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

Location Based Social Commerce

- How will it affect local businesses?

The Coolest MIT Students

Introduction

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

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

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

Service Providers

Local Business

End Consumers

- **Primary research on benefits**
- **Extrapolate findings to discuss economic implications**

The Evolution of Social Commerce

- **Globalization**

  Launch of group coupon ad sites (Asia, Europe, U.S)

- **Mobile Phone Adoption**

  ↑ in Smartphone Users

- **Advent of Web 2.0**

  ↑ use of social media outlets

  ↑ social interaction in purchases of new products and services

  FB & Twitter

- **E-Commerce & Digital Coupons**

  First half of 2009...
  ~ 10M digital coupons redeemed
  − Redemption rate ~ 15-20% v. 1% for paper coupons

- **Group buying: Old concept**

  10 yrs ago...
  Mercata & Mobshop

Two Types of Social Commerce

1 **Residence-based (ex. Groupon)**

2 **Real time Location-based (ex. FourSquare)**

- **Labor intensive deal making process**
  - Online / Offline
  - 6-8 week process

- **Extremely "Easy" to use**
  - Sign based on location
  - 1 deal per day
  - Automatic updates through email

- **Solid monetizing model**
  - $1.35B valuation (< 2 years post-launch)
  - 14.5M Groupons bought, takes 50% of deals
  - Fast expansion in global market
    : Acquired "DealsOn" (Korea, 10/2010)

- **Users' self recommendations**
  - Personal network based

- **"Convenient" in new locations**
  - "Check in" with your mobile
    (based on real-time location)
 - Various categories of information

- **Huge potential**
  - Large customer base
  - Collective intelligence
  - Yet, slow in monetizing

Why does it matter?

Growth of Daily Deal Services

(Source: http://yipit.com)
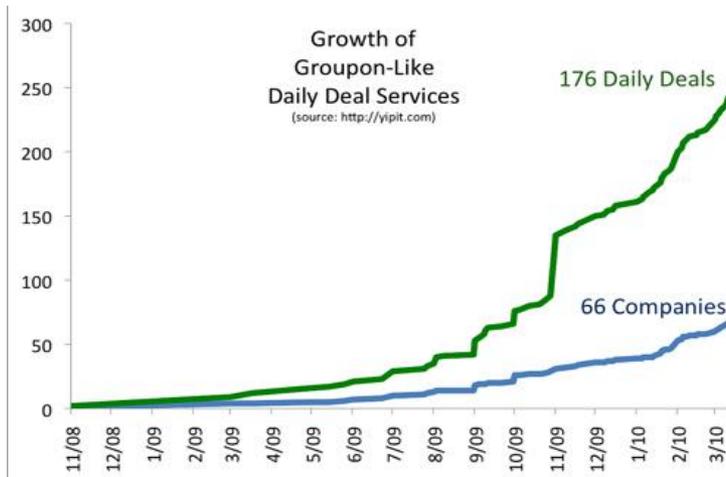
Courtesy of YipIt. Used with permission.

Weekly Market Share of Visits
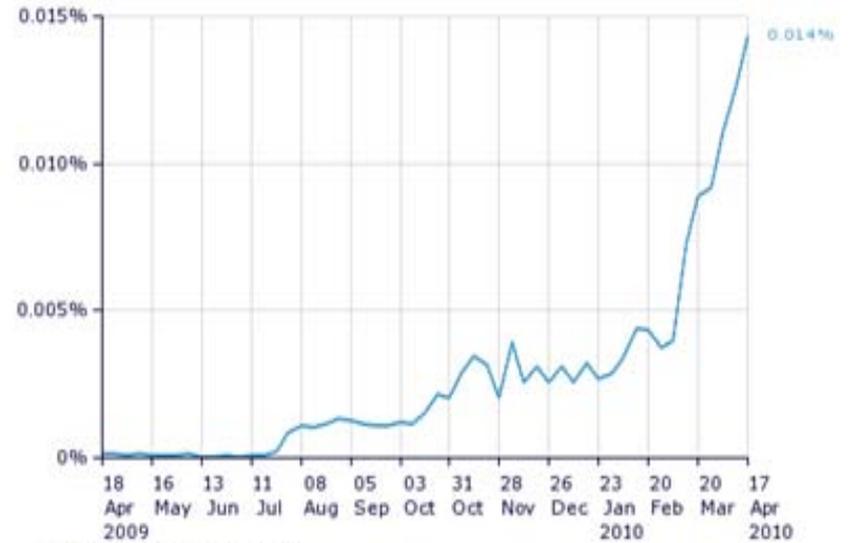
Courtesy of Experian Hitwise Pty, Ltd. Used with permission.

- **Exponential Growth**
- **Fastest Growth in History**

What drives this growth?

