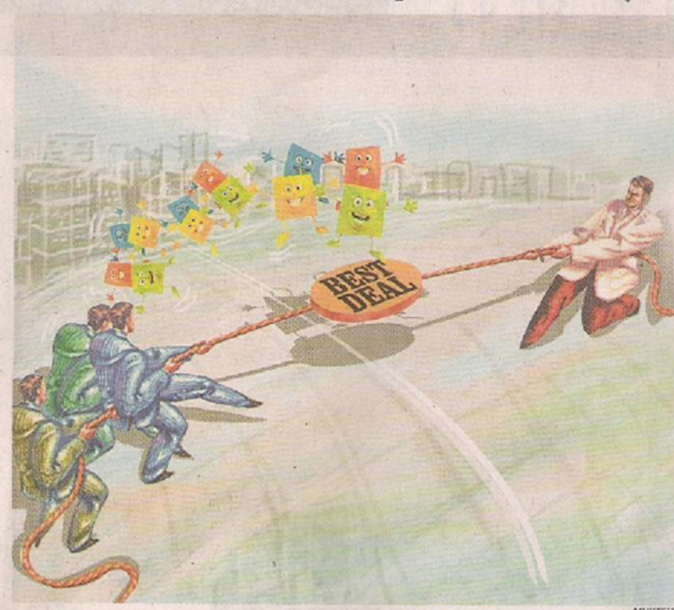
GROUP SHOPPING IS A GOOD BUY

Banking on the costing pattern of a bulk deal, a clutch of Internet startups have set up online intermediaries and offer discounts up to 50% to the buyer

ON APRIL 18 this year, the Chicago-based group-shopping site Groupon announced its fourth round of funding—fundraising of $135 million, which valued the company at a whopping $1.35 billion. Formidable figures, when you consider that Groupon debuted in November 2008. Since then, there have been a number of clones in the US and atleast eight in India trying to replicate the Groupon model.

So, what is the Groupon success model that has got entrepreneurs and investors so excited about? Essentially, the group-shopping model works on the premise that any retail establishment can give a discount (often higher than 50%) if a bulk purchase in made. For example, a restaurant can give a meal worth ₹500 to an individual patron for ₹200 if they get a committed purchase of 50 such meals. In this case, 50 is the 'tipping point' for the deal to be made live. The sheer quantity of purchases helps them justify this high discount. Group-shopping web sites act as the intermediary providing a platform for its users to sign up and pay for a discounted deal. On the other end of the deal, these sites charge the merchant anywhere between 15% and 25% of the discounted sale price.



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The first to venture out into this space in India was Anisha Singh of mydala.com (dala, in Sanskrit, means a group). An entrepreneur herself in the digital media space, Anisha saw the opportunity after studying the groupon model in the US. She teamed up with her husband Arjun Basu, then a portfolio manager at Capital One, to launch Mydala. "We saw an opportunity here and one of the first things I learned was that the group-shopping model would work in India for services as opposed to products," says Ms Singh. "Initially, merchants couldn't quite understand why they needed to give a discount of as much as 50% but soon they came around and understood the value of the model." Today, Mydala provides it group-shopping services in nine cities across the country and has sold approximately 26,000 discount vouchers till date.

There are other variants of group shopping emerging already. While the Mydala model charges the full amount upfront on the site itself, others like snapdeal.com use an option-pricing model where only a small percentage of the total deal is collected on the site. Wharton Graduate and founder of Snapdeal, Kunal Bahl explains the reason for such an approach: "We found that the option pricing model works better as to avail of a deal for ₹1,500, only ₹99 needed be paid upfront. The remainder can be paid directly to the merchant at the presentation of the voucher availed." Mr Bahl claims the customer adoption is much higher in their model since the initial amount is an extremely small one. The flipside, however, is that the customer is not as committed to the deal as he or she would be after paying the whole amount. Often the consumer may change his mind on the deal and need not necessarily turn up at the merchant's store to take advantage of the discount. Nevertheless, the model lends more transparency with the merchant as the amount paid upfront is the commission which Snapdeal keeps.

With the group-shopping space hotting up, the sector has already seen a fair amount of merger and acquisition (M&A) activity. Snapdeal acquired the Bangalore-based group-shopping site Grabbon in an equity-cash deal, while Smile Interactive bought the Mumbai-based Wanamo.com and subsequently renamed it to dealsandyou.com. One of the newest entrants into the space is the Bangalore-based Taggle.com, which has announced raising of $8.75 million from Greylock Ventures (investors in Facebook) and Battery Ventures. Taggle.com founder John Kuruvilla (former chief revenue officer at Air Deccan) has forged very long term approach to the sector. "We were clear that we needed to be funded while approaching this market, hence we have also differentiated ourselves by offering features like a Taggle Hologram with our vouchers which we physically courier to our consumers. This prevents fraud and ensures that consumers don't use the same voucher across multiple merchant outlets at the same time."

As the model continues to grow, it has been found that there are select service sectors where it is better suited than in product categories. A majority of such deals are made in categories such as spas, salons, restaurants and travel. There are clear reasons for it, as Kunal Bahl of Snapdeal.com says, "In establishments like spas and salons, all the costs are fixed costs. This means the merchant will incur costs like electricity and staff salaries regardless of whether it gets any customers or not. Therefore, in such cases it makes sense for them to offer large discounts to lure the first-timers. The discount is justified as a customer-acquisition cost, and in most cases our model for them." So much so, that some merchants are willing to offer such large discounts even without a group buy, while others offer only the commission as the cost to a first-time user.

While the number of such business ventures rises, new challenges and revelations are coming up. Suvir Sujjan, founder of Baazee.com (India's answer to E-bay) and now managing director of Nexus Venture Capital says, "The shortage of categories is the big challenge in this industry. I have met most of the group-shopping start-ups in the country and most of them seem to be signing up with the same set of merchants. This is not the case in the parent US model, where there is a hyper density of service per sqft." This means that the competition between service providers is not as taking off, leading to a degree of sameness in the offers provided across all the sites. Mr Sujjan cites the lack of a barrier to entry as the reason for the flooding of the space with multiple group-shopping players.

But there is little to dampen the spirits of Arvind Babu, an investor in Grey Lock Partners, who says, "India has one of the fastest-growing retail markets in the world and group-shopping as a phenomenon has great potential in the country where people are crazy about discount deals."

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Mr Babu is ready to bet on a "tremendous growth" for Taggle over the next two years.

Industry estimates put the local retail services industry in India at $100 billion, and given the lack of advertising options for SMEs in this sector, group shopping sites are targeting the acquisition of atleast 2% of this over the next decade. This is where the opportunity lies. With only one year into the launch of group shopping ventures in India, estimates put the industry annual revenue at approximately ₹10 crore. As Mr Bahl of Snapdeal says, "The trends are encouraging, our commissions have gone up from 15% to 30% now, the number of deals we have been doing are going up week on week and we find that merchants are far more willing to sign on then they were earlier." Other players echo this enthusiasm and are upbeat about emulate the success of their parent model Groupon in India.

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