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An Investigation of Mergers and Acquisitions as the Growth and Globalization Strategy for Groupon

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As the fastest growing company in the daily deal social e-commerce arena, Groupon's growth and globalization strategy is of particular interest to researchers or investors interested in understanding this industry and its potential future growth and development. In this article, the researchers discuss the rapid pace with which Groupon has undertaken mergers and acquisitions as their primary growth and globalization strategy and also contemplate the pitfalls and challenges that form part of this strategy. Groupon's actions have been discussed in popular media. However, Groupon's "strategy" has not been evaluated at length in a peer-reviewed publication yet. Groupon was launched in 2008. During 2010 – just two short years after its inception – Groupon embarked on a spending spree to build an empire. Between May 2010 and May 2012 Groupon acquired twenty eight companies in the USA and around the globe for two major reasons: (1) to acquire new markets and customers and (2) to strengthen their underlying technology. The research method utilized in this article was a case study. Looking at the strategic fit between Groupon and its acquisitions in terms of its intended future direction, there is evidence of hasty and ill-conceived acquisitions of companies that did not necessarily present the most viable option. Acquiring daily deal imitators at a rapid pace undermines the depth of organizational learning needed for both successful post-acquisition integration and future acquisitions. In evaluating Groupon's success in utilizing M&A's as a globalization strategy, the researchers utilize the integration factors identified by Ruess and Voelpel (2012) in the development of their Post Merger Integration (PMI) Scorecard for evaluating post-merger integration. These factors include integration on the following levels: strategic, structural, personnel, cultural and stakeholders. These factors provide the outline for the discussion in this article.

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1. Introduction

The convergence of content sites and social networks in e-commerce has resulted in the emergence of group buying daily deal sites. Group buying daily deal sites have taken the established and unquestioned marketing tactic of utilizing coupons and brought it swiftly into the 21st century (Hughes & Beukes, 2012).

The daily deal social e-commerce platform represents the collective bargaining power that individuals can leverage to obtain daily deals on local products, services and experiences. Electronic coupons for local discounted deals from different merchants are distributed via e-mail and mobile channels to subscribers of websites like Groupon (Hughes & Beukes, 2012).

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As the fastest growing company in the daily deal social e-commerce arena, Groupon's growth and globalization strategy is of particular interest to researchers or investors interested in understanding this industry and its potential future growth and development. Groupon's actions have been discussed in popular media. However, Groupon's "strategy" has not been evaluated at length in a peer-reviewed publication yet. Therefore, the aim of this article is to investigate Groupon's mergers with and acquisitions of various companies across the globe as its primary growth and globalization strategy. Groupon was launched in 2008. During 2010 – just two short years after its inception – Groupon embarked on a spending spree to build an empire. Between May 2010 and May 2012 Groupon acquired twenty eight companies in the USA and around the globe for two major reasons: (1) to acquire new markets and customers and (2) to strengthen their underlying technology.

In evaluating Groupon's success in utilizing mergers and acquisitions (M&A's) as a globalization strategy, the researchers utilize the integration factors identified by Ruess and Voelpel (2012) in the development of their Post Merger Integration (PMI) Scorecard for evaluating post-merger integration. These factors include integration on the following levels: strategic, structural, personnel, cultural and stakeholders. These factors provide the outline for the discussion in this article.

2. Literature Review

Since the mid 1990's a new competitive dynamic has emerged. The Internet and enterprise information technology (IT) are accelerating competition in various industries and are effectively changing the competitive landscape for both high-tech and traditional companies. Not only products, but also processes have become digitized. This accelerated drive for competition is especially evident in technology-heavy industries with the sectors that spend the most on competitive technologies experiencing the most change (McAfee & Brynjolfsson, 2008).

Ongoing globalization has resulted in large companies establishing subsidiaries in numerous countries through acquisitions of and mergers with foreign companies or by establishing joint ventures (House, Javidan & Dorfman, 2001, p. 489). Most mergers and acquisitions (M&A's) are driven by the desire for increased market share. Fast-growing high-tech companies are often motivated by a need to obtain a competitive advantage in a highly competitive industry by strengthening their core business through the acquisition of other high-tech start-ups that have developed the required technology they lack. High tech start-up companies hold the promise of delivering new competitive ideas and growth potential. As an acquisition target, these start-ups represent lean purchases, since the value of most listed companies becomes inflated once an acquisition is announced. An acquiring company can obtain innovative technology with very little divestiture required, since the companies are essentially still focused on their core-business by virtue of their start-up status.