Demand-Side	Supply-Side
Appeal of "scarcity": Window to purchase is limited	Virality due to the rise of Web 2.0 & social media
Network externality: Motivation to spread the word	Low entry barriers: 'clones' and aggregator sites (e.g. Yipit)
Pervasiveness of the internet use	Low up-front cost for smaller retailers to acquire new customers
Smartphones + mobile transactions made easier	Opportunity to showcase "long tail" of local firms
Bargain hunting (Economic Downtown)	
Decreased consumer search costs	
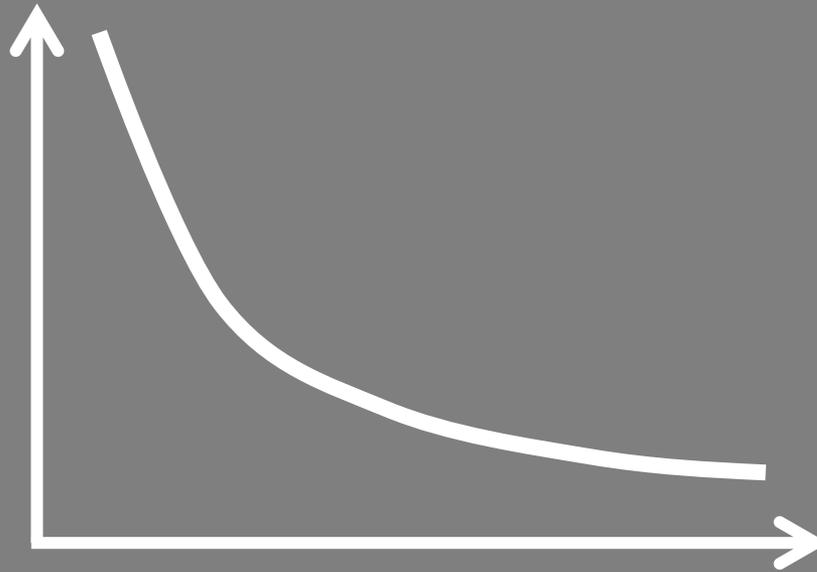
- **Long tail**
- **Making the pie bigger**

What value does it provide?

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

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

Service Providers

Local Business

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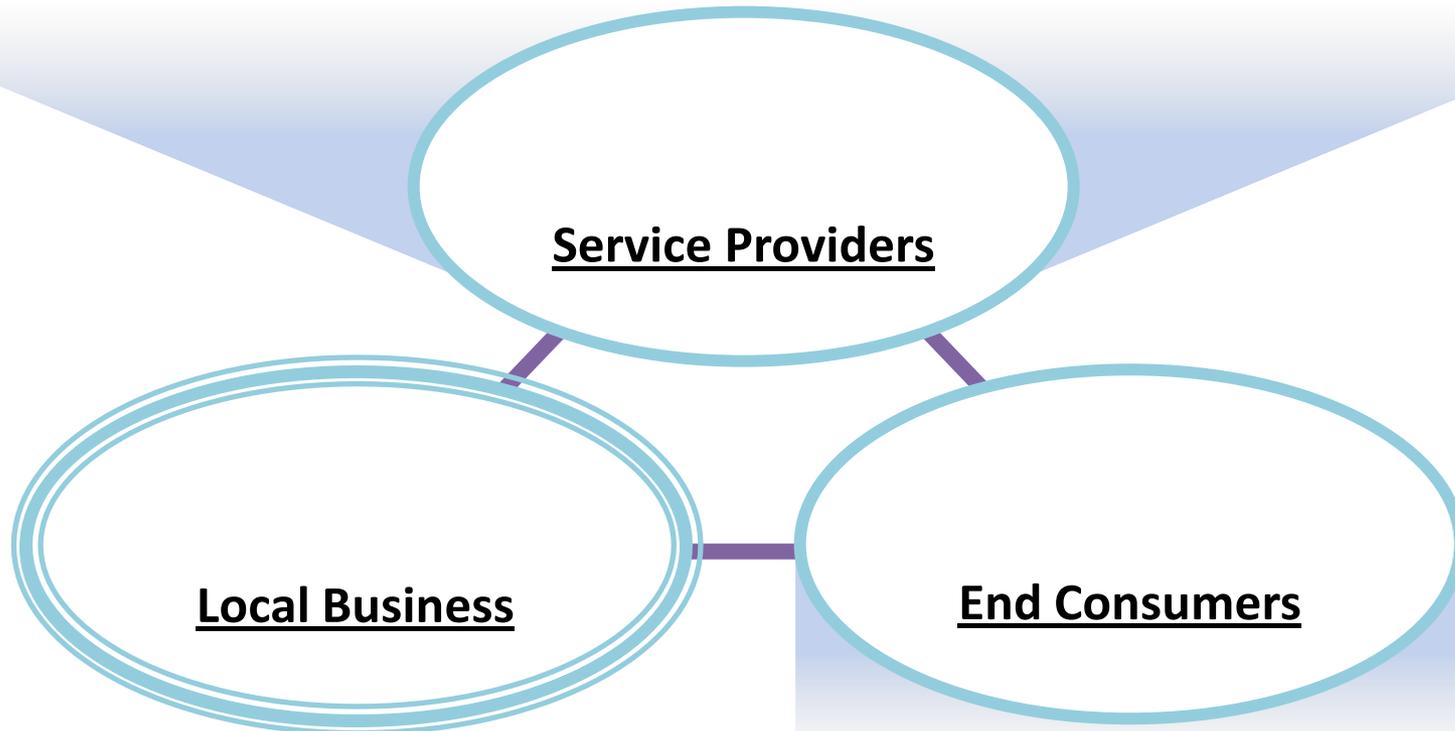
• **Huge opp. for more effective marketing**
  - **Raise consumer awareness**
• **New methodology for CRM**
  - **Customized service, System lock-in**

