

What Happened to Groupon? The Biggest IPO Since Google

And the Blueprint for How NOT to Build a Commercial System



ROSE ZHU
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The Rise That Should Have Been a Warning

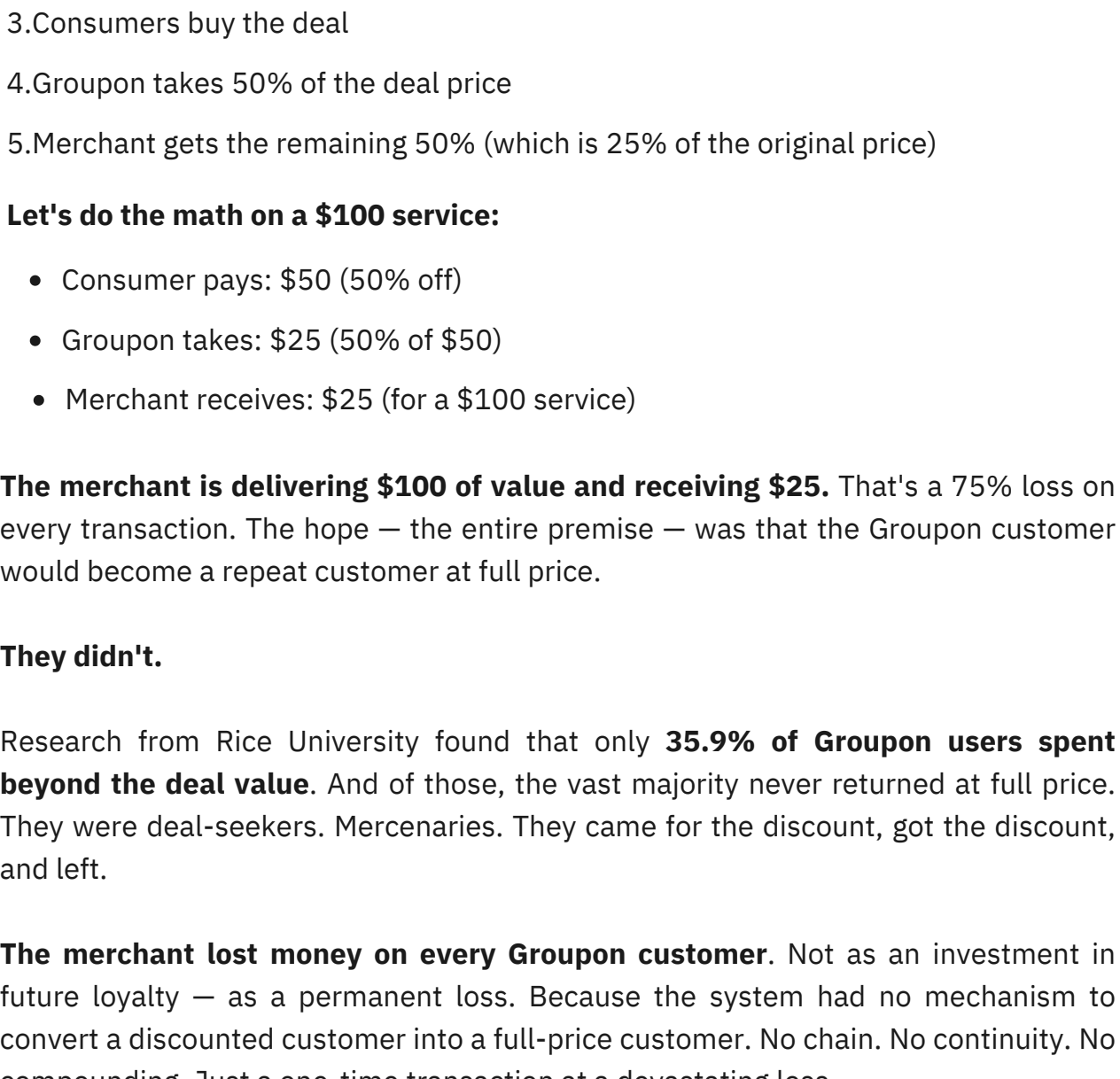
November 4, 2011. Groupon goes public at \$20 per share. The stock surges to \$26.11 on its first day. Market cap: **\$16.7 billion**. It was the biggest IPO by a US internet company since Google.