M&A's are a natural way of expansion for growing companies (Collan & Kinnunen, 2011, p. 118; Ooghe, Van Laere and De Langhe, 2006, p. 223; Ruess & Voelpel, 2012, p. 78); offering various potential benefits, such as efficiency increases, economies of scale and increases in market share (Bradley, Desai & Kim, 1983; Bruner, 2004a, 2004b; DePamphilis, 2009; Krishnamurti & Vishwanath, 2008; Pablo & Javidan, 2004; Walker, 2000), shared costs and risks as well as stock market returns for the acquiring company (Ooghe et.al., 2006, p. 224).

Additionally, the companies are in a better position to learn new technologies (Ulijn, Duysters & Meijer, 2010). However, their failure rate is very high (Ruess & Voelpel, 2012, p. 78) and the realized corporate growth of the acquired company after the fact remains heavily contested (Ooghe et al., 2006, p. 223). A number of studies have confirmed that between 50 and 80 percent of all mergers do not achieve their strategic, operational or financial goals, thus proving unsuccessful (Ruess & Voelpel, 2012; Ulijn et al., 2010). For these reasons, M&A's have been studied extensively by financial and management researchers.

The process of M&A's would practically involve the following steps: (1) target identification; (2) acquisition/merging; (3) integration; (4) post-acquisition/post-merger assessment. According to Ruess and Voelpel (2012, p. 78) successful acquisitions ultimately depend on the correct timing, the choice of a suitable target company and a low takeover price. If the timing is wrong or the wrong company is acquired, the companies might not achieve synergy. For this reason, pre-acquisition screening is required to ensure that the right companies are targeted for acquisition (Collan & Kinnunen, 2011, p. 118). Collan and Kinnunen (2001, p. 118) believe operational synergy and divestiture are the key drivers of acquisition success. Synergy can only be achieved if the two companies have managed to successfully integrate on all of the following levels: the strategic, structural, personnel, cultural and stakeholder levels (Ruess & Voelpel, 2012, p. 78). Additionally, the success of any prolonged merger and acquisition strategy is largely dependent on the organizational learning that occurs during the post-acquisition assessment phase (Agrawal & Jaffe, 2000; Epstein, 2004; Harding, Rovit & Corbett, 2004; Hitt et al., 2009; Ruess & Voelpel, 2012). The post-acquisition assessment phase is where envisioned synergies and expectations are either realized or broken (Collan & Kinnunen, 2011, p. 118; Ruess & Voelpel, 2012, p. 78). During this phase the acquiring company has an opportunity to assess how adept they were at identifying the right company to acquire and how successfully they managed to integrate the new acquired company into the existing corporate culture.

Groupon, as the fastest growing and biggest daily deal social group buying site, acquired twenty eight companies across the USA and globally in just two years. It was launched in November 2008 and has established itself as the industry leader. It features a daily deal on "*the best stuff to do, see and buy in more than 500 markets and 44 countries*" (Groupon, 2011). The initial response to the website was viral, starting with merchants in Chicago and neighboring cities lining up within a few months. No start-up has ever grown as fast. Within a year from its inception, Groupon had one million subscribers. Currently it has 143 million subscribers around the world (Privco, 2012; Stone & MacMillan, 2011). It went from zero to USUS$500 million in sales in the first eighteen months of trading (Saporito, 2011, p. 40). This growth in revenue has come largely from mergers and acquisitions. In this article, the researches discuss the rapid pace at which these mergers and acquisitions have taken place. The researchers evaluate whether Groupon gave consideration to strategic, structural, personnel, cultural and stakeholder integration upon acquiring each new company.

3. The Methodology and Model

The research method utilized in this article was a case study. Tracking the *history* of Groupon as part of the case study provided the researchers with the best way to address "*how*" and "*why*" questions around mergers and acquisitions as a globalization strategy (Yin, 2008, p. 13). Thus, the study became a sort of *case history* or *case record* (Merriam, 2009, p. 45).

Tracking each merger and acquisition enabled the researchers to draw certain conclusions about how Groupon is entering into different global markets.

Case studies are usually qualitative in nature (De Vos, Strydom, Fouché & Delport, 2009, p. 272; Eriksson & Kovalainen, 2008, p. 116; Leedy & Ormrod, 2010, p. 137; Merriam, 2009, p. 39) and are aimed at discovering meaning and gaining heuristic understanding (Eriksson & Kovalainen, 2008, p. 117; Merriam, 2009, p. 39). Through case study research, the researcher is able to present complex business issues in a simpler format (Eriksson & Kovalainen, 2008, p. 116). Case studies allow for rich descriptions (Merriam, 2009, p. 39, 43; Tellis, 1997). This particular study allowed the researchers to consider the markets Groupon has entered thus far as well as the strategic, structural and cultural factors in these markets that might influence the success of their globalization strategy. The particularistic nature (Merriam, 2009, p. 43) of case study research means that the findings discussed might have limited generalisability to other industries (Leedy & Ormrod, 2010, p. 137). However, the specificity of focus makes it a good design for addressing practical problems or issues (Merriam, 2009, p. 43).