• **Same products /services @ lower price**
• **Greater variety of choices**
• **Customized offerings over time**
• **Consistent intro. of new products/services**

- **Exposure with zero cost**

- **Clear metrics**

- **Cash Flows**
  - **potential to up-sell**

90% New customer rate

20% Return customer rate

40% Un-used coupon rate

Local Business: Profit Source using CRM

MITSloan MANAGEMENT

▪ Before Groupon

$100 ——— Regular Price

✓ *Profit*

$25 ——— Cost
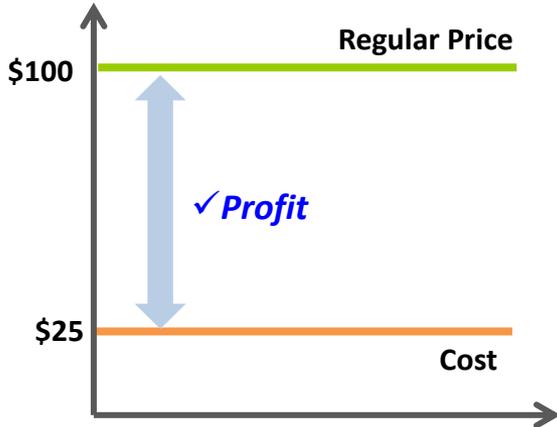
✓ Customers: 10
✓ Revenues: $1,000
✓ Profits: $750

▪ With Groupon

$100 ——— Regular Price

$50 ——— Groupon Price

✓ *Groupon Profit*

$25 ——— Cost
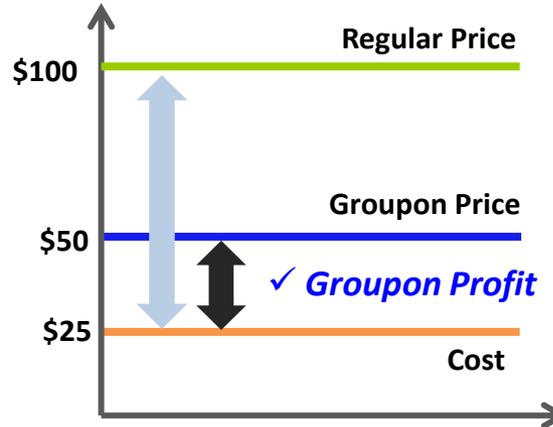
✓ Customers: 10 + 100
✓ Revenues: **$6,000**
✓ Profits: $750

▪ After Groupon

$100 ——— Regular Price

$50 ——— Own Coupon Price

$25 ——— Cost
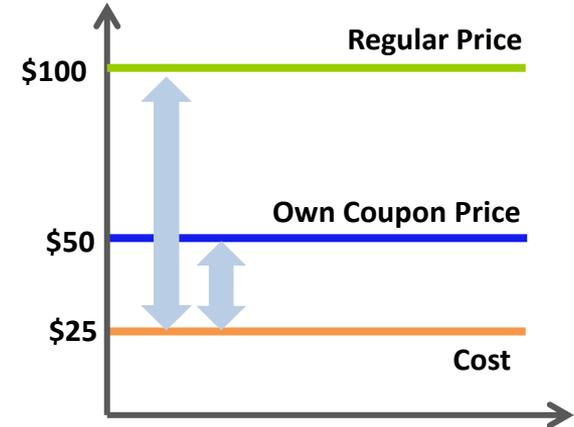
✓ Customers: 10 + 100
✓ Revenues: $6,000
✓ Profits: **$3,250**

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

Can Issue own coupon ("*Personalized Pricing*")

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

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

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

Yet, Social Commerce has drawbacks…

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

| **Marketing Implications**	- Possible brand dilution - Price-sensitive customers - Short-lived exposure
Operational Challenges	- Rapid influx of business - Extra manpower needed for service quality - Additional cost considerations - Decrease in employee morale
Financial Impact	- No profits due to discounting and high commissions - Customers do not spend beyond face value - Successful campaign could be very costly

…. Social commerce promotions NEED strategy!

