

# A STRATEGIC ANALYSIS OF AN ONLINE COUPON FIRM

by

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PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION

In the Executive Master of Business Administration Program  
of the  
Faculty  
of  
Business Administration

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SIMON FRASER UNIVERSITY

Spring 2011

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## **Abstract**

GoodNews Media Inc. (GoodNews) provides an online coupon platform linking consumers and merchants in four local markets in Canada. This platform offers daily deals to consumers of 50 to 90% off a participating merchant's services so long as a minimum number of them pre-pay for the merchant's services. The purpose of this strategic analysis is to determine the best way for GoodNews to meet its owner's profit and non-profit goals given the most likely future of the industry.

GoodNews is in a weak position in the industry and this is unlikely to change because the firm has no key success factors, no sources of sustainable competitive advantage, and no clear way to gain either of these. This paper recommends that the best way to meet the owner's goals is to exit the market by voluntarily bringing the business to an end and seeking a buyer for its key assets.

**Keywords:** strategic analysis; strategy; online coupon; daily deal; GoodNews; Groupon; group coupon;

## **Dedication**

To my parents Leigh and Judy for their suggestion and their belief.

To my wife Lindsay for her steadfast support and encouragement.

To my children Gabriel and Leo for their ongoing inspiration.

## **Acknowledgements**

Thank you to the many people who made the EMBA program such an outstanding experience and taught me about business, about themselves, and about myself – my teammates Pauline, Mohsen, and Dan; my classmates Adam, Adrian, Ernest, Jameel, Jay, Khairun, Kiana, Lloyd, Mary Anne, Russ, Scott, Simone, Susan, and Yashar; and my professors Caroline Egri, Mark Moore, David Hannah, Alain Duncan, Leyland Pitt, Hugh Arnold, and Michael Parent.

Thank you to my colleagues at GoodNews Media Inc. for their support, assistance, and suggestions especially Kevin Ham, Tony Lam, Brad Hebert, Craig Ryomoto, Mona Akhavi, and Alex Chu.

Thank you to my sister Airlie for her tremendous editing skills.

Thank you to my sister Ashley for the art direction.

Thank you to Mark Moore for his insight, candidness, patience, and guidance.

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# 1: Introduction

GoodNews Media Inc. (GoodNews) provides an online coupon platform linking consumers and merchants in four local markets in Canada. This platform offers daily deals to consumers of 50 to 90% off a participating merchant's services so long as a minimum number of them pre-pay for the merchant's services. GoodNews launched its platform GoodNews.com in Vancouver in July 2010.

Groupon Inc. (Groupon) popularized online coupons by offering daily deals. Groupon is an American firm that launched its online coupon platform Groupon.com in November 2008 in Chicago. Groupon quickly became profitable and raised over \$1 billion USD from venture capital firms as a means to extend their model to over 160 local markets in North America (CrunchBase, 2011). Forbes estimates Groupon is the fastest firm in North America to reach a billion dollar valuation (Steiner, 2010). In 2010 Groupon earned worldwide revenues of \$760 million USD (Hickins, 2011). Groupon now operates in 565 markets and 44 countries worldwide (MacMillan, 2011). Groupon's success has attracted a number of imitators. GoodNews counts itself as one of these imitators. GoodNews operates in Vancouver, Calgary, Edmonton, and Toronto and had revenues of \$280,000 CAD for the last six months of 2010, and has projected revenues of \$2 million CAD in 2011.

The purpose of this paper is to determine the most likely future of the daily deal industry and whether GoodNews will be able to compete in its local markets.

To answer these questions Chapter 2 provides an overview of GoodNews' ownership, goals, products, and customers. Chapter 3 is an external analysis of the daily deal industry that looks at competition, entry barriers and substitutes, and determines the key success factors for this industry. Chapter 4 is an internal analysis of GoodNews that determines whether it has any key success factors and sources of competitive advantage. Chapter 5 summarizes the current external environment, predicts the most likely future external environment, summarizes GoodNews' position in the industry now and in the most likely future, and suggests a broad strategic direction for the firm. Finally, in Chapter 6 this paper recommends that GoodNews' best strategy is to exit the market through liquidation.

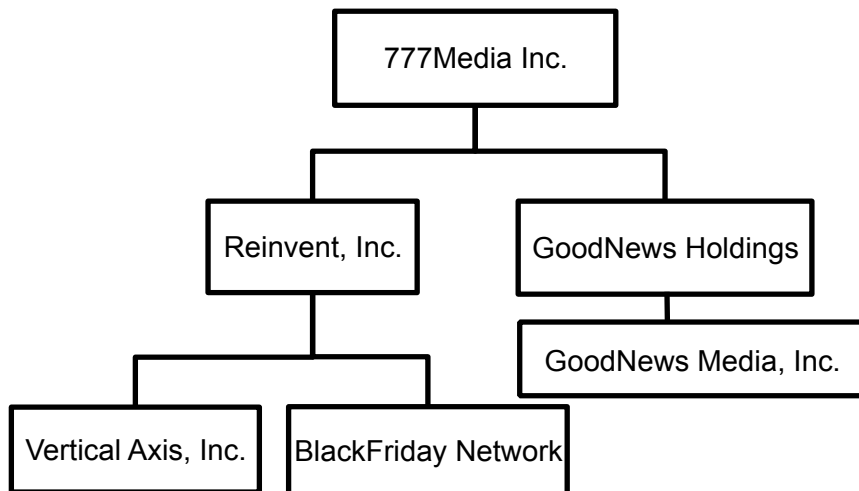
## 2: GoodNews Media Inc.

### 2.1 Corporate Structure and Ownership

777Media Inc. (777Media) is a private, for-profit corporation with a single overall owner and multiple subordinate lines of business. GoodNews is one of 777Media's lines of business.

Figure 1 illustrates the corporate structure of 777Media.

Figure 1: 777Media Corporate Structure



Source: (Author, based on internal GoodNews data, 2010).

777Media is organized into clearly defined functions: executive management, sales, product (software) development, marketing and analytics, customer service (includes copywriting and graphic design), and finance. The owner is also the CEO and takes an active role in setting priorities for the overall corporation and for each line of business. A COO has day-to-day control of the overall corporate structure and each line of business.

## 2.2 777Media Businesses

*Reinvent, Inc. (Reinvent):* Reinvent has a portfolio of approximately 300,000 Internet domain names (Sloan, 2007). It runs an online service called “HitFarm” that manages these domains and the domains of HitFarm’s customers. HitFarm’s network of domain names attracts approximately 28 million unique visitors every month (Author, 2011). HitFarm monetizes this traffic using pay-per-click<sup>1</sup> advertising: HitFarm places pay-per-click links from third-party online advertising networks on web pages at these domain names then analyses the click rate, traffic, and profitability of these links to optimize a domain name’s advertising revenue. Pay-per-click advertising revenue and sales of its own domain names are the main sources of 777Media’s revenue.

*The BlackFriday Network:* The BlackFriday Network is a collection of approximately six websites that each aggregate and promote national online deals from US retailers related to ‘BlackFriday’, the day after American Thanksgiving. This network has an email subscriber base of 2.5 million customers and attracted 25 million unique visitors to its websites during November 2010 (Author, 2010). This network earns revenue by placing pay-per-click advertising on its websites and by taking a commission from US retailers each time a visitor that came from a BlackFriday website makes a purchase on the retailer’s website.

*Vertical Axis, Inc. (Vertical Axis):* Vertical Axis is a domain broker that buys and sells Internet domain names.

*GoodNews:* GoodNews is a for-profit, Canadian corporation in a single-line of business: an online coupon platform that brings together price-sensitive consumers looking for discounts on services in their local markets with merchants looking for pay-for-performance marketing and exposure to local consumers. GoodNews offers online coupons to consumers in the form of a daily deal in four local markets: Vancouver, Edmonton, Calgary, and Toronto.

In each location GoodNews partners with charities, affiliate marketers, and daily deal aggregator websites:

- *Charities:* GoodNews partners with a charity every two to four weeks in each local market. For the duration of the partnership GoodNews donates 4% of its gross sales to the charity and in return these charities promote GoodNews to their membership.

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<sup>1</sup> Pay-per-click is an Internet advertising model used on websites, where advertisers pay their host only when the ad is clicked (Wikipedia, 2011).

- *Affiliate Marketers:* An affiliate is an official partner of an online coupon firm that advertises the firm's daily deals on its websites. Affiliate marketers earn up to 35% of the deal price when they refer a visitor to the firm and the visitor buys a deal (Daily Deal Media, 2011). The four major firms in local markets where GoodNews operates – Groupon.com (Groupon), LivingSocial.com (LivingSocial), Wagjag.com (WagJag), and Dealfind.com (Dealfind) all engage in affiliate marketing. GoodNews does not pay for affiliate marketing; instead, it places advertisements for its platform or deals for free on websites owned by Reinvent.
- *Daily Deal Aggregators:* Daily deal aggregator websites collect information on each daily deal in every local market and present them in a consolidated form to consumers. Aggregators organize deals by category, local market, daily deal website, and price to make it simple for consumers to personalize their daily deals. Interested consumers subscribe to aggregators' consolidated listings for free by signing up for a daily email newsletter notification. Online coupon platform providers typically pay aggregators for placement on their website and like affiliates pay them a commission on each sale. GoodNews does not pay to be listed on aggregator sites nor does it pay commissions to aggregators.

## **2.3 Corporate Goals**

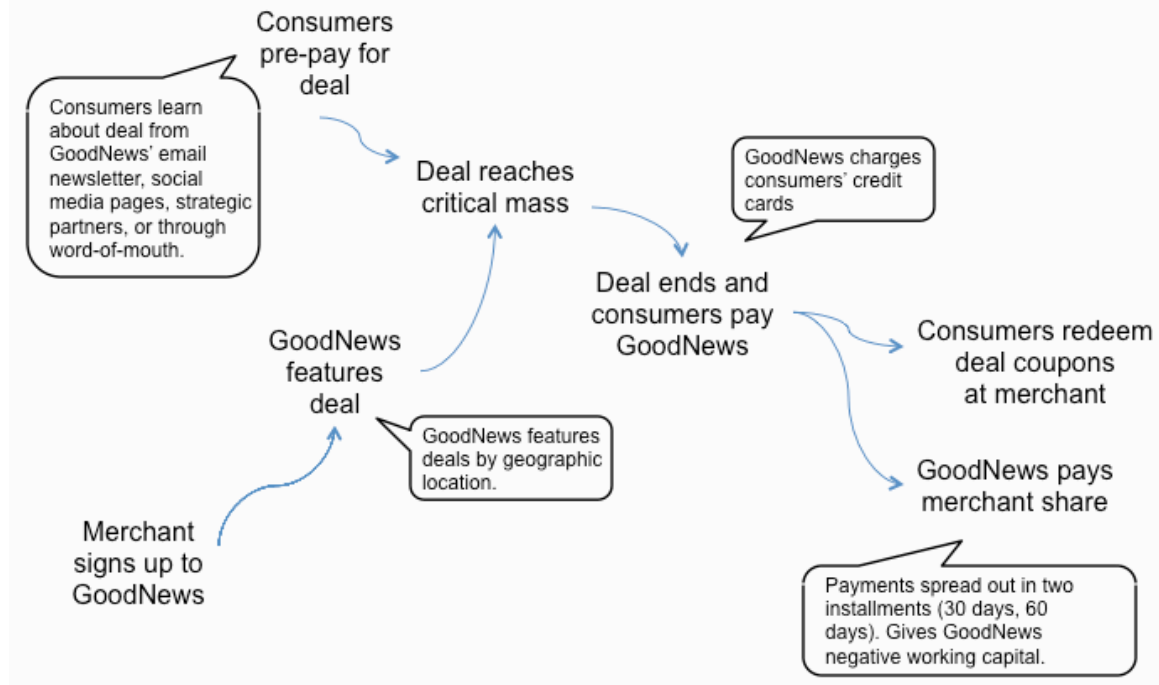
The owner's ultimate goals include profitability of the whole corporate structure, which depends on the profitability of GoodNews, as well as on retaining key marketing and product development employees (see Appendix A for a list of GoodNews' departments and employees). The owner also has a non-profit goal, which is donating to charitable causes in each of GoodNews' local markets. The goal of charitable donations is not a means to profitability but rather a true non-profit goal for which the owner is willing to sacrifice current and future profits.

## **2.4 Products**

GoodNews sells discount coupons to consumers in the form of a 'deal' from an online application at GoodNews.com. Figure 2 illustrates the life cycle of a GoodNews daily deal.

## 2.4.1 How GoodNews' Daily Deals Work

Figure 2: GoodNews Daily Deal Model



Source: (Dahlen, 2010).

GoodNews offers one deal a day for a limited time and in limited quantities that requires a minimum number of consumers to buy it in order for it to be valid.

A consumer pre-purchases a deal online by setting up an account at GoodNews.com and submitting their credit card details. GoodNews only charges their credit card and assigns them a deal coupon code when a time-limited deal ends and has reached its minimum number of buyers, or when it has sold its maximum available quantity. When a valid deal ends GoodNews sends the merchant their list of deal coupon codes. A consumer that purchased the deal can now log in to GoodNews.com, print her deal coupon as a proof-of-purchase, and redeem it at the merchant. A deal that does not reach its minimum is cancelled and the consumer's credit card is not charged.

GoodNews keeps its share of negotiated commission from the sale and remits the balance to the merchant in two instalments: one payment after 30 days and one payment after 60 days, less chargebacks and refunds. Refunds requested by buyers after 60 days are given at GoodNews' discretion.

### 2.4.2 Pricing

GoodNews states a fixed discount amount off the merchant's normal price and sell deals at the fixed discounted price. Firms like SwarmJam offer a progressive discount where the deal price goes down in fixed tiers as total cumulative purchases goes up. For example, the deal price starts at \$12.00 and requires 10 purchases, and decreases to \$9.60 at 50 purchases, and further decrease to \$7.20 at 100 or more purchases. When the deal ends all consumers pay the lowest price based on the total number of purchases (SwarmJam.com, 2011).

### 2.4.3 Characteristics

GoodNews typically offers deals from local merchants for services like retail, education, arts, entertainment, recreation, accommodation, food, and personal health. Deals are usually for local offline merchants and restricted to a single local market. GoodNews occasionally offers deals for online services that are available in any local market, like made-to-order clothing or subscriptions to online content. GoodNews sells online deals in more than one local market at the same time. Table 1 illustrates a week's worth of GoodNews' daily deals in Vancouver.

*Table 1: A Week of GoodNews Deals in Vancouver*

<b>Deal Title</b>	<b>Date</b>
\$20 for a 75-Minute Intro Squash Class & Racquet & Glasses Rental at Sport Central (Value: \$70)	Jan. 17, 2011
\$8 for \$16 Worth of Pizza at Rustico Gourmet U-Bake Pizza	Jan. 18, 2011
\$55 for a 30-Minute Full Face & Neck Radio Facelift Treatment at Weights (Value: \$238)	Jan. 19, 2011
\$5 for \$10 Worth of Food & Drinks at Crème de la Crumb Restaurant & Catering	Jan. 20, 2011
\$489 for a 3-Day, 2-Night All-Inclusive Fitness/Weight Loss Getaway with Eat Play Love Fitness (Value: \$1,069)	Jan. 21, 2011

*Source: (Author, 2011).*

GoodNews daily deals minimum purchase requirement ensures the merchant can meet their revenue goals, expectations and service limitations. These minimums also encourage price-sensitive consumers to recruit other consumers so they can secure a deal.