In evaluating Groupon's success in utilizing M&A's as a globalization strategy, the researchers utilize the integration factors identified by Ruess and Voelpel (2012) in the development of their Post Merger Integration (PMI) Scorecard for evaluating post-merger integration. These factors include integration on the following levels: strategic, structural, personnel, cultural and stakeholders. Strategic integration plays the central role as it considers the strategic direction of the companies that are about to be integrated (Ruess & Voelpel, 2012, p. 79). This implies that an acquiring company has to consider how a newly acquired company would fit into the strategic direction the acquiring company would like to pursue. Structural integration complements strategic integration. The aim is to establish meaningful and strategically adequate organizational structures and processes for the newly integrated entity (Ruess & Voelpel, 2012, p. 79). Personnel integration requires consideration of the employees who will be retained in the newly merged entity as well as job requirements, skills development, incentive systems etc. (Ruess & Voelpel, 2012, p. 79).

Cultural integration seems to be the most difficult form of integration to achieve. The complex integration process involved in merging two separate entities into one newly created synergistic entity requires trial and error (Child, 2000; Salama, Holland & Vinten, 2003). There is a need for leadership that transcends cultures to understand what works and what does not work in different cultural settings (Triandis, 1993), especially if the integration is between different national cultures as is the case with M&A's in international markets. The cost of cultural conflict resulting from ineffective integration after an acquisition has been estimated to be as high as 25-30% of the acquirer's post-acquisition performance (Schweiger & Goulet, 2005). Lastly, stakeholder integration demands consideration of all the external stakeholders that will be affected by the merger or acquisition. Stakeholders include customers, business partners (merchants), shareholders and governments (Ruess & Voelpel, 2012, p. 79).

4. The Findings and Discussion

During 2010 – just two years after its inception – Groupon embarked on a spending spree to build an empire. Table 1 below serves as a summary of the different M&A's initiated by Groupon between April 2010 and May 2012. In each instance the target company is identified and the type of deal is specified. The acquired companies are also classified according to what their core business is. From this it is evident that Groupon has consistently acquired different companies for one of two major reasons: (1) to acquire new markets and customers and (2) to strengthen their underlying technology. All of the companies acquired in the USA and Canada were acquired for their innovative technologies and thus in order to strengthen Groupon's underlying technology. Companies acquired in foreign markets represent imitators of Groupon that were acquired as part of their growth and globalization into markets other than the USA. As Groupon was an unlisted company when it undertook most of these acquisitions, they were not compelled to disclose the price of each acquisition. For this reason, the financial viability of these M&A's are difficult to evaluate and will thus not be focused on in this article.

Table 1: Case history of Groupon's M&A's

Date	Target	Deal Type	Country	Company type
05/01/10	City Deal GmbH	Acquisition	Germany	Daily deals
05/01/10	Mob.ly	Acquisition	United States	Mobile application for social marketing
06/01/10	ClanDescuento	Acquisition	Chile	Daily deals
08/01/10	Darberry	Acquisition	Russia	Daily deals
08/01/10	Qpod.inc	Acquisition	Japan (2)	Daily deals (2)
12/01/10	uBuyiBuy	Acquisition	Hong Kong	Daily deals
12/01/10	Beeconomic	Acquisition	Singapore (3)	Daily deals (3)
12/01/10	AtlasPost	Acquisition	Taiwan (3)	Daily deals (3)
01/01/11	Sosasta	Acquisition	India	Daily deals
01/01/11	Twangoo	Acquisition	South Africa	Daily deals
01/01/11	Grouper Ltd.	Acquisition	Israel	Daily deals
01/01/11	Groupmore	Acquisition	Malaysia	Daily deals
02/01/11	Gaopeng.com	Joint venture resulting in formation of Gaopeng.com	China (4)	Daily deals (4)

Table 1: Case history of Groupon's M&A's (continued)