The media called it revolutionary. The model was simple: aggregate consumer demand, offer massive discounts, take a cut. Merchants got customers. Consumers got deals. Groupon got rich.

By 2022, Groupon's stock was trading below \$10. Market cap had collapsed by over 95% from its peak. Revenue had been declining for years. The company that was supposed to revolutionize local commerce had become a cautionary tale.

What happened?

The One-Way Value Death Spiral



Groupon's model was the purest expression of one-way value ever created.

And its collapse is the purest proof of why one-way value always fails.

Here's how it worked:

1. Merchant offers a deal (typically 50%+ off)
2. Groupon promotes the deal to its email list
3. Consumers buy the deal
4. Groupon takes 50% of the deal price
5. Merchant gets the remaining 50% (which is 25% of the original price)

Let's do the math on a **\$100 service**:

- Consumer pays: \$50 (50% off)
- Groupon takes: \$25 (50% of \$50)
- Merchant receives: \$25 (for a \$100 service)

The merchant is delivering \$100 of value and receiving \$25. That's a 75% loss on every transaction. The hope — the entire premise — was that the Groupon customer would become a repeat customer at full price.

They didn't.

Research from Rice University found that only **35.9% of Groupon users spent beyond the deal value**. And of those, the vast majority never returned at full price. They were deal-seekers. Mercenaries. They came for the discount, got the discount, and left.

The merchant lost money on every Groupon customer. Not as an investment in future loyalty — as a permanent loss. Because the system had no mechanism to convert a discounted customer into a full-price customer. No chain. No continuity. No compounding. Just a one-time transaction at a devastating loss.