Deal availability is determined by the time remaining until the deal is over. GoodNews deal advertisements display a countdown timer to emphasize scarcity and the short-term nature of the offer in order to increase consumers' desire for it (Cialdini, 2001). Until December 2010 GoodNews sold deals for only 24 hours, five days a week, to impart a sense of urgency to the consumer. GoodNews has kept the practice of a new deal each weekday, but as of January 2011 has extended the majority of its deals in each local market to run for an average of four days.

Deal availability is also determined by a maximum quantity of coupons per deal. The maximum quantity is negotiated with the merchant but is not stated on a deal advertisement and so is not known to consumers. Deals typically expire no more than one year from the date the deal started.

“Likes” are a Facebook (Facebook.com, 2011) concept. A “Like” button is placed on a deal website and visitors can express their approval for the deal by clicking the “Like” button. The button displays the total number of clicks as a sign of the deal's popularity.

A deal advertisement always has customized content and is usually accompanied by a consumer's review of the merchant's service from credible online sources like Yelp.com (Wikipedia, 2011) or Google Places (Google, 2011). This is to affirm the validity of the deal by showing consumers that other consumers value the merchant's service.

Figure 3 is a GoodNews deal from March 18, 2011.



Figure 3: Screenshot of a GoodNews' Daily Deal

**Good News .com** Local Deals. Local Causes. Vancouver

Today's Deal | Recent Deals | How It Works | Businesses | Causes

Sign In with Facebook | Sign In | Join

Get the Daily Deal Email

### \$15 for Two Movie Tickets and a Large Popcorn at The Park Theatre (Value: \$32)

**\$15** Save 63%

**Buy Now** Buy as a gift!

3d 03h 46m 41s Time Left To Buy

2 Bought 23 Remaining

23 needed to activate the deal

**Price and Discount**

**Timer**

**Minimum**

**Popularity**

**Deal Highlights**

- Variety of mainstream movies, documentaries and foreign films
- Sit back in plush seats or snag a loveseat
- Conveniently located in Cambie Village and easily accessible by the Canada Line

**Deal Talk**  
Got a question? Ask us here!

Share This Deal [Facebook] [Twitter] [Email] [Like]

**Deal Brought to You By**  
**The Park Theatre**  
3440 Cambie Street  
Vancouver, BC  
Tel (604) 709-3456

**Limitations**

**Expiry Date**

**Deal Fine Print**

- Voucher expires in 6 months (September 18, 2011)
- Limit 2 per person, may buy 4 as gifts
- Taxes included
- See the rules that apply to all deals

**More About This Cool Cinema Deal**

The outrageous cost of movie tickets forces many people to smuggle in snacks or to draw straws to see which lucky friend gets to see the show and re-enact it for the others. Save cash at the cinema with today's GoodNews.com deal: \$15 for two movie tickets and a large popcorn, valued at \$32, at The Park Theatre.

The Park Theatre is the perfect place for a movie date or for a night out with friends. Escape from city life for a few hours in a cozy neighbourhood movie house that opened all the way back in 1911. While the historic element of the cinema has been preserved, the theatre has changed with the times – enjoy the show on an 18 by 36-foot screen with state-of-the-art Dolby Digital sound system. Sit back in the roomy seats (or snag a loveseat if you're lucky!) and dig into your large popcorn, served fresh and hot with real butter.

Upcoming movies include...

**Reviews**

**Credibility**

"If given the choice, I'll always pick seeing a movie at the Park rather than at any downtown multiplex. This single-screen theatre has plush seating, some nice things at the snack bar (chai, hot chocolate), and it's within walking distance to some good restaurants, cafés and a gelato shop." - Jill G., Yelp

**More Good News**

**View >**

**More Good News**

**View >**

**More Good News**

**View >**

**More Good News**

**View >**

## 2.5 Customers

GoodNews operates by connecting both sides of a two-sided market. On one side of the market are *consumers* who buy deals for discounted services and on the other side are *merchants* that sell those discounted services.

## 2.6 Consumers

Consumers register for an account at GoodNews.com to purchase deals and to subscribe to daily email notifications about deals on local services in their area. An account consists of a username and password, but at the time of purchase consumers must also provide their credit card details and address.

GoodNews does not collect demographic data from consumers. Instead it relies on Quantcast.com<sup>2</sup>, a web-analytics firm to infer demographic data based on visits made to GoodNews.com. GoodNews only has data for Vancouver. Figure 4 shows that visitors are predominantly females between the ages of 18-34.

Figure 4: GoodNews Consumer Demographics for Vancouver



Source: (Author, based on internal GoodNews data, 2010).

GoodNews acquires consumers through paid advertisements, ads on Reinvent's websites, direct sign-ups, and referrals. Table 2 summarizes the sources of GoodNews' consumer accounts:

<sup>2</sup> Quantcast.com is an online service that measures and analyses visitor traffic to a website to make inferences about visitor details (Wikipedia, 2011).

Table 2: Sources of GoodNews' Consumer Accounts

	Vancouver	Edmonton	Calgary	Toronto	Total
<b>Number of accounts</b>	24,258	9,968	9,479	11,271	54,976
<b>Source of accounts</b>					
<b>Paid advertising</b>	57%	79%	89%	89%	73%
<b>Referrals (and charities)</b>	18%	10%	7%	9%	13%
<b>Reinvent websites</b>	13%	0.5%	0.1%	1%	6%
<b>Direct sign-ups or other</b>	12%	10.5%	3.9%	1%	8%

Source: (Author, based on internal GoodNews data, 2011).

*Paid advertisements:* GoodNews runs paid advertisements on Google AdWords (Google, 2011), Facebook Ads (Facebook Ads, 2011), Epic Direct (Epic Media Group, 2011), Microsoft adCenter (Microsoft Advertising, 2011), Yahoo! Direct Response (Yahoo! Canada Advertising, 2011), PlentyOfFish (PlentyOfFish.com, 2011), and Pontiflex (Pontiflex, 2011). GoodNews has spent an average of \$72,300 CAD per month on this type of advertising up to March 2011. GoodNews began using paid advertisements in mid-August 2010. GoodNews also places advertisements for free on websites owned by Reinvent. Paid advertisements account for 73% of new accounts. New consumer sign-up rates in a local market drop to almost zero if GoodNews suspends paid advertisements in that local market.

*Referrals:* If any current consumer that refers GoodNews to a friend (using a unique URL) and that friend signs up for an account with GoodNews, then the friend is awarded \$5 off their next purchase as long as they make that purchase in the next 14 days. At the time the friend purchases, the referring consumer is given \$5 towards their next purchase as a reward. GoodNews provides their charity partners with a unique referral URL so new consumer accounts referred by the charity are awarded \$5 towards their next purchase. Referrals account for 13% of new accounts.

*Reinvent's websites:* These are advertisements on websites like Vancouver.com (Vancouver.com, 2011). This accounts for 6% of new accounts.

*Direct sign-ups or other:* These are consumer who signup directly at GoodNews.com. Direct signups account for 8% of new accounts.

Table 3 summarizes GoodNews’ acquisition costs per consumer, sales per consumer, and sources of consumers across all local markets. Table 4 shows the average acquisition cost per consumer and sales per consumer in each local market.

*Table 3: GoodNews’ Average Acquisition Costs by Advertiser, Sales per Consumer, and Sources of Consumers*

<b>Advertiser</b>	<b>Cost per Consumer</b>	<b>Sales per Consumer</b>	<b>Source of Consumers</b>
Facebook Ads	\$25.84	\$6.51	25.32%
Google AdWords	\$12.24	\$6.70	23.55%
Microsoft adCenter	\$6.80	\$3.71	1.38%
Yahoo Direct Response	\$36.25	\$8.35	0.49%
PlentyOfFish	\$38.48	\$7.52	0.05%
Epic Direct	\$6.33	\$3.00	8.49%
Pontiflex	\$2.00	\$0.39	13.65%
Referrals	Up to \$5.00	-	13%
Reinvent’s websites	\$0.00	-	6%
Direct sign-up or other	\$0.00	-	8%

*Source: (Author, based on internal GoodNews data, 2011).*

*Table 4: GoodNews’ Average Acquisition Costs and Sales per Consumer and per Local Market*

	<b>Vancouver</b>	<b>Edmonton</b>	<b>Calgary</b>	<b>Toronto</b>	<b>Total</b>
<b>Average cost per account</b>	\$12.65	\$12.41	\$14.22	\$18.68	\$14.43
<b>Average sales per account</b>	\$8.82	\$5.64	\$3.56	\$0.37	\$4.98

*Source: (Author, based on internal GoodNews data, 2011).*

## 2.7 Merchants

Merchants use deals to maximize profit by selling the same product at different prices to different consumers, attracting a wider market of consumers by appealing to varying levels of price sensitivity, and encouraging consumers to try something they otherwise would have ignored (Edelman, Jaffe, Kominers, 2010).

GoodNews provides the following services to merchants - it:

- educates them about consumers’ deal preferences;
- negotiates the terms of their deal such as discount amount and limitations;
- crafts a compelling write-up for their advertisement;
- prepares them for what to expect the day of the feature; and
- educates them how to redeem and track deal coupons.

GoodNews has sold approximately 343 deals for about 320 merchants in its four local markets. Table 5 summarizes the number of merchants, number of deals, and number of deal coupons sold per local market.

*Table 5: GoodNews’ Merchants, Deals, and Deal Coupons Sold per Local Market*

	<b>Vancouver</b>	<b>Edmonton</b>	<b>Calgary</b>	<b>Toronto</b>	<b>Total</b>
<b>Number of merchants</b>	200	50	47	23	320
<b>Number of deals</b>	223	50	47	23	343
<b>Number of deal coupons sold</b>	24,487	4,850	3,078	1,295	33,710

*Source: (Author, based on internal GoodNews data, 2011).*

Merchants provide GoodNews’ revenues. GoodNews collects consumer payments on behalf of merchants and then remits these funds to merchants at a later date minus a commission. GoodNews takes a commission based on the price of the discount offer; these range from 25-50% of the list price. Groupon takes 50%, LivingSocial takes 40%, (Daily Deal Media, 2011) and Grooster takes 10% (Author, 2011). GoodNews’ average commission is 35%. For example, the deal “\$20 of bike repair service for \$10” that sells 100 deals earns \$1000 in revenue. Of that \$1000, GoodNews pays \$650 to the merchant and keeps \$350.

GoodNews selects merchants based on their location, reputation, presentation, service, and service limitations. An ideal merchant is located where foot traffic is high like in the downtown core, has a positive rating on popular online rating sites like Yelp or Google Places, and has a website that potential consumers can visit to review the merchant's offerings.

Merchants that advertise with GoodNews are typically small businesses<sup>3</sup>. These merchants use deals as their sales and marketing channel for two reasons:

- *Inability to market on a large scale*: Small merchants typically do not have the finances, marketing or technical expertise to run and manage an online promotional sales campaign that would reach a large volume of targeted consumers (Mason, 2010). Canadian statistics from 2009 support this assertion – only 36% of small businesses had a website, yet the daily deal model is easy for them to understand because 45% of small businesses make purchases online (Industry Canada, 2010, “How many small businesses use e-business?”).
- *Pay-for-performance marketing*: Payment is not required upfront and is dependent on reaching a minimum number of buyers. Merchants can easily measure the success of their advertising campaign by the number of purchases.

Merchants are typically in service categories like retail, educational services, arts, entertainment and recreation, accommodation, food services, and professional health services. GoodNews offers deals for most service categories and does not specialize in any one.

GoodNews' most popular service category for deals across all markets is Food and Restaurants, followed by Spas and Salons, Others, Activities and Attractions, and Fitness Activities. Table 6 shows the number of GoodNews deal coupons sold by service category and by local market.

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<sup>3</sup> Industry Canada (IC) bases their definition on the number of employees or revenue. “Small” for a goods-producing firm is fewer than 100 employees, whereas for service-producing firms this is 50 employees. IC classes firms between 51 and 499 employees as “medium”. IC also classifies a business as “small” if it has annual revenue between \$30,000 and \$5 million CAD.

Table 6: Number of GoodNews Deal Coupons Sold by Category and by Market

Deal Category	Vancouver	Edmonton	Calgary	Toronto	Total
Spas and Salons	3,622	778	65	31	4,496
Food and Restaurants	19,519	4,927	2,007	1,208	27,661
Others	2,299	450	1,308	119	4,176
Activities and Attractions	3,225	120	122	23	3,490
Fitness Activities	2,185	122	25	31	2,363
Hotels and Getaways	66	96	65	0	227
Pets	185	36	263	45	529
Shows and Events	294	16	58	0	368
Health	53	18	97	0	168
Outdoor Activities	0	0	0	0	0

Source: (Author, based on internal GoodNews data up to March 31, 2011).

GoodNews' highest grossing service category for deals across all markets is Spas and Salons, followed by Food and Restaurants, Others, Activities and Attractions, and Fitness Activities. Table 7 shows GoodNews' revenue by service category and by local market.

Table 7: GoodNews Deal Revenue by Category and by Market

Deal Category	Vancouver	Edmonton	Calgary	Toronto	Total
Spas and Salons	\$143,845.00	\$42,886.00	\$1,621.00	\$2,529.00	\$190,881.00
Food and Restaurants	\$149,692.00	\$25,840.00	\$9,735.00	\$2,223.00	\$187,490.00
Others	\$84,925.00	\$9,249.00	\$51,255.00	\$2,914.00	\$148,343.00
Activities and Attractions	\$108,755.00	\$996.00	\$2,867.00	\$667.00	\$113,285.00
Fitness Activities	\$57,164.00	\$5,475.00	\$605.00	\$3,069.00	\$66,313.00
Hotels and Getaways	\$9,066.00	\$19,008.00	\$12,870.00	\$0.00	\$40,944.00
Pets	\$3,611.00	\$288.00	\$1,315.00	\$360.00	\$5,574.00
Shows and Events	\$2,819.00	\$192.00	\$580.00	\$0.00	\$3,591.00
Health	\$636.00	\$216.00	\$2,077.00	\$0.00	\$2,929.00
Outdoor Activities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Source: (Author, based on internal GoodNews data up to March 31, 2011).

## **3: External Analysis**

### **3.1 Introduction**

This chapter looks at the daily deal industry in GoodNews' local markets and other local markets in Canada to assess the present and future profitability of the industry. This chapter begins by defining the relevant markets, examining market size and structure, and predicting future market demand. It ends by identifying key success factors for profitability in this industry.

### **3.2 Market Definition**

The daily deal industry is based on the difficulties and challenges merchants in local markets face in reaching and attracting consumers.