Date	Target	Deal Type	Country	Company type
04/06/11	Disdus (5)	Acquisition	Indonesia (5)	Daily deals (5)
04/18/11	Pelago, Inc.	Acq-Hire Acquisition	United States (6)	Mobile & web application to share daily experiences (6)
07/17/11	Zappedy(7)	Acquisition	United States (8)	Application for small businesses to gain online presence (7)
08/04/11	Obtiva(9)	Acquisition	United States (10)	Custom web & mobile applications(10)
10/01/11	Ludic Labs, Inc.	Acquisition	United States	Marketing service
12/09/11	OpenCal	Acquisition	Canada (11)	Online appointment booking & scheduling (11)
12/28/11	Campfire Labs	Acquisition	United States (12)	Start-up, social networking service (12)
01/21/12	Mertado	Acquisition	United States (13)	Social shopping platform (13)
02/06/12	Adku	Acquisition	United States (14)	Data-optimizing online shopping experience via product suggestions (14)
02/22/12	Kima Labs, Inc.	Acquisition	United States (15)	Mobile shopping application allowing users to scan barcodes & get recommendations (15)
02/22/12	Hyperpublic	Acquisition	United Stated (16)	Open database of people, places & things tied to a specific location (16)
02/28/12	UpTake Networks, Inc.12	Acquisition	United States (17)	Travel research site - enhances travel planning – includes advice & recommendations (17)
03/23/12	FeeFighters	Acquisition	United States (18)	Comparative shopping for the best deal on credit card processing fees for merchants (18)
04/16/12	Ditto.me (19)	Acquisition	United States	Mobile application for planning events with friends (19)
05/23/12	Breadcrumb (20)	Acquisition	United States	Point of sale systems (20)

Table 1: Case history of Groupon's M&A's (sources)

Source: Adapted from Gridley & Company (2011); Others sources include: (1) mail.ru group, n.d.; (2) Bloomberg Businessweek, n.d; (3) Singapore e-marketing, 2010; (4) Jiang, 2012; (5) TechCrunch, 2011a; (6) CrunchBase, 2011; (7) TechCrunch, 2011b; (8) Pastebin, 2011; (9) TechCrunch, 2011c; (10) Inc., 2011; (11) CruncBase, 2012a; (12) Wauters, 2011; (13) CrunchBase, 2012b; (14) Cheredar, 2010; (15) Crunchbase, 2012c; (16) Kincaid, 2012; (17) Business Week, 2012; (18) CrunchBase, 2012d; (19) TechCrunch, 2012; (20) FastCompany, 2012.

Groupon's success in utilizing M&A's as a globalization strategy can be evaluated utilizing the integration factors identified by Ruess and Voelpel (2012) in the development of their Post Merger Integration (PMI) Scorecard for evaluating post-merger integration. These factors include integration on the following levels: strategic, structural, personnel, cultural and stakeholders. The implications of each of these levels of integration are discussed below.

4.1 Strategic and Structural Integration

Conventional strategic wisdom dictates that a business first establishes itself as successful and profitable in its home market before exploring growth on a global stage. Groupon has ventured beyond its domestic market almost from the start by employing an aggressive growth strategy fuelled largely by mergers and acquisitions (Underwood, 2010, p. 118). Groupon faces a unique international landscape. Their "business model" has been imitated by startups in over 50 countries (Underwood, 2010, p. 116). Groupon's response to these imitators has been a globalization strategy that uses its venture capital, and now shareholders money, to buy out the companies that appear primed to be market leaders and that have amassed a sufficient local following (Andrews, 2011; Grindley & Company, 2011; Underwood, 2010). The companies they buy understand local preferences in their markets and can liaise with local merchants whilst implementing "best practice" as dictated by the Groupon head office in Chicago (Underwood, 2010, p. 118). The competitor/imitator must then be absorbed into the structure and culture of Groupon to achieve organizational synergy. This process can be referred to as "*imitator absorption*".

A limitation to this strategy is the amount of money Groupon has at its disposal to keep on buying the best imitator in each market. Misjudging which company is the "best imitator" to buy may result in money being spent on the wrong competitor. Ruess and Voelpel (2012) believe that the decision to merge with or acquire a competitor or imitator should form part of a carefully planned and intentional strategic direction that the acquiring company would like to pursue in future. In eleven months, Groupon acquired thirteen imitator companies from different international markets in an attempt to expand their reach and build a larger customer base. The prevailing reasoning behind these acquisitions seems to have been to reduce the number of imitators in overseas markets by acquiring the companies that were open to acquisition, since none of the acquisitions were hostile takeovers. Thus, the major factor Groupon considered in acquiring a new company was availability and ease of acquisition and not necessarily suitability of the acquired company to compliment Groupon's product offering and internal strategy. For example, looking at three different global regions – Asia, Africa and Latin America – Groupon rarely entered the largest market in a region or acquired the biggest competitor in a market, which points to an emergent strategy as opposed to an intended strategy.

