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The “tipping point” feature of social coupons: An empirical investigation☆

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ABSTRACT

Groupon has pioneered a new business model that combines the features of daily deals and group buying. Utilizing a large proprietary dataset of Groupon users, the authors formulate three hypotheses about the effects of the tipping point (i.e., whether enough people have purchased the deal before it can be redeemed) on consumer behavior. The results indicate that (1) surprisingly, the tipping point does not stimulate consumers to refer the deal to others, (2) after controlling for detailed deal characteristics, information about the tipping point increases deal purchase probability and accelerates deal purchase speed by removing consumers' uncertainty about whether the deal will eventually tip, and (3) through a comparison of the different effects of prior purchases on purchase likelihood before and after a tipping point, conformity rather than social learning is identified as playing the dominant role in contagious purchases. Taken together, our results support the fact that the tipping point can alter consumer behavior and affect sales. However, recent changes made by Groupon are inconsistent with our empirical results and keeps the company from fully utilizing its potential. This study also provides an example of using web analytics tools to augment clickstream data and consolidate information from other sources.

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Since the founding of Groupon in 2008, the company has generated a large buzz in the global marketplace. The CEO appeared on the cover of *Forbes* and was described as “the next web phenom.”² Groupon was not the first company to provide coupons with great discounts, but it pioneered a new business model that combined two features: daily deals and group buying. This so-called social coupon has become an important part of marketing programs of numerous local retailers (Kumar & Rajan, 2012). By the end of 2011, over 50 million Americans had signed up with social coupon vendors, such as Groupon and LivingSocial, and the annual revenue of the social coupon sector had reached \$1 billion. Despite the recent onset of daily deal “fatigue,” during the first quarter of 2014, Groupon generated global revenues of more than \$757 million (Groupon, 2014). A total of 51.8 million unique customers have bought at least one deal from Groupon during the preceding 12 months (Groupon, 2014).

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² <http://www.forbes.com/global/2010/0913/entrepreneurs-andrew-mason-groupon-bargains-web-sensation.html>.

Chicago -

\$150 for Six Laser Hair-Removal Treatments at Jeta Skin Care and Laser Center (Up to \$1,100 Value)

Jeta Skin Care and Laser Center Chicago

\$150 Buy!

Value	Discount	You Save
\$1,100	86%	\$950

Buy it for a friend!

Time Left To Buy
2 days 15:09:38

49 bought
Limited quantity available

The deal is on!
Tipped at 8:45AM with 25 bought!

Expires in 1 year
Limit 1 per person, may buy 2 additional as gifts. Limit 1 per visit. By appointment only, like cancellation notice or \$25 fee may apply. New clients only. Valid only for 1 area.

Highlights

- Choose from six areas
- Friendly, professional staff
- Long-lasting results
- Relaxing facility

a Comparison of Groupon web pages (a web page in 2011)

GROUPOUN What are you looking for? New York City, NY

Home Local Goods Getaways Reserve Coupons Summer Shop

Laser Hair-Removal Treatments at Skin Spa New York (Up to 83% Off). Eight Options Available.

Multiple Locations

\$79

BUY!

Value	Discount	You Save
\$300	74%	\$221

ONE AS A GIFT

Limited time remaining!

LIMITED QUANTITY AVAILABLE
Over 1,000 bought

No information about tipping point

b Comparison of Groupon web pages (a web page in 2014)

Fig. 1. a: Comparison of Groupon web pages (a web page in 2011) b: Comparison of Groupon web pages (a web page in 2014).

Groupon innovated the collective buying model suggested by its name: group plus coupon. A certain number of people need to buy into any given deal before it can be redeemed, or “tipped” in Groupon parlance.³ If the deal is not tipped, no one can redeem the coupon. This group-buying feature differentiates Groupon from the old models and helps build its name. To enforce this approach, Groupon adopted the following strategies:

- 1) Tipping point: Information about the tipping point, such as whether and when the deal is tipped and the tipping point value, are displayed instantaneously right below the prior purchase numbers (see Fig. 1). Consumers can receive a separate email notifying them whether the deal is “on” or not after they receive the email confirming their coupon purchases.

³ “Groupon’s \$6 Billion Gambler.” Dec. 20, 2010, Wall Street Journal.

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