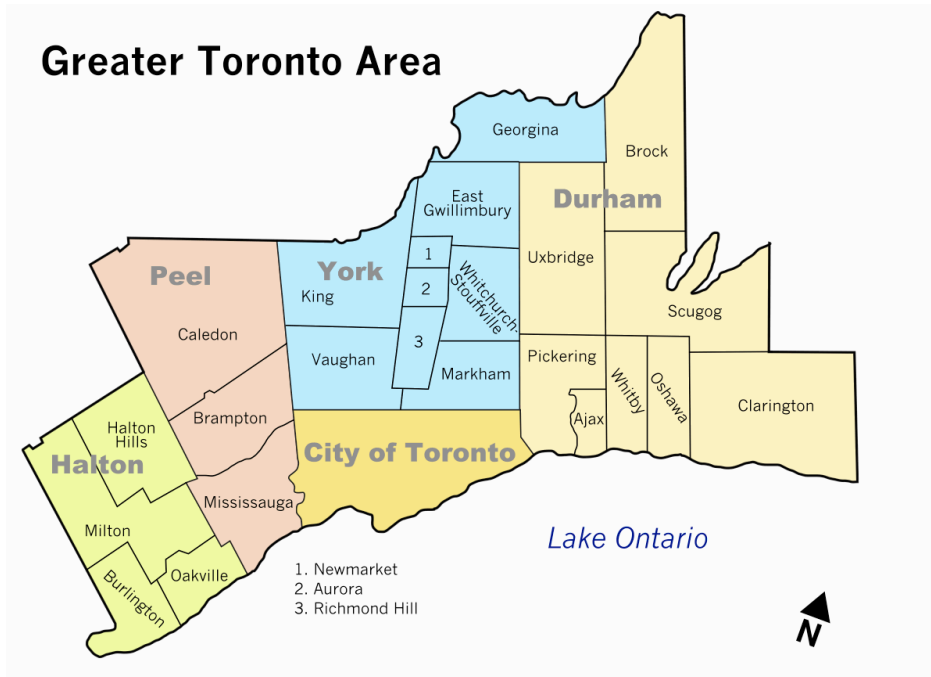
The main idea of online group-buying is that consumers can leverage their collective bargaining power to lower the prices at which they buy the products they are interested in. At the same time, suppliers also will be able to create leverage to diminish their cost of recruiting customers. Thus, the goal of online group-buying... on the Internet is to create a win-win situation between suppliers and consumers. (Kauffman, Hsiangchu, Chao-Tsung, 2008)

Firms in this industry operate in local markets across Canada. Firms define "local" as a metropolitan area like Vancouver or Toronto, which is easily identifiable by consumers. "Local" however, is a relative term. "Local" to a consumer is the area in which they spend their money in relation to their home. To consumers, a "local" merchant is one that falls within this radius. Various non-academic sources estimate this area to have a radius of 0 to 15 kilometres (Google Answers, 2003). (See Appendix B for a list of local markets in Canada.)

The use of "Toronto" or "Vancouver" as a local market is somewhat misleading because these monikers represent a collection of many smaller markets. For example, the Greater Toronto Area (GTA) is an area of almost 6000 square kilometres that consists of the City of Toronto and four regional municipalities of Durham, Halton, Peel, and York (Wikipedia, 2011). Residents at the extremes of these markets travel up to 100 kilometres (1.5 hours by car) (Google Maps, 2011) to reach the centre of Toronto. Figure 5 is a map of the Greater Toronto Area.



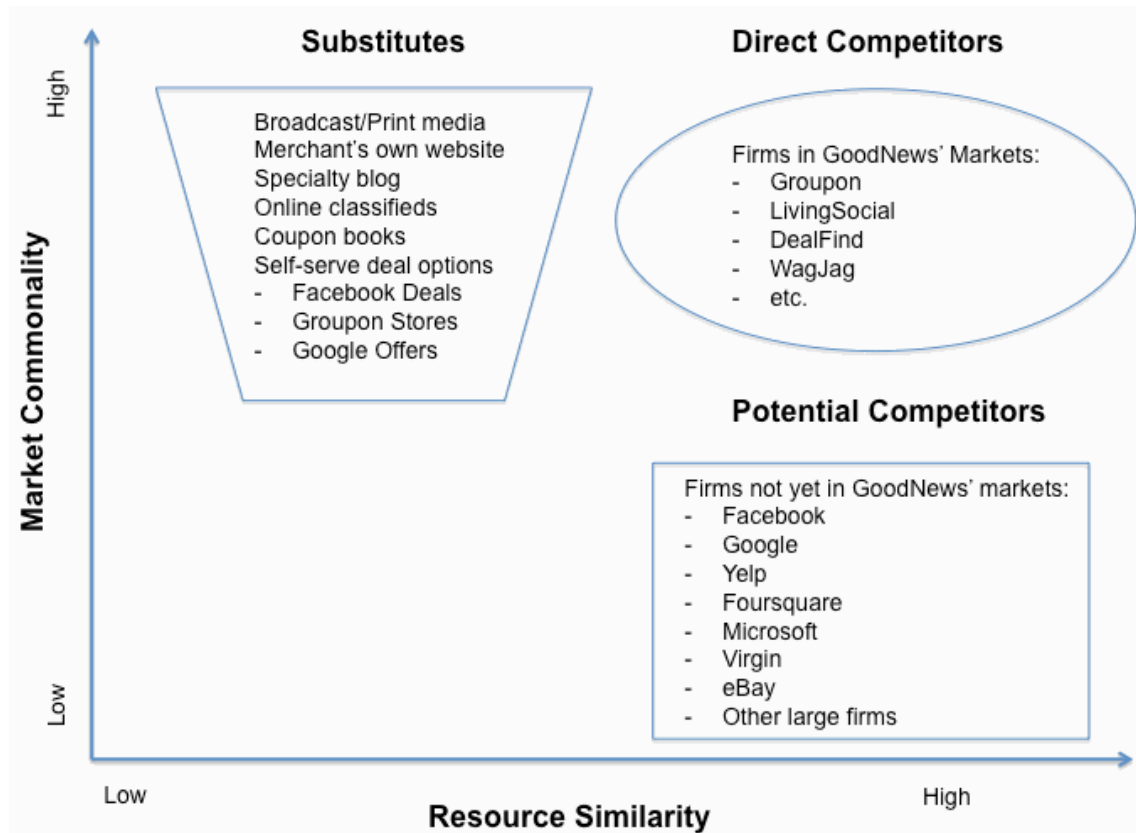
Figure 5: Municipalities in the Greater Toronto Area



Source: (Wikipedia, 2011)

Firms in this industry have a high degree of market commonality and high degree of resource similarity. Market commonality is the degree to which a competing firm addresses similar consumer needs. Resource similarity is the degree to which a competing firm has comparable endowments like labour (Bergen, Peteraf, 2002). Figure 6 shows firms grouped by market commonality and resource similarity.

Figure 6: Firms Grouped by Market Commonality and Resource Similarity.



Source: (Bergen, Peteraf, 2002).

### 3.2.1 Direct Competitors

There are at least 36 firms selling deals across 25 local markets in Canada. (See Appendix C for a complete list of firms that compete in GoodNews' four local markets.)

### 3.2.2 Substitutes

Substitutes are alternative sales and marketing services merchants could use to promote their services and acquire new consumers. These include:

*Broadcast/Print media:* The services are broadcast techniques for paid consumer acquisition such print advertising in newspapers, flyers, and Yellow Pages. These services require a merchant to pay an upfront cost, design their own marketing material, and to be responsible for gauging the effectiveness of a campaign. These campaigns provide almost no informative data about a consumer other than what the merchant can glean from questioning them at the point of

sale. These methods lack a sophisticated way to measure the effectiveness of a campaign because merchants cannot accurately link an advertisement to a consumer purchase.

*Coupon books:* The Entertainment Book (Wikipedia, 2010) can match a consumer with an advertisement but discounts typically reach a maximum of 50%. The nature of a printed book requires a consumer to search for a deal rather than have it delivered to them. The advertising copy does not communicate value in the same straightforward way as a daily deal.

*Online classified advertising, specialty blogs, a merchant's own website:* Online advertising methods can measure clicks and visits and do not require technical expertise. But because transactions do not happen online it is still difficult to quantify the effectiveness of a campaign or glean useful information (like a postal code) about the consumer from their purchase. Merchants that use their own website to conduct transactions online must also somehow make consumers aware of their service.

*Self-service deal options:* These do-it-yourself services require merchants to be comfortable with technology and marketing because they are responsible for creating their own deals, preparing for their redemption, and knowing their service limitations.

Facebook launched its own highly personal, location-based, deals business called Facebook Deals in January 2011 (Facebook.com, 2011). Facebook Deals is a platform aimed at merchants that allows them to set up a discount deal that Facebook advertises to a consumer when she nears the merchant's location. A consumer "checks in" to the store on their mobile phone and redeems the discount by presenting their phone to the merchant. Facebook offers their service (at the time of writing) to merchants for free.

Groupon offers a similar self-service tool called "Groupon Stores" (Groupon.com, 2011). While it is not free, Groupon takes a reduced commission (10% versus 50%) from the deal. The premise is the same: merchants set up their own deals and Groupon advertises it on Groupon.com. There is no public data available to indicate the success of Groupon's venture with merchants.

Google plans to launch "Google Offers" as a service for merchants to "attract new customers and bring back old ones by enabling you to instantly post discounts and other types of special offers across Google properties." (Google Offers, 2011). Google plans to do this using their Google Places tool, which is a method of placing merchant information, including advertisements, on Google Maps. For example, a consumer accesses Google Maps for a location

search and a daily deal advertisement will pop up along with the business name and location pinpoint.

### **3.2.3 Potential Competitors**

Potential competitors are those that do not yet offer sales and marketing service to small merchants but could offer this service, given that they possess comparable endowments.

Post Media and TorStar Digital, two large Canadian media conglomerates with print and online newspapers, both entered the daily deal market with SwarmJam and WagJag in 2010 and 2009, respectively. WagJag in particular has been able to gain significant market share in Ontario due to aggressive advertising and expansion into multiple small regions. The short time it took WagJag and SwarmJam to become competitive shows that a potential competitor is one that possesses the following: an existing platform, access to capital, marketing expertise, a consumer/user base, and a sales force with existing contacts to local merchants. Large firms like Facebook (Facebook.com, 2011), Google (Google.com, 2011), Yelp (Yelp.com, 2010), Foursquare (Foursquare.com 2011), Microsoft (Microsoft.com, 2011), Virgin (Virgin.com, 2011), and eBay (eBay.com, 2011) are firms that possess some or all of these things.

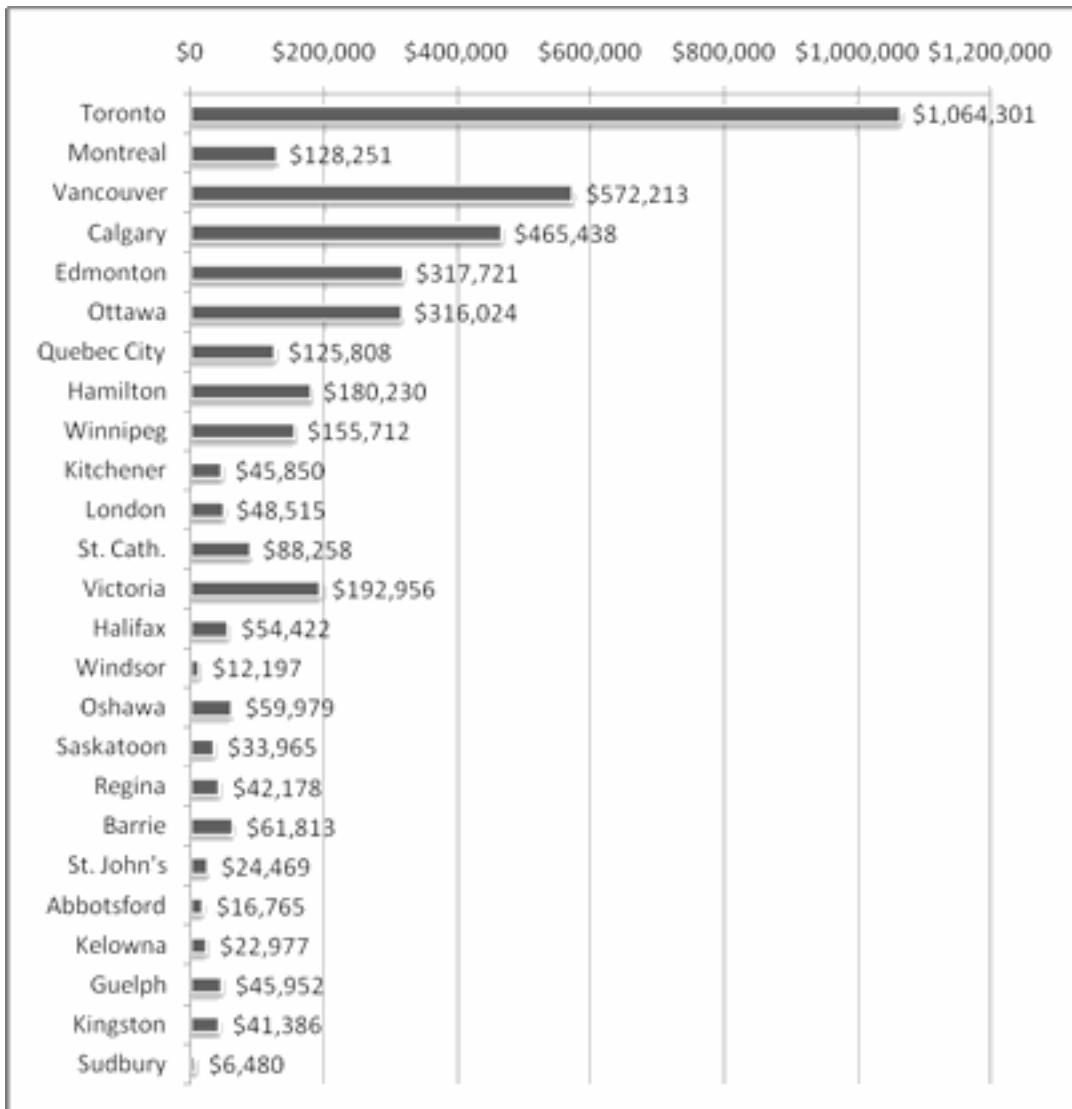
## **3.3 Market Size**

Figure 7 shows an estimated six days of revenue (total purchases by consumers) for almost all firms in all local markets<sup>4</sup>:

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<sup>4</sup> The author estimated revenue for almost all firms in each local market by multiplying the deal price by quantity sold to consumers (excluded firms that did not publish their quantity sold). Note: Revenues can vary significantly from day to day.

Figure 7: Estimates from Six Days of Revenue for All Local Markets (CAD)



Source: (Author, 2011).

Total estimated six-day revenue for all firms in all local markets is \$4.1 million CAD, which multiplied by 60 gives a potential total market size of approximately \$250 million CAD per year. Using the same formula for local markets where GoodNews operates show a potential size per year in CAD of:

- Toronto: \$65 million
- Vancouver: \$35 million
- Calgary: \$28 million
- Edmonton: \$19 million

(See Appendix E for a complete list of local markets and their estimated yearly revenues.)