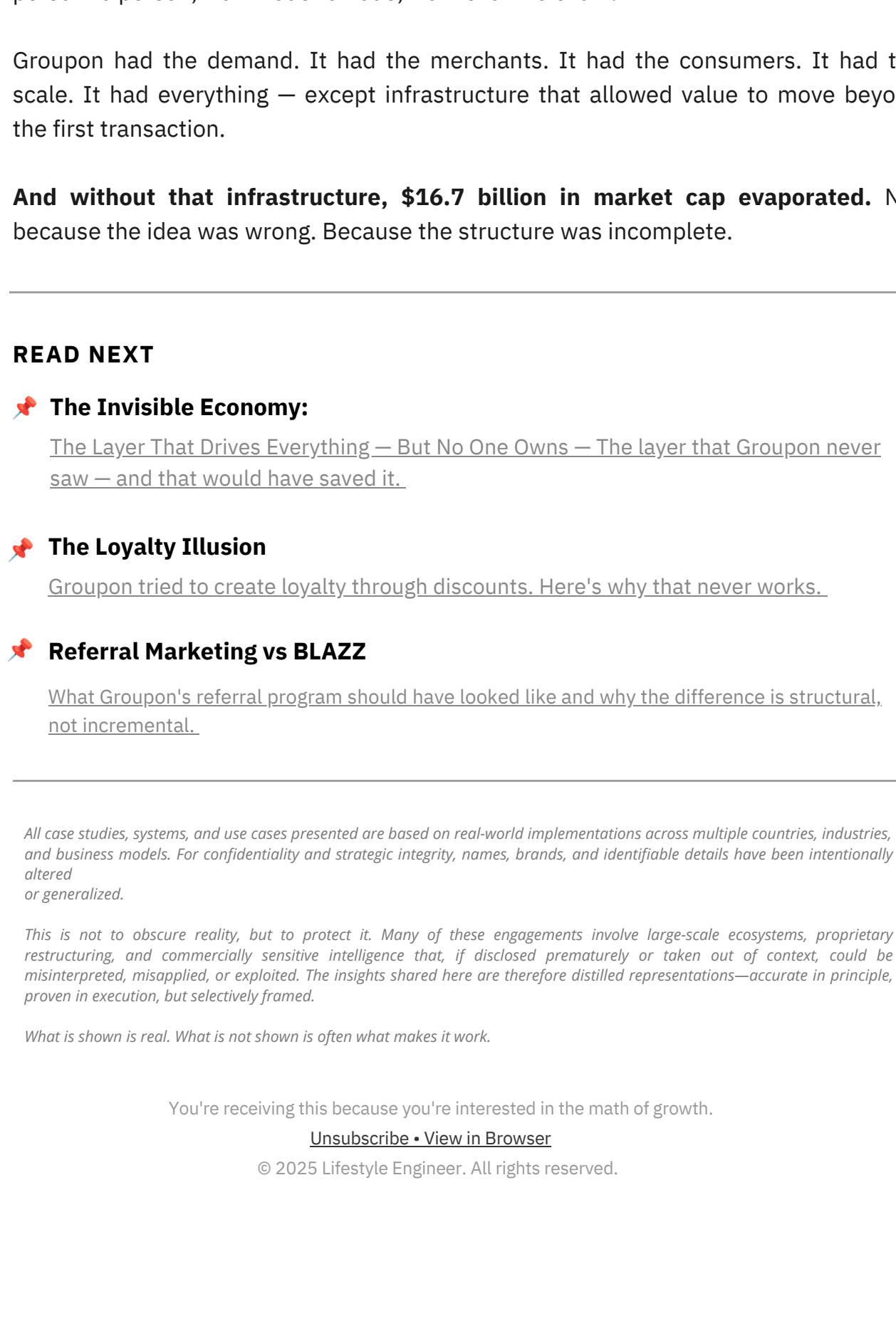
The Merchant Exodus

By 2013, the cracks were visible. Merchants were leaving Groupon in droves. Not because the platform didn't deliver customers — it did. But because the customers it delivered were structurally unprofitable.

A restaurant owner in New York told Business Insider: "We did a Groupon for \$30 worth of food for \$15. Groupon took half. We got \$7.50 per customer. Our food cost alone was \$10. We lost \$2.50 on every single Groupon customer — plus labor, plus overhead. We served 500 Groupon customers. We lost over \$1,250. And not one of them came back at full price."

This is the one-way value trap in its most naked form. Value flows from the merchant to the consumer. The consumer consumes it. It dies. The merchant is poorer. The consumer is gone. And Groupon — the middleman — took its cut regardless of whether any lasting value was created.

What Groupon Should Have Built



Imagine an alternative Groupon. Same concept—aggregate demand, connect merchants with consumers — but with a fundamentally different structure: **Instead of a 50% discount that dies at the point of transaction:**

Consumer gets a 25% offer (still compelling, still a reason to try) The other 25% goes into a reward pool — available to anyone who brings another customer When Consumer A refers Consumer B, and Consumer B purchases, Consumer A gets rewarded from the pool When Consumer B refers Consumer C, both Consumer B and Consumer A get rewarded

The chain continues

Same total discount. Fundamentally different outcome.

In the original Groupon model: 500 customers come, eat at a loss, leave forever. Total value created: zero (negative, actually).

In the restructured model: 500 customers come, 20% refer (100 referrals), each referral converts at 10% (10 new full-price customers), those 10 refer more, the chain continues. **The initial discount doesn't die — it generates a self-sustaining chain of full-price customers.**

Groupon didn't fail because discounts don't work. It failed because discounts without infrastructure are just losses with better marketing.

The Lesson Nobody Learned

Here's what's remarkable: **the business world watched Groupon collapse and learned the wrong lesson.**

The lesson they learned: "Daily deals don't work." "Deep discounts attract the wrong customers." "Groupon was a fad."

The lesson they should have learned: "One-way value always collapses. Any system where value stops at the first person — no matter how compelling the initial offer — will eventually fail. The only sustainable model is one where value moves — from person to person, from node to node, from chain to chain."

Groupon had the demand. It had the merchants. It had the consumers. It had the scale. It had everything — except infrastructure that allowed value to move beyond the first transaction.

And without that infrastructure, \$16.7 billion in market cap evaporated. Not because the idea was wrong. Because the structure was incomplete.

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