Win-Win game for everyone but ...

Biz. opportunities

Great deals

Exposure

Service Providers

Local Businesses

End Consumers

Local News Papers

Losing advertising customer base from local businesses
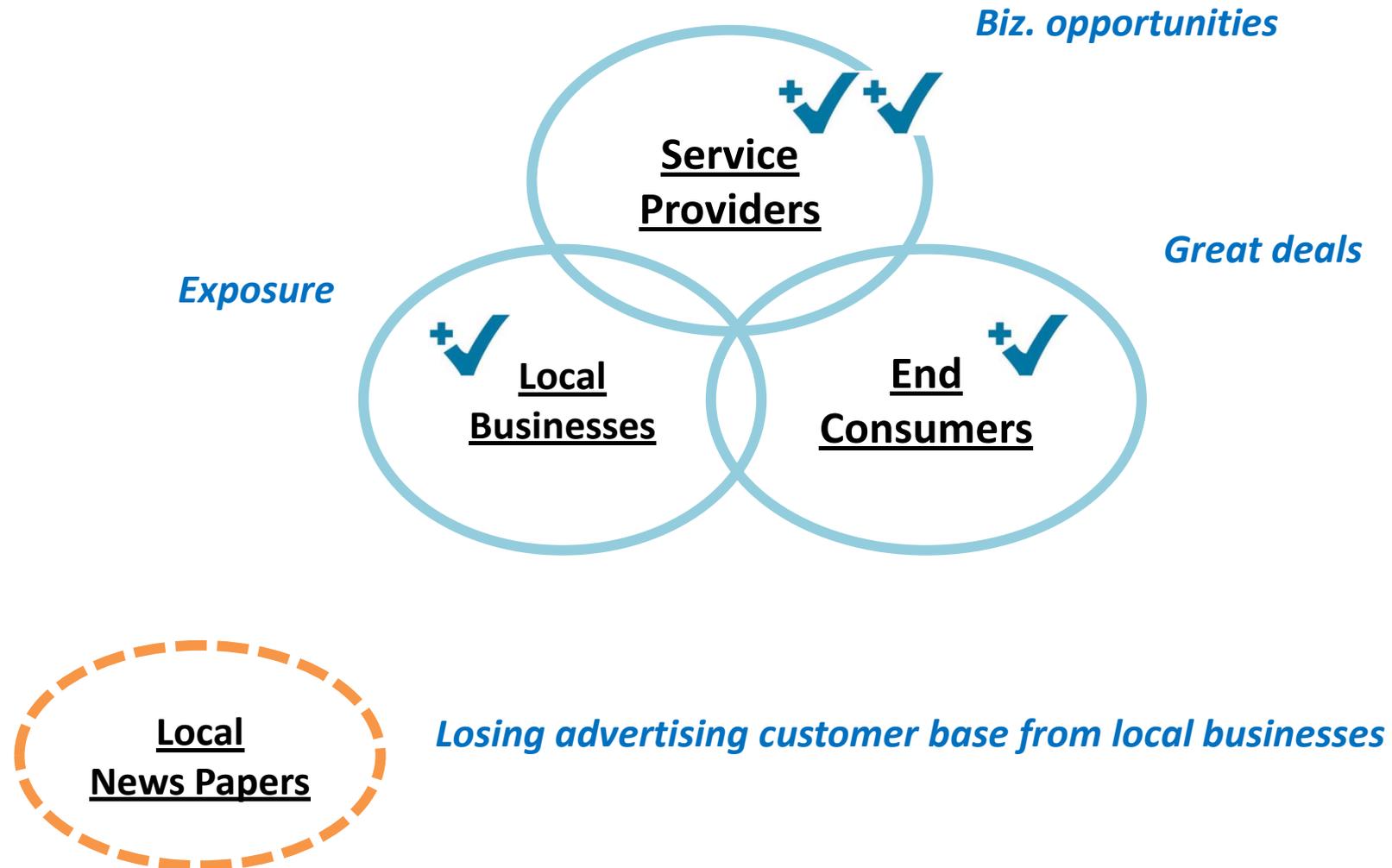
Questions?

Winner takes it all industry? Possibly....

- **Highly networked and social nature of industry means that speed to market and ability to scale quickly are key success factors**

- **Low barrier to entry have resulted in a large number of copycats ('clones')**

- **Zero switching cost means that the better platform and better branding wins**

- **This has led to an arms race where bigger players such as Groupon and Living Social are quickly acquiring local deal sites**

- **Economic and social forces provide a reinforcing feedback loop of success**

15.567 The Economics of Information: Strategy, Structure and Pricing
Fall 2010