The potential market size in each local market will vary with the length of each deal (this paper assumed each deal ran for three days), and the number of qualified merchants. Qualification is based on three factors:

- *Sector*: Includes only those small businesses in service-based industries. These businesses represent 77% of all Canadian small businesses (Industry Canada, 2010, “How many businesses are there in Canada?”);
- *Type*: Includes only those businesses that belong to the following service categories: Retail Trade, Other Services, Accommodation and Food Services, Arts, Entertainment and Recreation, and Educational Services. These categories represent approximately 34% of all service-based small businesses (Author, 2011);
- *Suitability*: Includes the (weighted average) proportion of the total number of merchants that wish to advertise a daily deal that a daily deal firm accepts. This acceptance rate is estimated as 31.25% based on Groupon’s rate of 12.5% (Steiner, 2011) and GoodNews’ rate of 50% (Author, 2011).

Table 8 shows that approximately 7.8% of all businesses in Canada are eligible for a daily deal.

*Table 8: Estimated Number of Canadian Merchants that Qualify for a Daily Deal*

Total number of merchants	2,379,798
Percentage of those that are "small" businesses	94.5
Percentage of those that are in the correct Sector	77
Percentage of those that are the correct Type	34
Percentage of those that are Suitable	31.25
<b>Total number of eligible merchants</b>	<b>185,741</b>

*Source: (Industry Canada, 2010; Author, 2011).*

### 3.4 Market Growth Rate

This daily deal industry in local markets in Canada is very new and in the early stages of development - the first firm entered the market in October 2009 (SnapHalifax, 2010). Historical annual sales data for any local market in Canada are difficult to find and this makes it difficult to

predict the future direction and rate of change of sales revenue in this industry. This paper compared estimated sales revenue from two three-day periods in the same local markets to estimate the future growth rate in each local market<sup>5</sup>. Comparing data from the same market removes expansion as possible reason for increased sales revenue.

Total revenue from all local markets declined from \$2.3 million in revenue to \$1.9 million (a change of -14.8%) over the period of February 11, 2011 to March 13, 2011. Month-to-month sales revenue in GoodNews' local markets also declined:

- Toronto: -9.3%
- Vancouver: -45.5%
- Calgary: -24.2%
- Edmonton: -19.4%

Revenue growth in some markets was positive. For example, firm revenues in Ottawa increased 242% and in Windsor by 180%. (See Appendix D for a list of growth rates in local markets in Canada.)

While based on only two short periods and unadjusted for seasonal effects, the data from local markets in Canada contradicts estimates on US market growth. US research firm Needham and Company estimates the US daily deal industry revenue will increase from \$858 million USD in 2010 to \$1.9 billion in 2011 (Daily Deal Media, 2011). The difference in revenue projections is likely due to the aggressive expansion of US daily deal firms into new US local markets. Due to shrinking revenues in existing markets firms will need to grow by expanding into new local markets in Canada.

### **3.5 Market Structure**

Competition in the daily deal industry occurs at a very local level. Firms compete successfully if they are only in one local market such as Kahoot (Kahoot.ca, 2011) in Ottawa, or many local markets within a region, such as WagJag in Ontario. The market structure in Toronto, Vancouver, Calgary, and Edmonton is oligopolistic because the total market share held by the four largest firms in the industry is between 75.0-92.1%<sup>6</sup>. Table 9 summarizes the four-firm

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<sup>5</sup> The author estimated revenue for almost all firms in each local market by multiplying the deal price by quantity sold to consumers (excluded firms that did not publish their quantity sold). The author compared revenues for two periods: March 11-13, 2011, and February 11-13, 2011 in each local market.

<sup>6</sup> The author based market share on revenue estimations. Note: Market shares can vary significantly from day to day. (Author, 2011).

concentration ratios, the top four firms, and the estimated market sizes of GoodNews' four local markets. Figures 8 through 11 show the market shares of each firm in Toronto, Vancouver, Calgary, and Edmonton.

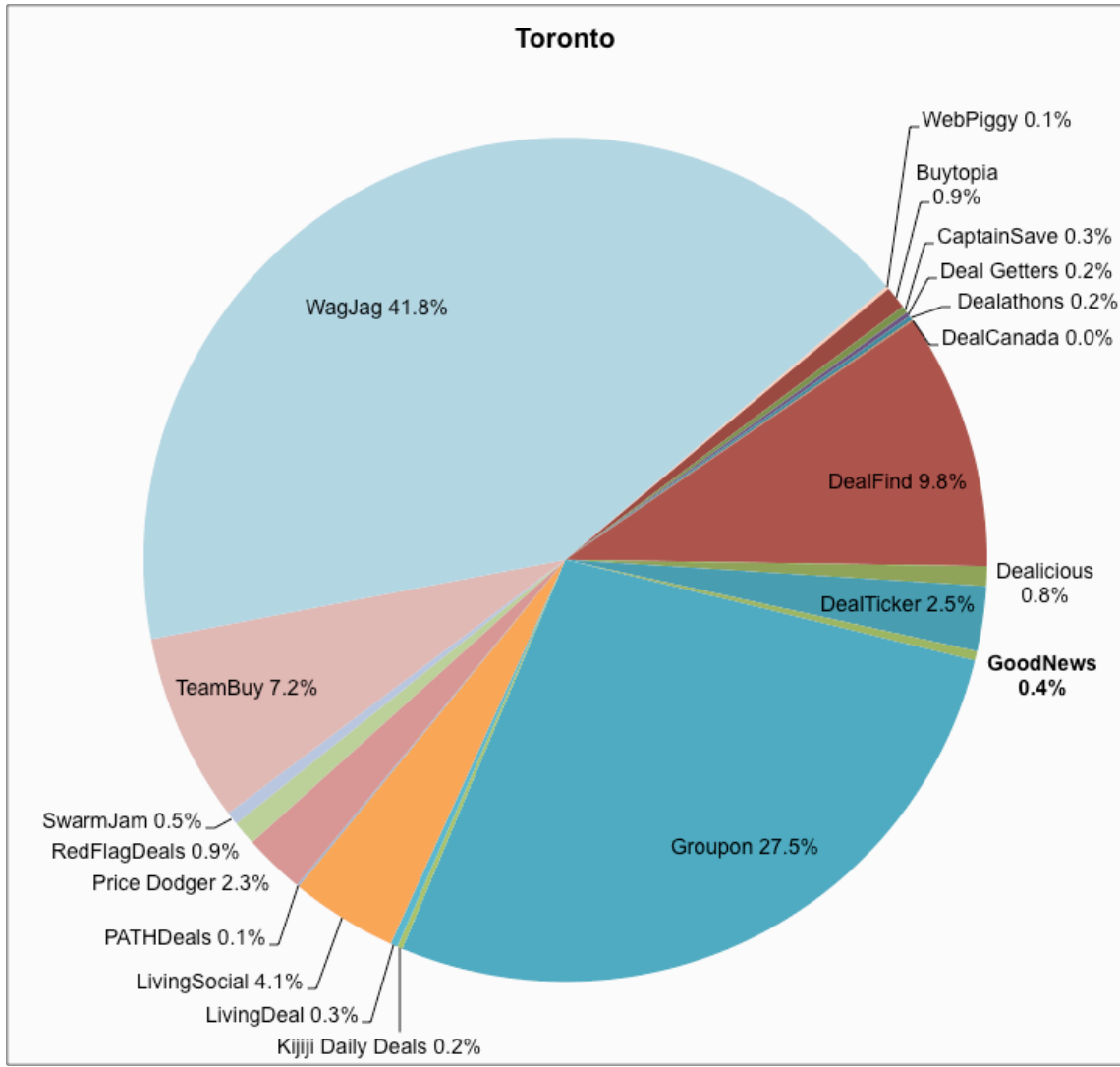
*Table 9: Market Size and Firm Concentration Ratio in GoodNews' Local Markets*

<b>Local Market</b>	<b>Market Size (CAD / Year)</b>	<b>Four-Firm Concentration Ratio</b>	<b>Top Four Firms (Market Share %)</b>
Toronto	\$65 million	86.3%	WagJag (41.8) Groupon (27.5) Dealfind (9.8) TeamBuy (7.2)
Vancouver	\$35 million	75.0%	Groupon (38.7) Dealfind (12.8) LivingSocial (12.8) SwarmJam (10.7)
Calgary	\$28 million	92.1%	Groupon (38.0) Dealfind (26.0) LivingSocial (17.1) WagJag (11.0)
Edmonton	\$19 million	85.4%	Groupon (28.1) WagJag (25.7) Dealfind (22.1) LivingSocial (9.5)

*Source: (Author, 2011).*

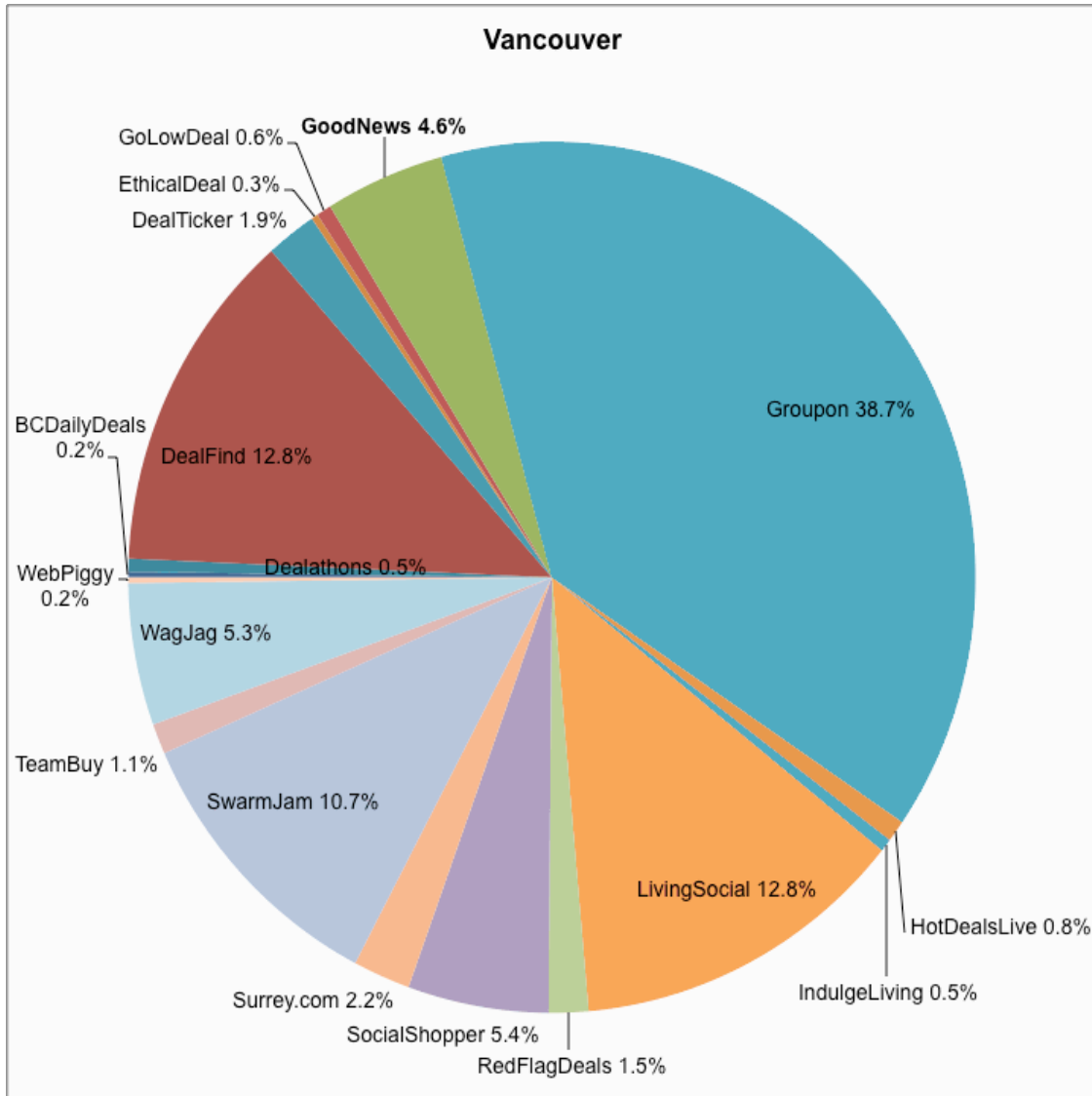


Figure 8: Market Shares by Total Consumer Purchases in Toronto



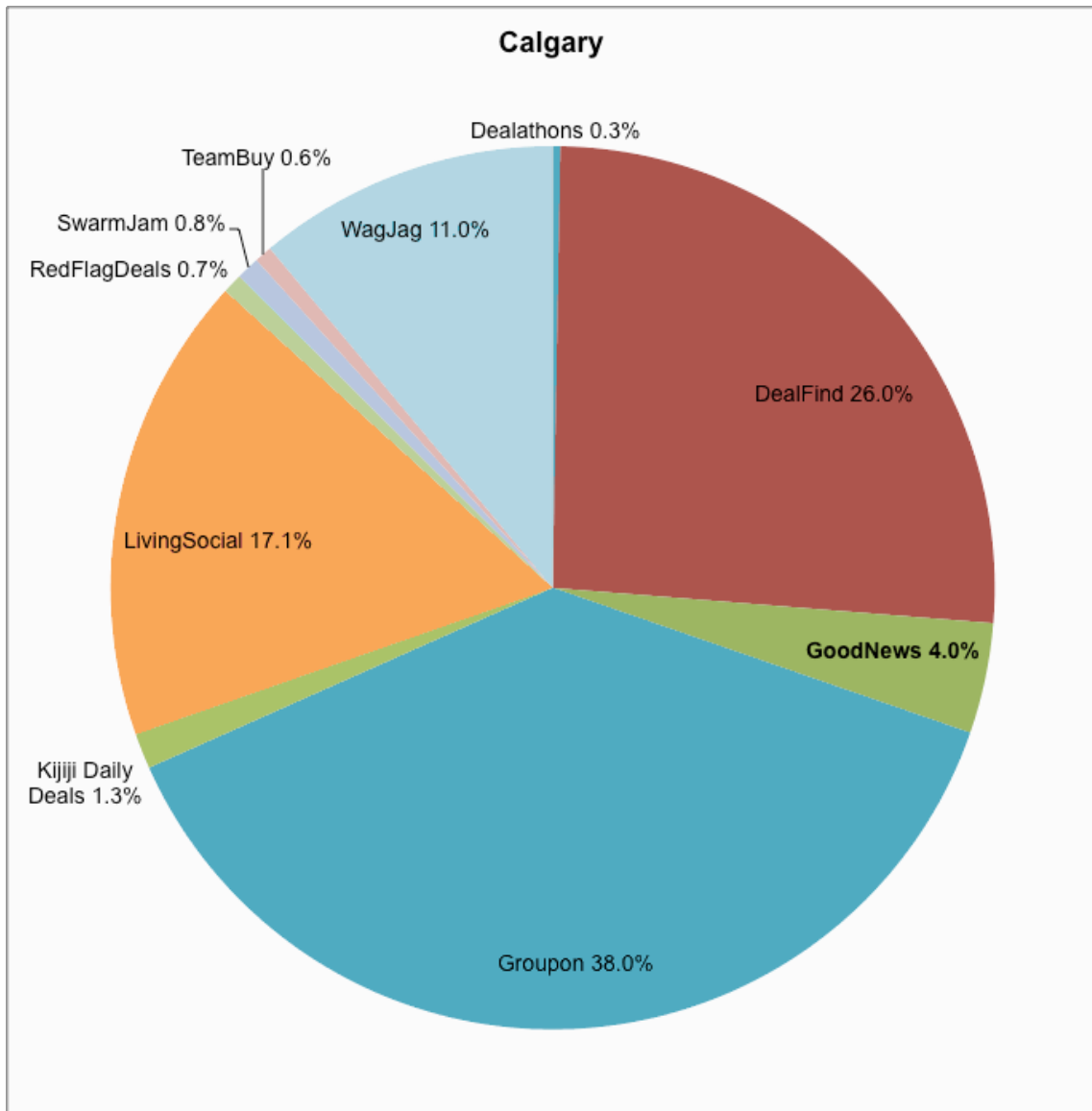
Source: (Author, 2011).

