information
   - Huge potential
     - Large customer base
     - Collective intelligence
     - Yet, slow in monetizing
Why does it matter?

Growth of Daily Deal Services
(Source: http://yipit.com)

Weekly Market Share of Visits
(Courtesy of Experian Hitwise Pty, Ltd. Used with permission.)
• Exponential Growth
• Fastest Growth in History
### What drives this growth?

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<tr>
<th>Demand-Side</th>
<th>Supply-Side</th>
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<tr>
<td>Appeal of “scarcity”: Window to purchase is limited</td>
<td>Virality due to the rise of Web 2.0 &amp; social media</td>
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<td>Network externality: Motivation to spread the word</td>
<td>Low entry barriers: ‘clones’ and aggregator sites (e.g. Yipit)</td>
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<td>Pervasiveness of the internet use</td>
<td>Low up-front cost for smaller retailers to acquire new customers</td>
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<td>Smartphones + mobile transactions made easier</td>
<td>Opportunity to showcase “long tail” of local firms</td>
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<td>Bargain hunting (Economic Downtown)</td>
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<td>Decreased consumer search costs</td>
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• Long tail
• Making the pie bigger
What value does it provide?

Service Providers

- Emerging business opportunities
  - enabling technologies
  - connecting small businesses & consumers
  - Highly valued by VCs for potential growth

- Competition is huge
  - Groupon: 50% share of revenue generated
  - LivingSocial (40%), EverSave (40%), Yelp (30%), AOL (30%)

Local Business

- Huge opp. for more effective marketing
  - Raise consumer awareness
- New methodology for CRM
  - Customized service, System lock-in

End Consumers

- Same products /services @ lower price
- Greater variety of choices
- Customized offerings over time
- Consistent intro. of new products/services
Local Business: Better than Free Advertising

- Exposure with zero cost
- Clear metrics
- Cash Flows
  - potential to up-sell

  - 90% New customer rate
  - 20% Return customer rate
  - 40% Un-used coupon rate
Local Business: Profit Source using CRM

**Before Groupon**
- Regular Price: $100
- Cost: $25
- Customers: 10
- Revenues: $1,000
- Profits: $750

**With Groupon**
- Groupon Price: $50
- Customers: 10 + 100
- Revenues: $6,000
- Profits: $750

**After Groupon**
- Own Coupon Price
- Customers: 10 + 100
- Revenues: $6,000
- Profits: $3,250

+ CRM Data
  - Interests, email, address, etc.

Can Issue own coupon ("Personalized Pricing")
Local Business: Peripheral Effects

- **Social Commerce VS. Google**
  - Similar to Google’s SEO
    - Users are coming to Groupon with intention
  - Groupon has a unique incentive: the “deal” factor

- **Social Commerce VS. Facebook**
  - Facebook has very limited brand engagement
    - Users can “like” a brand, but can’t purchase & difficult to get a “deal”

- **Social Commerce VS. Newspapers**
  - Free marketing (via impressions), direct exposure to consumers
    - Ads in newspapers cost cash per impression
  - Clear metrics on # of people who’ve purchased a deal
    - No direct metrics for measuring the impact of an ad
Yet, Social Commerce has drawbacks...

Study of 150 merchants who utilized Groupon (Rice University):
- 32% found Groupon unprofitable
- 40% said they would not run such a promotion again

### Marketing Implications
- Possible brand dilution
- Price-sensitive customers
- Short-lived exposure

### Operational Challenges
- Rapid influx of business
- Extra manpower needed for service quality
- Additional cost considerations
- Decrease in employee morale

### Financial Impact
- No profits due to discounting and high commissions
- Customers do not spend beyond face value
- Successful campaign could be very costly

.... Social commerce promotions NEED strategy!
Conclusion

Win-Win game for everyone but …

Local Business Providers

Service Providers

Biz. opportunities

Exposure

Local Businesses

Great deals

End Consumers

Losing advertising customer base from local businesses

Local News Papers
Questions?
Winner takes it all industry? Possibly....

- Highly networked and social nature of industry means that speed to market and ability to scale quickly are key success factors
- Low barrier to entry have resulted in a large number of copycats (‘clones’)
- Zero switching cost means that the better platform and better branding wins
- This has led to an arms race where bigger players such as Groupon and Living Social are quickly acquiring local deal sites
- Economic and social forces provide a reinforcing feedback loop of success