Figure 9: Market Shares by Total Consumer Purchases in Vancouver



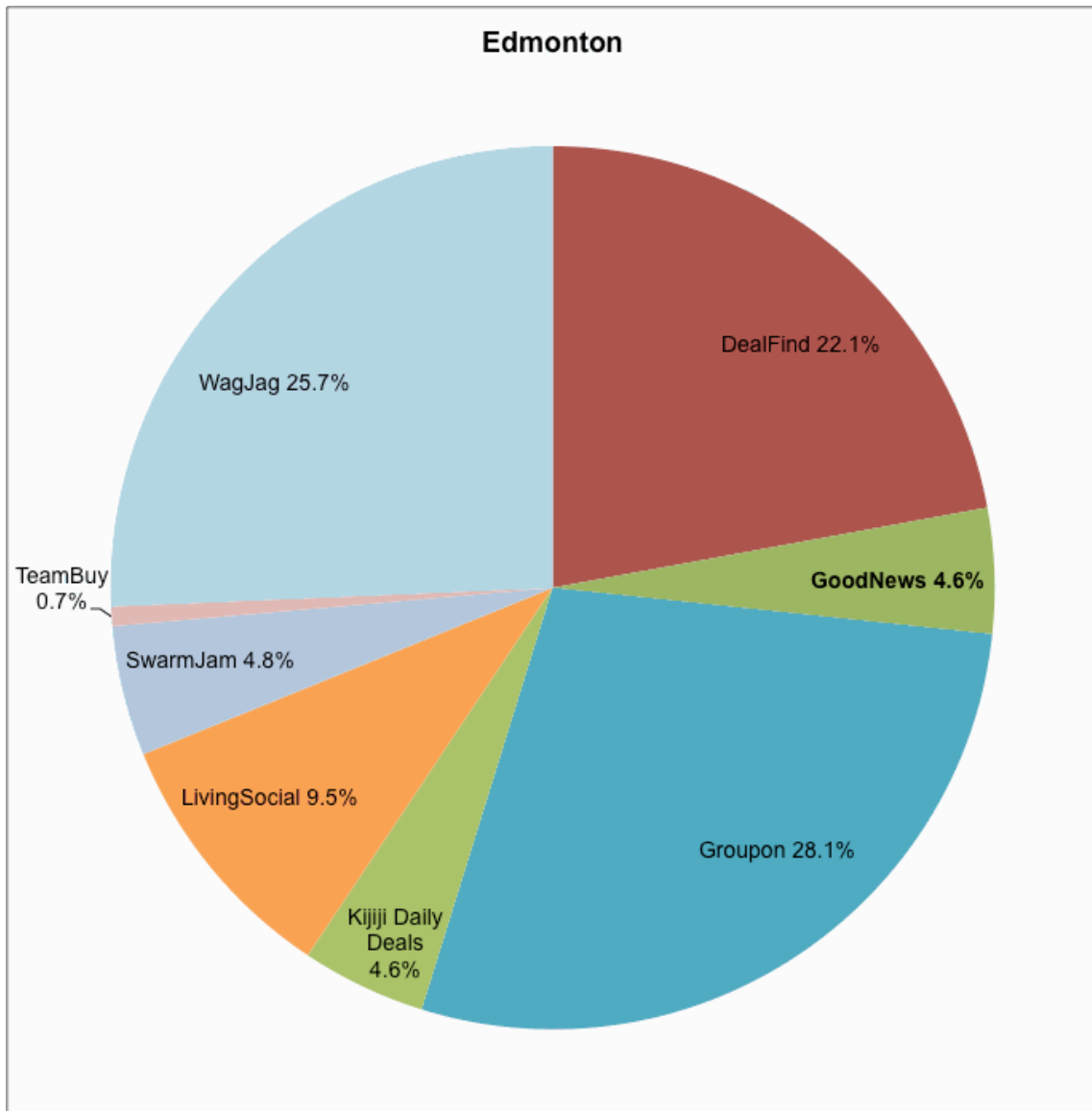
Source: (Author, 2011).

Figure 10: Market Shares by Total Consumer Purchases in Calgary



Source: (Author, 2011).

Figure 11: Market Shares by Total Consumer Purchases in Edmonton



Source: (Author, 2011).

The four-firm concentration ratio in other local markets across Canada is high (80% and above). Some local markets are a monopoly. (See Appendix E for a list of local markets, their market size, four-firm concentration ratios, and top four firms.)

### 3.6 Porter 5-Forces Industry Analysis

This is an analysis of Michael Porter's five competitive forces (Porter, 1980) that determine the competitive intensity and profitability of daily deal firms operating in local markets

across Canada. These forces are threat of new entrants, the intensity of competitive rivalry within the industry, the threat of substitutes (potential competitors), bargaining power of buyers, bargaining power of suppliers, and bargaining power of complementors. This section also analyses legal issues and their threat to market profitability.

### 3.6.1 Threat of Entry (“moderate and increasing”)

Daily deal firms in Canada increased 8-fold between 2009 and 2010 (see Table 10). A simple business model and weak network effects due to low switching costs appear to make it easy and straightforward for almost any firm to enter the market, but high upfront advertising and sales costs as well as a threat from patent infringement mean that the threat of entry is restricted to large firms that can afford to compete.

Table 10: Growth of Daily Deal Firms in Local Canadian Markets

Date	Number of Firms
2009	4
2010	34
Q1 2011	36

Source: (Author, 2011). (See Appendix F for a list of launch dates of firms in local markets in Canada.)

*Switching costs:* Network effects do not present a significant barrier to entry because both consumers and merchants can easily switch between firms. Consumers set up accounts with firms for free and with very little time investment. Consumers will effectively switch to whichever firm offers them the best deal that is within their local market and suited to their taste and budget. The idea that consumers value a firm with a large network of consumers because it increases their chance that a deal reaches its minimum is flawed, because in effect these minimums are typically so low that almost all deals activate. Merchants will value a firm with a large consumer base because it means more revenue and more exposure. But there is neither cost nor drawback for a merchant to run a daily deal with more than the one firm.

*Upfront advertising costs:* These costs are so large that they create scale economies that act as an entry barrier. Firms must spend to advertise to make consumers aware of their service. Awareness is key to growing a consumer base to the point at which there are enough consumers who purchase deals to make the deal profitable. Even after that point, significant spending on

advertising is necessary to maintain a base of consumers, since switching costs for consumers are low. The more firms that use an identical type of advertising, such as key word ads on Google or demographically targeted ads on Facebook, the more costly it becomes to advertise on these networks. Firms that were first to market also have an experience advantage because these firms have had more time to refine their financial model and determine the best way to attract new consumers. The threat from new entrants is low unless they can enter and spend at the same scale or more than large incumbents.

*Sales costs:* The cost of building and maintaining a sales force also creates scale economies that act as a barrier to entry. Firms require a sales force to develop contacts with local merchants in order to negotiate deal offers. Anytime a firm enters a new market it must hire a sales force. Because the cost of sales varies proportionally with the number of local markets, a large firm with a large network of established merchant contacts can lower its sales costs over the long term by leveraging its existing contacts to re-run deals from those merchants. Most successful entrants have been those with scope economies due to pre-existing sales forces. There is little threat from new entrants unless they can enter with an existing sales force or can spend the same or more as large incumbents have on establishing a sales force.

*Intellectual property:* Patent rights mean that a patent holder may at anytime decide to enforce them as a means to restrict competition. Tippr, a US online coupon platform firm, owns patents for business methods related to daily deals (Gannes, 2010). All daily deal firms in Canada are open to lawsuits if they unlawfully use a patented method. Tippr will most likely enforce its rights if a competitor is using the business method named in the patent without permission or if a new entrant's profitability increases to the detriment of the patent holder. On February 24, 2011, Tippr filed a patent infringement suit against two US firms, BuyWithMe and DealOn (Duryee, 2010). The threat of a lawsuit is a barrier to entry unless those firms can afford the cost of a legal dispute or afford to pay licensing fees to a patent holder.

*Potential competitors:* The main threat to entry in this market is not from new start up entrants, but from well-capitalized potential competitors from other industries that can build an online coupon platform, have equal or better brand equity, have an equal or larger consumer base, and have a sales force with contacts to local merchants. Large firms like Facebook, Google, Yelp, Microsoft, Virgin, eBay can potentially build an online coupon platform and offer merchants the same pay-for-performance model but at a lower cost. Facebook stated they would expand on their self-service option (Facebook Deals) and offer a daily deal (Stambor, 2011); Yelp is testing daily

deals in two US locations (Van Grove, 2010); Virgin has also publicly hinted at the possibility of entering this market (Bradshaw, 2011).

In summary, the threat of entry is increasing because of low switching costs and because well-capitalized potential competitors do not face any significant barriers to entry related to cost or intellectual property.

### **3.6.2 The Intensity of Competitive Rivalry (“moderate and increasing”)**

The current market structure in local markets with more than 800,000 residents is oligopolistic with a competitive fringe. Markets with less than 600,000 residents are mostly a duopoly or a monopoly. Dealfind, Groupon, LivingSocial, and WagJag own the largest share of the market in predominantly English-speaking markets (see Appendix E). Tuango dominates Montreal and Quebec City because Quebec’s French language and unique business rules deter English-speaking firms from entering.

*Brand Equity and Size:* Firms with a larger base of consumers can offer a merchant better advertising exposure and revenue possibilities and in turn demand a premium commission. Brand equity confers credibility on a firm, which means merchants are more likely to trust the firm to bring them customers, to stay in business long enough to collect their remittance, and are willing to pay a higher commission. These are two reasons why Groupon can charge a merchant 50% commission on a deal in Vancouver but other firms can only charge between 10 and 40%. Firms must manage their reputation carefully to avoid controversy that can jeopardize their revenues by reducing their consumer base or lowering demand from merchants (Kincaid, 2011).

While there is no evidence of tacit collusion in this market, the largest firms have mostly avoided price competition.

*Raising switching costs:* Merchants are generally better off running deals with different daily deal firms as a way to acquire new consumers. In response, firms are increasing merchant switching costs by making the data a firm collects about a merchant’s consumers not portable between firms, by providing better customer service and support (working with merchants to design more profitable deals), and by signing merchants to exclusive long-term contracts. This tends to decrease rivalry.

Consumer switching costs are currently low because the cost for a consumer to set up an account with a competitor firm is zero. Firms must subsidize the consumer side of their two-sided market since consumers are more price-sensitive than merchants, so this is unlikely to change.

However, firms are raising consumers switching costs in three ways. First, they are personalizing deals to a consumers' tastes ("Groupon Anxiety", 2011). Second, they are creating loyalty incentives like referrals and rewards. Third, they are continuing to develop their platforms to take advantage of consumer trends like the growth in e-commerce over mobile devices.

In summary, rivalry is increasing because the number of competitors is increasing, consumers' switching costs will most likely remain low, and firms' products are undifferentiated.

### **3.6.3 Threat from Substitutes ("moderate and increasing")**

Offline broadcast media like newspapers, flyers, and coupon books, as well as online classified advertising and specialty blogs do not pose a threat because their advertising models are not based on pay-for-performance, and cannot provide merchants with demographic data about their consumers. Other substitutes do not pose a threat because a merchant's own website requires a merchant to have technical expertise and to somehow make consumers aware of their service. Self-service options from Facebook, Google, and Groupon require merchants to be comfortable with technology and marketing.

Threats to profitability will most likely arise from innovative companies with the capacity to reward potential consumers in an instantaneous manner, and to connect them to merchants that are literally down the street from the consumer's current location and who are ready to make a deal immediately. One example of an innovative application that represents a possible future substitute to current daily deal platforms is location-based mobile gaming application called Foursquare. According to Foursquare's website:

Foursquare is a location-based mobile platform that makes cities easier to use and more interesting to explore. By "checking in" via a smartphone app or SMS, users share their location with friends while collecting points and virtual badges. ... Merchants and brands leverage the Foursquare platform by utilizing a wide set of tools to obtain, engage, and retain customers and audiences. (Foursquare.com, 2011)

The potential threat to incumbents is that a that a merchant uses Foursquare's application to deliver daily deals to consumers' mobile phones as well as to provide incentives like "points" (and possible further discounts) for those consumers to return on a more regular basis (Gannes, 2010). The consumer loyalty and retention possibilities of Foursquare will appeal to merchants if it will result in a better conversion of new consumers to repeat consumers.

In summary, the threat of rivalry is increasing due to the likelihood of new types of firms and technologies that can connect deal-seeking consumers with merchants.



#### **3.6.4 Bargaining Power of Buyers (“none”)**

Merchants are distinct, separable, independent, and there is no single merchant that is large enough to negotiate a lower commission on each deal sold.

#### **3.6.5 Bargaining Power of Suppliers (“none”)**

There are no important suppliers in the daily deal industry.

#### **3.6.6 Bargaining Power of Complementors (“low and stable”)**

Success in this industry requires acquiring consumers through complementary firms like affiliates, aggregators, and advertising networks. Firms that rely on these types of advertisers for consumer acquisition are vulnerable to these advertisers increasing the price of consumer acquisition, especially if firms are making above average accounting profits (rents). The threat from complementors remains low and stable because advertisers’ business model is entirely dependent on affiliate revenue from daily deal firms. For this reason, and so advertisers are unlikely to jeopardize their only source of revenue through price increases.

#### **3.6.7 Legal Issues (“low and stable”)**

*Class Action Lawsuits:* Consumers have filed three class action lawsuits against daily deal firms in the US (one against Groupon in 2010 and 2011 and one against LivingSocial in 2011) all alleging that daily deals “constitute gift certificates and that the expiration date on these deals violate federal and state laws” (Gonzalo, 2011). The suit against Groupon in 2010 was dismissed (“Groupon responds to class action lawsuit with own class action effort”, 2010) because Groupon was already compliant with laws on expiry dates. The outcomes of the latest lawsuits are still undetermined. Similar laws concerning gift cards exist in Canada. Deal vouchers would likely constitute a gift card given that they combine pre-payment with an expiration date (Bennett, Anastas, 2009). Provincial gift card legislation prohibits expiry dates on gift cards in all provinces except B.C., Ontario, and New Brunswick. The author is unsure of the appetite of Canadian consumers for class-action lawsuits. The threat to profitability in markets where expiry dates are prohibited is unknown because the possibility of a class action lawsuit against firms is unknown.

*Data Privacy:* Canada’s privacy laws set out the requirements organizations must follow when collecting personal information. Names, addresses, and email addresses are considered “personal information” under privacy laws. In general, Canadian legislation states that firms are

obliged to explain how personal information may be used, to obtain consent from the individual whose personal information is being collected, and to not use the information for any purpose other than as disclosed to the individual. Most firms do this by means of a “Privacy Policy” page on their website. The threat and impact of inadequate protection of consumers’ personal data on industry profitability is low. This is because individual firms control this data, so affected consumers would be less likely to purchase deals from that firm, but not from all firms in a local market.

*Exclusive Contracts:* Certain daily deal firms enter into exclusive contracts with merchants. Specifically, the firm offers the merchant favourable terms in exchange for their agreement to deal only with the firm for a period of time. The extent and regularity of this practice is unknown and difficult to ascertain. A firm may apply to the Competition Tribunal for an order prohibiting a major supplier of a product or service from engaging in exclusive dealing. For a firm to be caught under this section of the Act, the following conditions must be met:

- The firm makes a practice of exclusive dealing (i.e. it is not an isolated event);
- The firm is a major supplier of a product or service in a market (i.e. has a greater than 35% market share), or the practice is widespread in a market;
- The exclusive dealing is likely to impede entry or expansion of a firm or a product into a market or have other exclusionary effects; and
- The practice has substantially lessened competition, or is likely to do so.

The threat to the daily deal industry profitability from exclusivity contracts is low given that it is unlikely for a plaintiff to be able to prove all of the above conditions.

The threat to the current and future daily deal industry profitability from legal issues is low and stable due to the unknown impact of patent suits, the inability for a firm to prove exclusive dealing, and the negligible impact inadequate protection of consumers’ personal data would have on the industry.

### **3.7 Key Success Factors**

The key success factors in this industry are a sales force with existing contacts to local merchants and capital.

*Sales force:* Firms in any local market can raise revenue by finding and selling more daily deals in one or more local markets. This requires a sales force with contacts to local merchants. Sales labour costs increase proportionally with the number of deals so firms may have

a labour force already (YellowPages), attempt to acquire one (Google offers \$6B for Groupon), partner with one (Amazon invested in LivingSocial), or grow their own (like Groupon). Firms with an existing sales force like YellowPages (RedFlagDeals), Post Media (SwarmJam), and TorStar Digital (WagJag) have been able enter local Canadian markets and scale up more quickly than other competitors by virtue of their existing contacts with local merchants (Powell, 2010).

*Capital:* Firms need capital or access to capital to fund upfront advertising costs necessary to make consumers aware of a firm's service so consumers sign up to their platform and purchase deals. Capital lets firms attract consumers by paying for consumers through acquisitions, advertising, affiliate marketing, or referral and incentive programs. Capital is also necessary to fund innovation through R&D or acquisition. For those firms that choose to grow their own sales force, capital is necessary to hire a sales force in each local market where they operate.

## **4: Internal Analysis**

### **4.1 Introduction and Purpose**

This chapter provides an internal analysis of GoodNews. The purpose is to identify GoodNews' strengths and weaknesses and determine if the company has a source of sustainable competitive advantage that will allow it to earn an above average rate of accounting profits (rents), now and in the future.

### **4.2 Key Success Factors Assessment**

*Sales force:* 777Media has does not have a sales force with contacts to local merchants in any local market. Of the company's other businesses (Reinvent, The BlackFriday Network, and Vertical Axis) only Reinvent and Vertical Axis employ a sales force for online domain name transactions. Prior to October 2010, GoodNews had no executive sales staff nor did any of its other executive staff have experience in sales or marketing. Hiring and retaining sales staff has been difficult. The rate of turnover of sales staff is approximately 50%. In three instances, a newly hired sales person has resigned within three weeks of being hired. This has significantly driven up the cost of hiring. GoodNews has two-person sales teams in each local market where it operates. There is no reliable source of data on the size of sales teams at rival firms in each local market. A contact of GoodNews' VP Sales reported Groupon employed seven sales staff in Ottawa (population of 860,000). GoodNews has two sales staff in Edmonton (population 862,544). Compared to Groupon, GoodNews is lightly staffed in a market of comparable size. Given its much smaller revenues it cannot take advantage of scale economies in sales.

*Capital:* 777Media's owner is GoodNews' primary source of capital. The owner has access to outside sources of capital but has so far has not chosen not to use them for GoodNews. This is most likely because he wishes to remain debt-free and to retain complete ownership and control of the firm. The owner has spent an estimated \$4.5 million CAD to fund GoodNews' operations. In comparison, Groupon has raised over \$1 billion USD and LivingSocial \$219 million USD (Daily Deal Media, 2011). In order to raise more capital Groupon is considering an IPO and has been assessed a value of up to \$25 billion (MacMillan, 2011).

GoodNews attempted to lower its advertising costs (and therefore consumer acquisition costs) by partnering with 777Media's other businesses The BlackFriday Network and Reinvent's domain network. In November 2010 GoodNews advertised for its local services on BlackFriday.com. One in every three consumers who created an account with BlackFriday.com also signed up to GoodNews.com. A further examination of the data however revealed that 99% of those consumers were based in US local markets. This data also indicates that the majority of consumers who signed up to the BlackFriday.com daily newsletter were interested in goods from national retailers rather than services from local retailers. GoodNews also placed advertisements on some of Reinvent's domain names. However, this has proven to be an inadequate substitute for paid consumer acquisition on other online networks (Google, Facebook) because it has not resulted in a comparable number of consumer signups (see Table 3: Summary of Consumer Acquisition Costs and their Sources). GoodNews concluded that visitors to these domains were interested in something related to the domain name (such as HDTVs on www.hdtv.com) and not looking for daily deals.

GoodNews' lack of capital, sales experience, and the small size of its sales team compared to the estimated size of Groupon's sales team puts it in a weak position in this industry.

## **4.3 Sources of Competitive Advantage**

### **4.3.1 Culture**

Employees cite GoodNews' culture as being a key item that attracted them to the company. GoodNews is focused on finding and retaining employees who want to be a part of a successful company, who want to define their responsibilities, and who are motivated by giving to charitable causes. The culture at GoodNews is a reason for employee turnover of less than 10% (in all departments except sales). There is no data available on turnover rates for GoodNews' rivals, or the industry average rate, so it is not possible to assert that low turnover is a source of sustainable competitive advantage.

### **4.3.2 Product Development Capabilities**

GoodNews employs a team of ten technical staff that make up the product development team: four software programmers, one quality assurance tester, two designers, a product manager, a project manager, and a web analytics analyst. This team uses a rapid and reliable software development and delivery process that has allowed the firm to match 83% of the functionality of

its rivals' platforms within nine months. (See Appendix G for a feature comparison between GoodNews.com and rivals' platforms.) Although the product development team creates value for GoodNews' consumers and merchants, it does not represent a source of competitive advantage because other firms have been able to build and develop similar functionality in a similar timeframe. It has not increased merchant willingness to pay relative to rivals. For example, a Dairy Queen franchise in Vancouver required GoodNews to be able to offer consumers a choice between two deal options from the same merchant so GoodNews implemented this feature. However, the same franchise ran a deal with WagJag even though WagJag does not offer this feature. It is not clear whether the product development team has decreased costs relative to rivals since data on rivals' costs are not available.

### **4.3.3 Strategic Partnerships with Charities**

GoodNews has raised approximately \$50,000 CAD for charities across its local markets. GoodNews partnership with charities has earned the company praise from consumers, merchants, and charities, although there is no evidence it increases willingness to pay versus rivals. According to testimonials from merchants that used GoodNews, charitable giving has little impact on their decision to use the firm as a marketing and advertising channel (GoodNews.com, 2011). This type of partnership is also easy for rivals to imitate. Groupon, LivingSocial, WagJag, and Deal-A-Thons.com have struck the same type of partnerships. Charities have little incentive to strike an exclusive partnership with one firm because the more firms they list with, the more revenue they can earn.

In summary, GoodNews has no sources of competitive advantage relative to its rivals.

## **4.4 Corporate Strategy**

GoodNews' corporate strategy is first, to provide local merchants in four local markets in Canada with a measurable way to reach local consumers through pay-for-performance marketing and online advertising in the form of a daily deal, and second, to provide donations to local charitable causes in those markets.

## **4.5 Competitive Strategy**

GoodNews' current strategy is imitation with differentiation by our charitable aims. Its position statement (Silk, 2006) may be summed up as:

GoodNews **is** the best online advertising tool for your small business **among all** daily deal firms in Toronto, Vancouver, Edmonton, and Calgary **because** your business will earn new customers and help contribute to a local charitable cause which shows that you are supporting your local community.

The firm's imitation strategy means it competes by copying aspects of the leading online coupon platform firms into GoodNews.com. This includes their business model, their platform's functionality and style, their advertising strategy, their types of daily deals, as well as their local markets. This strategy (or lack thereof) has not led to any competitive advantage because it has neither increased merchant willingness to pay for GoodNews' services nor has it lead to cost decreases at the firm, relative to key rivals.

## **4.6 Possible Improvements to Current Strategies**

Possible changes to the current strategies that might improve performance are analysed below.

### **Changes to Corporate Strategy:**

#### **Geography**

Various non-academic sources estimate that consumers spend up to 80% of their discretionary income on goods and services within 0 to 15 kilometres of their home (Google Answers, 2003). Relying on this data, a firm's most profitable strategy is to sell a deal to local consumers from a merchant within that area. This requires a firm to know the location of its consumers and potential consumers. GoodNews only collects location data (postal codes) from consumers who made a purchase. This tells GoodNews the location of consumers who bought but not the location of consumers who might buy. This is significant, because of all the consumers signed up to GoodNews an average of only 0.5-1.5% of those actually purchase each daily deal. Knowing where the potential buyers are is key to knowing which merchants to target. GoodNews believes its poor sales in Toronto were due to selling deals in the downtown core while its consumer base may have been in the suburbs. Over the same time 12-day time period in February 2011, GoodNews sold approximately \$7,000 CAD worth of deals in Toronto (population 5 million) versus \$23,000 CAD worth of deals in Calgary (population 1 million). As a result GoodNews should begin collecting postal codes from consumers at the time they create an account.

GoodNews should consider smaller local markets that are less competitive. There are underserved or unserved local markets like small towns in B.C. or medium-sized towns in

Quebec or Eastern Canada. Quebec is a slim possibility because GoodNews' Eastern Regional Sales Manager is a native French speaker based in Montreal. Nonetheless, it would require time and money to better understand Quebec's unique business laws. GoodNews could be a first-mover into an English-speaking market like Prince George or Thunder Bay and benefit from being a monopoly and cheaper advertising costs (word-of-mouth). But the firm must consider that other firms (Kijiji Deals, Black Press, WagJag, SwarmJam) have already made credible commitments to entering smaller local markets, and they may already have sales staff in those markets.

### **Strategic Partnerships**

*Aggregators:* Aggregators provide firms with a means of low-cost brand exposure and paid consumer acquisition. GoodNews chooses not to pay aggregators for affiliate marketing, nor to pay aggregators for listing placement. This is because those aggregators are already listing GoodNews' deals for free, and they are the source for only 3% of GoodNews' consumers that purchase a deal (compared to 75% of consumers that purchase through the email newsletter).

*Firm looking for an online coupon platform:* GoodNews has considered partnering with a firm that has the key success factors to compete in this industry and which requires an online coupon platform. The reality is that these firms have the resources and capabilities of building their own or could use a white label<sup>7</sup> platform with most of the functionality of GoodNews.com. (See Appendix G for a feature comparison between GoodNews.com and rivals' platforms.)

### **Changes to Competitive Strategy:**

#### **Merchants**

A Rice University study of merchants that had used Groupon found that profitability of a deal was primarily driven by employee satisfaction and effectiveness in reaching new consumers. The study concluded that merchants should treat daily deal consumers in a way that encourages them to become repeat visitors who pay full price. They also need to generate additional sales above the price of the deal, in order to compensate for the steep discount (Dholakia, 2010). An analysis by Yipit.com concluded that profitability is correlated with how much consumers spent over and above the price of the deal, and with the deal's effectiveness in reaching new consumers (Moran, 2011).

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<sup>7</sup> A daily deal platform built by one firm that other firms rebrand to make it appear as if the platform is theirs.



These studies indicate that firms can improve their service by better preparing merchants and their employees for post-deal redemption rushes<sup>8</sup>, by providing merchants with training on upselling, and by providing better redemption tracking tools to help merchants gather better data about their consumers so they can adjust their marketing accordingly. GoodNews does not currently offer these kinds of tools, nor does the firm currently have enough sales and marketing expertise to offer these types of services.

Groupon has begun asking some of their merchants to sign exclusive contracts for as long as two years. This strategy raises merchant switching costs, and lowers Groupon's sales costs. GoodNews does not ask for long-term contracts because it sees this as an unnecessary interference in merchant business affairs.

### **Product Types**

GoodNews sells similar a product (a deal on local services) to all consumers. Selling deals on goods rather than services is not an option for GoodNews because any provider of discount goods can be easily outcompeted by large retailers like Wal-Mart or Amazon that can use their size to negotiate better discounts on those goods. Mercata.com was an online platform launched in May 1999 that "let consumers band together to get discounts on items by purchasing them in bulk." (Sandoval, Kawamoto, 2001). Mercata filed for bankruptcy in January 2001 and their failure has been attributed to selling physical products that offered no better discount than retailers (Cook, 2001).

GoodNews advertises deal categories (merchant services) that are the same as its competitors: general services that Canadians enjoy for pleasure or companionship, on which they spend roughly 10% of their disposable incomes (Statistics Canada, 2006). (See Appendix H for data on how Canadians spend their money.)

There are unserved or underserved service sectors that could offer a daily deal, like construction, accounting, scientific and technical services, legal services, pets, alcohol, and adult entertainment. Firms could segment unserved or underserved consumer niches by community (ethnic), religion, gender (male-only), income (wealthier individuals that are not as price-conscious but are looking for the next great thing or experience), family makeup (families with children), and children (teenagers).

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<sup>8</sup> 22% of consumers redeem their deals in the first month, 18% in the month the deal expires (DealfindBusiness.com, 2011).

Niche specification is not, however, a possible strategy because of multi-product economies. Regardless of product, costs to operate a platform remain the same and firms do not hold inventory, so it is cheaper to offer a broad scope of products and spread costs over those products. Large firms can already diversify their services to meet the needs of niche markets: LivingSocial now offers a family edition of deals and recently offered a \$10,000 USD travel deal that sold out at 41 deals (LivingSocial.com, 2011).

### **Consumers**

Firms use incentive programs as a way to raise consumer's switching costs. GoodNews, Groupon and WagJag all offer money off a consumer's next purchase if they refer a friend and their friend makes a purchase. LivingSocial reduces the price of the deal to zero if a consumer recruits three friends to purchase the same deal. Dealfind pays consumers up to 40% of the list price of deal if they recruit another consumer to buy the deal. GoodNews could explore other means of raising consumers' switching costs such as:

- Subsidizing the price of a deal by \$1 if a consumer "Likes" the deal on Facebook (their purchase is broadcast to their Facebook friends via their Facebook Wall);
- Popularity: setting the price based on the number of Facebook and Twitter followers the consumer has (Daily Deal Media, 2010);
- Exclusivity: rewarding consumers with exclusive deals based on a metric;
- Loyalty: lowering the deal price based on a metric like total number of purchases; and
- Early-bird advantage: reducing the deal price for consumers that purchase the deal before the deal reaches the minimum number of purchases.

### **Innovation**

The growth of mobile smart phone usage likely means that more firms will start developing technology and business methods to deliver "instant local" deals based on a user's current location. The use of mobile devices to conduct commercial activities among US daily deal sites most popular demographic (18-34 year olds) has almost doubled since the last quarter of 2010 – from 23% to 41% – and 19% of those users use their mobile device to search for deals ("Consumer Shopping Experiences, Preferences, and Behaviors", 2010). Facebook has already made a credible commitment to this type of deal with Facebook Deals, and Groupon has partnered with a firm that specializes in delivering location-based deals ("ShopSavvy Teams with Groupon to Stream Targeted Deals to Mobile Consumers", 2011). Similarly, LivingSocial

launched an “Instant Deals” test pilot in Washington DC (“LivingSocial Adds Real-Time Offerings To Mobile App Roster”, 2011). Mobile deals may result in deals with more flexible or tighter time-limitations. For example, if a merchant’s restaurant is slow on any given night, the merchant could use an “instant deal” to offer a limited quantity of food or drink within in the next two hours to consumers in the same local area. GoodNews has the technical capability to develop mobile applications for its service, or it could partner with a third-party provider.

## 4.7 Financial Analysis

Below are two tables, which indicate that GoodNews’ will show a loss of \$2.1 million CDN in operating income in 2011. The Projected Statement of Income does not include Toronto because GoodNews stopped selling deals there on March 3, 2011.

Table 11: Daily Revenue for Feb 2011 (CAD)

Local Market	Daily Revenue
Vancouver	\$1,458
Calgary	\$1,905
Edmonton	\$2,155.37
Toronto	\$515.77
<b>Total</b>	<b>\$6,035</b>

Source: (Author, based on internal GoodNews data, 2011).

Table 12: Projected Statement of Income 2011 based on Daily Revenues (CAD)

Projected Statement of Income 2011	
\$5,519.00	Daily revenue (excludes Toronto)
365	Days in a year
\$2,014,374.04	Estimated revenue in 2011
35%	Less commission
4%	Less charitable donations
\$676,829.68	Estimated net revenue
\$1,920,000.00	Estimated labour costs
\$867,600.00	Advertising expenses
<b>(\$2,110,770.32)</b>	<b>Operating income (EBIT)</b>

Source: (Author, based on internal GoodNews data, 2011).

An internal analysis of GoodNews' current operating costs and revenue for its three local markets projected that the company would only be profitable in three years time (all things being equal). This estimate makes the unrealistic assumption that the firm and the market remain unchanged. There is little opportunity for staff reductions. Sales and customer service staff are critical to sourcing deals and providing support to both merchants and consumers. Additionally, the owner sees building and retaining a pool of talent in marketing and product development as essential even if it means cross-subsidizing GoodNews from other businesses in 777Media.

## **5: Fulcrum Analysis**

### **5.1 Situational Assessment and Prognosis**

This chapter summarizes GoodNews' current strategy and performance, assesses its expected performance given the current strategy and most likely future for the industry, and provides a recommendation for strategic direction based on conclusions about GoodNews' expected future performance.

The daily deal industry is attractive only to large firms. These firms can afford the large upfront costs of advertising and of building a sales force. These firms can also take advantage of economies of scale in sales costs. They can also manage any issues associated with patent infringement. To incumbents, the threat of entry is decreasing from all but large firms from other industries. These potential competitors have the resources and capabilities to enter easily. They can compete because of low mobility barriers. There are only weak network effects due to low switching costs for merchants and consumers. Many of the largest online US firms, including Facebook and Google, have already made credible commitments to enter the market.

This industry is likely to continue to evolve towards more concentrated oligopolies. Unprofitable smaller firms will exit leaving only large firms. Rents will likely not get competed away, because as the number of firms decreases these firms will start competing less on price and more on other factors such as their efficacy of their platforms at delivering new consumers to merchants. Groupon will most likely be the dominant firm because it is already the largest firm, has the most brand equity, has the largest revenues in almost every market, and has shown a commitment to innovation through R&D (consumer analysis tools for merchants), partnership (loyalty programs) or acquisition (smartphone application company Mob.ly). To fund its growth and innovation, Groupon has raised much more capital than any other competitor – more than three times its nearest competitor LivingSocial (Daily Deal Media, 2011). This capital will allow it to grow faster, possibly raise consumer and merchant switching costs through innovation, and take better advantage of scale economies than its rivals.


GoodNews is in a weak position in this industry. It has between 1-5% market shares in each local market where it operates. The firm's return on advertising costs is negative in all its

local markets (the consumers it acquires through paid advertising spend less than the cost to acquire them). Its costs are higher than its revenues and the firm predicts this gap will most likely remain for the next three years (all things being equal). And, it has none of the key success factors required to be competitive. The owner seems unwilling to seek outside capital in order to fund advertising because he wishes to avoid debt and retain control of the firm and because GoodNews' business model has yet to show any success. The small size of the firm's sales force means it cannot take advantage of scale economies.

Given the industry's most likely future, GoodNews' future position in this industry will most likely remain weak because it has no way to effectively compete. The firm's imitation strategy has not allowed it to raise merchant willingness to pay nor to lower its costs relative to key rivals. The firm has no sources of sustainable competitive advantage. As a result it will not be able to grow its market share faster than other smaller players to become one of the top-four or top-five firms.

Figure 12 provides a visual summary of GoodNews current and most likely future position, which are both expected to remain weak in a moderately attractive industry environment.

Figure 12: GE/McKinsey Matrix Performance Matrix

		Firm Position		
		Strong	Average	Weak
Industry Attractiveness	High			
	Medium	<i>Desired position</i>		<b>Current position</b>  <i>Most likely future position</i>
	Low			

Source: (Author, 2011).

The key problem is that GoodNews is in an industry where it lacks key success factors and has no sources of competitive advantage. It is not clear how GoodNews will be able to acquire these and therefore GoodNews should exit the industry.

The next chapter considers specific alternative ways of exiting. These alternatives will be evaluated by multi-goal criteria of firm profitability, retaining key employees in the larger corporate structure, and increasing donations to charitable causes.

## **6: Solution Analysis**

This chapter suggests three strategic alternatives to exit the local daily deals market and makes a final recommendation.

### **6.1 Evaluation Criteria**

The owner has three ultimate goals that will be used to evaluate strategic alternatives to exit:

1. Maximize the profitability (minimize losses) of GoodNews.
2. Retain key employees: The owner sees building and retaining a pool of talent in marketing and product development for the whole corporate structure as essential even if it means cross-subsidizing GoodNews.
3. Continue charitable donations: A non-profit goal is donating to charitable causes in each of GoodNews' local markets. The goal of charitable donations is not a means to profitability but rather a true non-profit goal for which the owner is willing to sacrifice current and future profits.

The goals are given weights of 0.5, 0.3, and 0.2, respectively based on the author's understanding of the owner's priorities.

### **6.2 Generating Strategic Options for GoodNews**

The author proposes three specific strategies for GoodNews to exit the market:

1. Maintain the Status Quo
2. Sell the Firm
3. Liquidate the Firm



### **6.2.1 Exit Barriers (“none”)**

GoodNews has no assets specific to this industry. All fixed assets such as computer hardware are transferrable and can be redeployed for alternate uses within 777Media’s corporate structure.

GoodNews has no debt or impending internal legal issues.

GoodNews staff members could be redeployed within 777Media’s corporate structure depending on the company’s requirements and the employee’s skills and experience. As far as the author understands all employee contracts with GoodNews are routine. There are no such special contracts that would introduce a barrier to exit, such as high severance payments.

### **6.2.2 Maintain the Status Quo**

GoodNews could maintain business as usual. This is an unlikely option given that the firm’s performance in the market has so far been unprofitable and is forecast to remain so for the next three years. GoodNews’ losses have and will continue to reduce the overall profitability of 777Media. This has had an impact on the owner’s non-profit goal because in 2011 the owner reduced the portion of gross revenue that GoodNews donates to charitable causes from 10% to 4%. A lack of profitability will also affect the firm’s ability to retain key employees whose motivations to work at GoodNews include being a part of a successful endeavour.

### **6.2.3 Sell the Firm**

The author assumes selling the firm means continuing operations until such time as a buyer is found. A sale would meet the owner’s goals of some level of profitability in the long run. But profitability continually decreases as long as the firm continues operations while seeking a buyer. Proceeds from a sale would allow the owner to continue charitable donations until the firm developed an alternative donation model. A sale would not retain key marketing and product development employees because the buyer will most likely want to purchase those assets in order continue marketing and building the platform.

GoodNews would have difficulty finding a buyer for its business. A potential competitor or substitute is an unlikely buyer because these firms could build their own online coupon platform or use a white label platform. A rival that wants to increase its market share in the local markets where GoodNews operates is going to be more interested in GoodNews’ key assets of merchant

contacts and consumer accounts because it already has a platform as well as technical and marketing staff.

#### **6.2.4 Liquidate the Firm**

GoodNews could consider voluntarily bringing the business to an end and selling its assets. This means ceasing to source new offers from merchants but maintaining access to GoodNews.com for consumers until all deal coupons expire. Stopping operations means the firm improves its short-term profitability by immediately minimizing its operating costs. Liquidation would also cease charitable donations so the firm would need to look for other ways to achieve this goal. Liquidation means the owner can retain key employees by redeploying them within 777Media's corporate structure. The firm would release any staff associated with procuring, negotiating, and supporting offers from merchants, as well as those employees responsible for creating deal advertisements (unless there is a need for such employees within 777Media).

GoodNews would not have difficulty finding a buyer for its key assets because willing rivals want to increase their market shares in the local markets where GoodNews operates.

The firm has to consider the following issues associated with liquidation:

- *Merchant Contracts*: The contract between a merchant and GoodNews obliges the merchant to honour coupon redemptions by consumers until the deal's expiry date. However, merchants may refuse to honour these coupons in cases where the promotion has been unprofitable. In this case GoodNews can choose to refund consumer coupons or pursue legal action against the merchant.
- *Refunds*: Merchants may cease operations during the period that consumers can redeem their coupons. In this case, GoodNews can choose to refund a consumer's coupons or not.
- *Charities*: GoodNews should reassure charities with which it has active partnerships that the company would honour its contractual obligations.
- *Credits*: Outstanding consumer "credits" with GoodNews do not have cash value. Undoubtedly consumers will be upset if they are unable to use their credits, so GoodNews may opt to inform them of the withdrawal in advance, while deals are still available to purchase. A sale or withdrawal from its local markets means GoodNews effectively eliminates this contingent liability from its balance sheet. At the time of writing there is approximately \$37,000 in outstanding credits.

- *Timing and revenues:* A sale of the firm’s key assets (merchant contracts and consumer accounts) would likely take place sooner than a sale of the firm, since GoodNews can easily quantify these assets, easily move them to another firm, and price them cheaper than the whole firm.

### 6.3 Scenario Analysis

There are some uncertainties in the external environment. However, the author has chosen not to do a formal scenario analysis because any variations in exogenous variables or responses from rivals are irrelevant given a strategy of withdrawal.

### 6.4 Evaluation of Alternatives

Table 13: Valuation and Impact Matrix

Goals	Strategic Alternatives		
	1	2	3
	Sell	Liquidate	Status Quo
Maximize Profitability (w=0.5)	Medium (3)	High (5)	Low (1)
Retain Key Employees (w=0.3)	Low (1)	Medium (3)	Medium (3)
Continue charitable contributions (w=0.2)	Medium (3)	Low (1)	Medium (3)
<b>Score</b>	<b>2.4</b>	<b>3.6</b>	<b>2</b>

Valuation: High = 5; Medium/High = 4; Medium = 3; Medium/Low = 2; Low = 1

Source: (Author, 2011).

Liquidation is the best strategic alternative. GoodNews is more likely to find a buyer for its key assets of merchant contacts and consumer accounts than for the company as a whole, so liquidation has a bigger impact on profitability. A sale would not allow the owner to retain key employees, but liquidation and the status quo have an equal impact on this goal. The author believes that some key employees will leave if the firm if it unambiguously ends operations, but that others will leave if it continues to be unprofitable. Liquidation has the most negative impact on continuing charitable contributions because the firm would have to create an alternative model for supporting local charities. This would also be the case if the firm sold.

## **6.5 Recommendation and Conclusion**

GoodNews is in a weak position in the industry and the firm is unlikely to change its position because it has no key success factors, no sources of sustainable competitive advantage, and no clear way to gain either of these. In light of this the author recommends that GoodNews liquidate by voluntarily bringing the business to an end and seeking a buyer for its key assets. Exiting the market in this manner is the best alternative for the owner to meet his goals of profitability (minimizing losses) and retaining key employees. Liquidation does require the owner to seek an alternative means of meeting his non-profit goal. The author believes this is an acceptable solution since neither of the other non-profit alternatives presents a much better option.

## **6.6 Epilogue**

GoodNews made a decision about its future strategy on March 10, 2011. On that date the owner announced the firm would withdraw from its local markets by the end of the month (first Edmonton, then Calgary, and finally Vancouver). The firm would also cease any further investment in the product other than the bare minimum necessary to expire the existing backlog of daily deals and to support existing consumers and merchants until all deal coupons expire (by approximately April 1, 2012). The company redeployed marketing, product development, and senior sales employees within the parent company's corporate structure. The company dismissed a total of 11 staff: eight sales staff, two customer service representatives, one part-time copywriter and one part-time graphic designer. The company is reviewing its options for disposing of its saleable assets.

## Appendices

### Appendix A: GoodNews Department and Employees

GoodNews has 24 staff and three part-time contractors. Almost all GoodNews staff, except remote sales staff work at an office in Vancouver, B.C. The following table provides a breakdown of employees/contractors in each sector of the company as of February 28, 2011.

Functional Group	Number of Staff
Sales	9
Product Development	8
Marketing and Analytics	3
Customer Service	3
Copywriting and Graphic Design	1.5
Accounting	1
Total	25.5

*Source: (Author, based on internal GoodNews data, 2011).*

### Appendix B: Local Markets in Canada

Local Market	Metropolitan Population
Toronto	4,753,120

Montreal	3,316,615
Vancouver	1,953,252
Calgary	988,079
Edmonton	862,544
Ottawa	860,928
Quebec City	659,545
Hamilton	647,634
Winnipeg	641,483
Kitchener	422,514
London	353,069
St. Catharines	308,596
Victoria	304,683
Halifax	282,924
Windsor	278,765
Saskatoon	202,425
Regina	179,246
Barrie	157,501
St. John's	151,322
Abbotsford	138,986
Kelowna	126,384
Guelph	115,635
Kingston	109,431
Sudbury	106,612

Source: (Statistics Canada, 2006, "Population and dwelling counts, for urban areas, 2006 and 2001 censuses - 100% data").

### Appendix C: Firms in GoodNews' Local Markets

Firm / Local Market	Toronto	Vancouver	Calgary	Edmonton
BCDailyDeals		■		
Buytopia	■			
CaptainSave	■			
Deal Getters	■			
Dealathons	■	■	■	
DealCanada	■			

DealDipp				
Dealfind	■	■	■	■
Dealicious	■			
DealSharing				
DealTicker	■	■		
EthicalDeal		■		
FabFind				
GoLowDeal		■		
GoodNews	■	■	■	■
Grooster		■		
Groupon	■	■	■	■
HotDealsLive		■		
IndulgeLiving		■		
Kahoot				
Kijiji Daily Deals	■		■	■
Koopon				
LivingDeal	■			
LivingSocial	■	■	■	■
PATHDeals	■			
Price Dodger	■			
RedFlagDeals	■	■	■	
SocialShopper		■		
StealTheDeal				
Surrey.com		■		
SwarmJam	■	■	■	■
TeamBuy	■	■	■	■
TeamSave				
Tuango				
WagJag	■	■	■	■
WebPiggy	■	■		

Source: (Firm websites, DealRadar.com, CakeDeals.com, Author, 2011).

## Appendix D: Growth Rates for Local Markets

Local Market	Growth Rate (Feb 10, 2011 – Mar 13, 2011)
Toronto	-9.3%
Montreal	55.1%
Vancouver	-45.5%
Calgary	-24.2%
Edmonton	-19.4%
Ottawa	242.4%
Quebec City	-44.7%
Hamilton	-22.3%
Winnipeg	35.3%
Kitchener	-81.9%
London	-42.9%
St. Catharines	-74.8%
Victoria	-38.1%
Halifax	-66.1%
Windsor	180.6%
Oshawa	-42.6%
Saskatoon	28.8%
Regina	-69.1%
Barrie	13237.6%
St. John's	41.9%
Abbotsford	-80.5%
Kelowna	-87.6%
Guelph	137.3%
Kingston	-83.6%
Sudbury	-51.8%

*Source: (Author, 2011). The author estimated revenue for almost all firms in each local market by multiplying the deal price by quantity sold to consumers (excluded firms that did not publish their quantity sold). The author compared revenues for two periods: March 11-13, 2011, and February 11-13, 2011 in each local market.*



## Appendix E: Local Markets, Market Size, and Concentration Ratios

Local Market	Market Size (CAD / Year)	Firms	Four-Firm Concentration Ratio	Top Four Firms (Market Share %)
Toronto	\$63,517,442	20	86.3%	WagJag (41.8) Groupon (27.5) Dealfind (9.8) TeamBuy (7.2)
Montreal	\$7,683,060	8	90.4%	Tuango (62.1) LivingSocial (18.1) RedFlagDeals (5.2) Price Dodger (4.9)
Vancouver	\$33,255,202	18	75.0%	Groupon (38.7) Dealfind (12.8) LivingSocial (12.8) SwarmJam (10.7)
Calgary	\$27,750,627	10	92.1%	Groupon (38.0) Dealfind (26.0) LivingSocial (17) WagJag (11.0)
Edmonton	\$18,355,710	8	85.4%	Groupon (28.1) WagJag (25.7) Dealfind (22.1) LivingSocial (9.5)
Ottawa	\$18,990,145	10	84.0%	Kahoot (55.0) TeamBuy (13.1) Groupon (8.4) Dealfind (7.4)
Quebec City	\$7,548,480	2	100%	Tuango (99.6) RedFlagDeals (0.4)
Hamilton	\$10,813,800	1	100%	WagJag (100)
Winnipeg	\$8,965,320	4	100%	Dealfind (52.8) Groupon (26.5) WagJag (13.4) SwarmJam (7.4)
Kitchener	\$937,920	2	100%	WagJag (61.7) Groupon (38.3)
London	\$4,005,120	3	100%	Dealfind (70.6) Groupon (23.1) WagJag (6.3)
St. Catharines	\$5,295,480	2	100%	Groupon (72.1) WagJag (27.9)
Victoria	\$11,577,360	3	100%	Groupon (92.3) SwarmJam (6.4) EthicalDeal (1.3)
Halifax	\$3,265,320	4	100%	Groupon (38.3)

				Dealfind (37.5) TeamBuy (21.8) Kijiji Daily Deals (2.4)
Windsor	\$731,821	2	100%	Groupon (63.8) TeamBuy (36.2)
Oshawa	\$3,598,740	1	100%	WagJag (100)
Saskatoon	\$2,037,900	2	100%	Groupon (63.3) SwarmJam (36.7)
Regina	\$2,530,680	2	100%	Groupon (91.7) SwarmJam (8.3)
Barrie	\$207,600	1	100%	Groupon (100)
St. John's	\$1,468,140	1	100%	Groupon (100)
Abbotsford	\$1,005,900	1	100%	Groupon (100)
Kelowna	\$1,378,620	1	100%	Groupon (100)
Guelph	\$2,757,120	1	100%	WagJag (100)
Kingston	\$2,483,160	2	100%	WagJag (78.0) Groupon (22.0)
Sudbury	\$388,821	2	100%	WagJag (54.1) Groupon (45.9)

*Source: (Author, 2011). The author based market share on revenue estimations. The author estimated revenue for almost all firms in each local market by multiplying the deal price by quantity sold to consumers (excluded firms that did not publish their quantity sold).*

## **Appendix F: Launch Dates of Firms in Local Markets in Canada**

<b>Website</b>	<b>Launch</b>	<b>Local Market</b>	<b>Source (Retrieved March 5, 2011)</b>
Dealfind.com	2009	Toronto	<a href="http://on.fb.me/gJbJAT">http://on.fb.me/gJbJAT</a>
Stealthedeal.com	2009	Toronto	<a href="http://bit.ly/a0M02">http://bit.ly/a0M02</a>
Teambuy.ca	2009	Toronto	<a href="http://bit.ly/gn2dCf">http://bit.ly/gn2dCf</a>
Wagjag.com	2009	Toronto	<a href="http://bit.ly/gWkrGz">http://bit.ly/gWkrGz</a>
Bcdailydeals.com	2010	Vancouver	<a href="http://on.fb.me/ff5QNd">http://on.fb.me/ff5QNd</a>
Buytopia.ca	2010	Toronto	<a href="http://bit.ly/edoq27">http://bit.ly/edoq27</a>
Captainsave.com	2010	Toronto	Estimated
Dealgetters.com	2010	Toronto	<a href="http://bit.ly/gIXZPF">http://bit.ly/gIXZPF</a>
Dealathons.com	2010	Toronto	<a href="http://bit.ly/gqChmw">http://bit.ly/gqChmw</a>
Dealdipp.com	2010	Toronto	<a href="http://on.fb.me/fZrwpA">http://on.fb.me/fZrwpA</a>
Dealsharing.com	2010	Toronto	<a href="http://bit.ly/esfwJW">http://bit.ly/esfwJW</a>
Dealticker.com	2010	Toronto	<a href="http://bit.ly/g63wwd">http://bit.ly/g63wwd</a>
Ethicaldeal.com	2010	Vancouver	<a href="http://bit.ly/gtXNbt">http://bit.ly/gtXNbt</a>

Fabfind.com	2010	Toronto	<a href="http://bit.ly/e4F1np">http://bit.ly/e4F1np</a>
Golowdeal.com	2010	Vancouver	<a href="http://bit.ly/eEqrt3">http://bit.ly/eEqrt3</a>
Goodnews.com	2010	Vancouver	<a href="http://bit.ly/aFuXXj">http://bit.ly/aFuXXj</a>
Grooster.com	2010	Vancouver	<a href="http://bit.ly/cLhVQl">http://bit.ly/cLhVQl</a>
Groupon.com	2010	Toronto	<a href="http://bit.ly/cM6nLg">http://bit.ly/cM6nLg</a>
Hotdealslive.com	2010	Vancouver	<a href="http://bit.ly/9sLv2W">http://bit.ly/9sLv2W</a>
Indulgeliving.com	2010	Vancouver	<a href="http://bit.ly/dP50fp">http://bit.ly/dP50fp</a>
Kahoot.ca	2010	Ottawa	<a href="http://bit.ly/idvj5f">http://bit.ly/idvj5f</a>
Kijijideals.ca	2010	Various	<a href="http://bit.ly/eWqIJd">http://bit.ly/eWqIJd</a>
Kooupon.ca	2010	Ottawa	<a href="http://bit.ly/aA6kmG">http://bit.ly/aA6kmG</a>
Livingdeal.com	2010	Toronto	<a href="http://bit.ly/ggyseJ">http://bit.ly/ggyseJ</a>
Livingsocial.com	2010	Toronto/Vanc.	<a href="http://bit.ly/ajg8G5">http://bit.ly/ajg8G5</a>
Pathdeals.com	2010	Toronto	<a href="http://on.fb.me/f87HAC">http://on.fb.me/f87HAC</a>
Pricedodger.com	2010	Toronto	<a href="http://bit.ly/fr0IU5">http://bit.ly/fr0IU5</a>
Dealoftheday.redflagdeals.com	2010	Toronto	<a href="http://bit.ly/aSS0GK">http://bit.ly/aSS0GK</a>
Socialshopper.com	2010	Vancouver	<a href="http://bit.ly/ihsNEB">http://bit.ly/ihsNEB</a>
Surrey.com	2010	Surrey	<a href="http://bit.ly/e3J58x">http://bit.ly/e3J58x</a>
Swarmjam.com	2010	Various	<a href="http://bit.ly/gDxSww">http://bit.ly/gDxSww</a>
Teamsave.com	2010	Toronto	<a href="http://bit.ly/dMWpn6">http://bit.ly/dMWpn6</a>
Tuango.ca	2010	Montreal	<a href="http://bit.ly/ghX1U8">http://bit.ly/ghX1U8</a>
Webpiggy.com	2010	Toronto	<a href="http://bit.ly/c7a4dq">http://bit.ly/c7a4dq</a>
Dealcanada.ca	2011	Toronto	<a href="http://bit.ly/goOwGV">http://bit.ly/goOwGV</a>
Dealicious.com	2011	Toronto	<a href="http://bit.ly/f6N7yc">http://bit.ly/f6N7yc</a>

## Appendix G: Product Comparison Matrix – GoodNews.com

Feature/Function	Online Coupon Platforms					White Label Platforms	
	Good News	Groupon	Living Social	Wag Jag	Dealf ind	Chomp On	Tippr
<b>Purchase a daily deal</b>							
View deal detail and merchant info	■	■	■	■	■	■	■
Buy a deal	■	■	■	■	■	■	■
Secured payment system	■	■	■	■	■	■	■
Buy a deal as a gift	■	■	■		■	■	
Save credit card info		■	■			■	
Purchasing workflow analytics	■	■	■	■	■	■	
Send gift by email	■	■	■			■	
Print gift voucher	■	■	■			■	

<b>User/Consumer Account</b>							
View/Print My Deals (List of vouchers)	■	■	■	■	■	■	■
View My Credits (Earned by referring)	■	■	■	■	■		
View/Update My Profile (Email, Password, Personal info)	■	■	■	■	■	■	■
<b>Subscriptions</b>							
View subscription lander based on your location	■	■	■	■	■		
Subscriptions analytics reporting	■	■	■	■	■	■	
Facebook Ad campaign subscription lander	■	■	■	■	■	■	
Google Ad campaign subscription lander	■	■	■	■	■	■	
<b>Multiple Product Deals</b>							
Offer deals for merchants with multiple locations	■	■	■				
Offer multiple services or offering in one deal	■	■	■				
<b>Social Features</b>							
Share on Facebook/Twitter	■	■	■	■	■	■	■
Like on Facebook	■	■	■	■	■	■	■
Share by Email	■	■	■	■	■	■	■
Sign in with Facebook	■	■	■	■	■	■	■
Deal discussion board	■	■	■	■	■	■	
<b>Referrals</b>							
Refer a friend to get credits	■	■	■	■	■		
Share deal to get credits	■	■	■	■	■		
Refer by email, Facebook, Twitter or personal link	■	■	■	■	■		
<b>Multiple Promotions</b>							
Offer side deals (multiple live deals in each location)	■	■	■	■		■	
Offer special promotions in each location	■	■	■	■		■	
<b>Gift Cards</b>							
Purchase gift card		■	■				

Redeem gift card credits instantly	■	■	■				
<b>Featured cause</b>							
Support a charitable cause for each location	■	■	■	■			
Edit % and duration for each cause	■	■	■	■			
<b>Merchant Account</b>							
Ability to search for deal voucher		■	■			■	
Deal Stats and analytics for merchants		■	■			■	
Online voucher redemption		■	■			■	
Paper voucher redemption	■	■	■	■	■	■	
Mobile voucher redemption		■	■				
<b>Website Administration</b>							
View live deals dashboard	■	■	■	■	■	■	
Schedule deals in each location	■	■	■	■	■		
Add/Edit/View merchants by location	■	■	■	■	■	■	■
Add/Edit/View locations	■	■	■	■	■	■	■
Add/Edit/View Promotions	■	■	■	■	■	■	■
View subscriptions stats for each location	■	■	■	■	■	■	■
Add gift cards	■	■	■				
Preview daily deal emails	■	■	■	■	■		
Add/Edit deal categories	■	■	■	■	■		
Manage user accounts	■	■	■	■	■	■	
Manage refunds	■	■	■	■	■	■	■
View transactions reporting	■	■	■	■	■	■	■
Preview subscription, transaction and referral emails	■	■	■	■	■	■	■
<b>Others</b>							
Affiliate program		■	■		■	■	
Smartphone App for Consumers		■	■			■	■
Smartphone App for Merchants		■				■	
Custom API	■	■	■			■	■
RSS Feed	■	■	■	■	■		

<b>TOTAL FEATURES</b>	45	54	53	37	35	37	18
Feature comparison	83%	100%	98%	69%	65%	69%	33%

Source: (Author, based on internal GoodNews data, 2011. Groupon.com, LivingSocial.com, WagJag.com, Dealfind.com, Chompon.com, and Tippr.com, 2011).

## Appendix H: Per Year Spending by Canadians

	<b>CAD</b>	<b>% Of Total Expenditure</b>
<b>Total expenditure</b>	<b>\$67,736</b>	
<b>Total current consumption</b>	<b>\$48,765</b>	
Food	\$7,046	10.4%
Shelter	\$12,986	19.2%
Household operation	\$3,251	4.8%
Household furnishings and equipment	\$2,131	3.1%
Clothing	\$2,870	4.2%
Transportation	\$9,240	13.6%
Health care	\$1,867	2.8%
<b>Personal care</b>	<b>\$1,158</b>	<b>1.7%</b>
<b>Recreation</b>	<b>\$3,975</b>	<b>5.9%</b>
<b>Reading materials and other printed matter</b>	<b>\$264</b>	<b>0.4%</b>
Education	\$1,157	1.7%
Tobacco products and alcoholic beverages	\$1,475	2.2%
Games of chance (net)	\$258	0.4%
Miscellaneous expenditures	\$1,087	1.6%
Personal taxes	\$13,634	20.1%
Personal insurance payments and pension contributions	\$3,832	5.7%
<b>Gifts of money and contributions</b>	<b>\$1,505</b>	<b>2.2%</b>
<b>Total Spent on Services offered by Daily Deal Firms</b>	<b>\$6,902</b>	<b>10.2%</b>

Source: (Statistics Canada, 2006).

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