Table 2: Asia Internet usage and population data

ASIA	Population (2011 Est.)	Internet users (31 Dec 2011)	Penetration (% Population)	Users (% Asia)
Afghanistan	29,835,392	1,256,470	4.20%	0.10%
Armenia	2,967,975	1,396,550	47.10%	0.10%
Azerbaijan	8,372,373	3,689,000	44.10%	0.40%
Bangladesh	158,570,535	5,501,609	3.50%	0.50%
Bhutan	708,427	98,728	13.90%	0.00%
Brunei Darussalam	401,890	318,900	79.40%	0.00%
Cambodia	14,701,717	491,480	3.10%	0.00%
China	**1,336,718,015**	**513,100,000**	**38.40%**	**50.50%**
Georgia	4,585,874	1,300,000	28.30%	0.10%
Hong Kong	7,122,508	4,894,913	68.70%	0.50%
India	**1,189,172,906**	**121,000,000**	**10.20%**	**11.90%**
Indonesia	**245,613,043**	**55,000,000**	**22.40%**	**5.40%**
Japan	**126,475,664**	**101,228,736**	**80.00%**	**10.00%**
Kazakhstan	15,522,373	5,448,965	35.10%	0.50%
Korea, North	24,457,492	--	--	--
Korea, South	48,754,657	40,329,660	82.70%	4.00%
Kyrgyzstan	5,587,443	2,194,400	39.30%	0.20%
Laos	6,477,211	527,400	8.10%	0.10%
Macao	573,003	308,797	53.90%	0.00%
Malaysia	**28,728,607**	**17,723,000**	**61.70%**	**1.70%**
Maldives	394,999	114,100	28.90%	0.00%
Mongolia	3,133,318	355,524	11.30%	0.00%
Myanmar	53,999,804	110,000	0.20%	0.00%
Nepal	29,391,883	2,031,245	6.90%	0.20%
Pakistan	187,342,721	29,128,970	15.50%	2.90%
Philippines	101,833,938	29,700,000	29.20%	2.90%
Singapore	**4,740,737**	**3,658,400**	**77.20%**	**0.40%**
Sri Lanka	21,283,913	2,503,194	11.80%	0.20%
Taiwan	**23,071,779**	**16,147,000**	**70.00%**	**1.60%**
Tajikistan	7,627,200	794,483	10.40%	0.10%
Thailand	66,720,153	18,310,000	27.40%	1.80%
Timor-Leste	1,177,834	2,361	0.20%	0.00%
Turkmenistan	4,997,503	110,924	2.20%	0.00%
Uzbekistan	28,128,600	7,550,000	26.80%	0.70%
Vietnam	90,549,390	30,516,587	33.70%	3.00%
TOTAL ASIA	3,879,740,877	1,016,799,076	26.20%	100.00%

Source: Internet World Stats, 2012 (http://www.internetworldstats.com/stats3.htm)

Groupon's approach to acquisitions in Asia does seem centered on accessing the largest and most lucrative markets. Table 2 above provides a list of Asian markets with Internet usage and population data. The three largest markets in Asia are India (with 11.9% of the total number of internet users in Asia), China (with 50.5% of the total number of internet users in Asia) and Japan (with 10% of the total number of internet users in Asia) (Internet World Stats, 2012). These three markets collectively hold 72.4% of the total number of Internet users in Asia and therefore represent the most viable markets for Groupon to consider in Asia.

Acquisitions in these major markets were complemented by purchases in Indonesia, Malaysia, Singapore and Taiwan. Although these markets are not comparable in population size, at least three of these markets boast Internet saturation levels ranging from 61% to 77%. Off all three global regions, the globalization strategy applied in Asia makes the most business and financial sense. However, the globalization strategy applied in Africa and Latin America makes less business sense from an investor's perspective.

Table 3: Africa Internet usage and population data

AFRICA	Population (2011 Est.)	Internet users (31 Dec 2011)	Penetration (% Population)	Users (% Africa)
Algeria	34,994,937	4,700,000	13.40%	3.40%
Angola	13,338,541	744,195	5.60%	0.50%
Benin	9,325,032	744,195	3.00%	0.20%
Botswana	2,065,398	167,180	8.10%	0.10%
Burkina Faso	16,751,455	230,562	1.40%	0.20%
Burundi	10,216,190	176,040	1.70%	0.10%
Cameroon	19,711,291	783,956	4.00%	0.60%
Cape Verde	516,100	148,800	28.80%	0.10%
Central African Rep.	4,950,027	123,800	2.50%	0.10%
Chad	10,758,945	190,863	1.80%	0.10%
Comoros	794,683	37,472	4.70%	0.00%
Congo	4,243,929	295,132	7.00%	0.20%
Congo, Dem. Rep.	71,712,867	915,400	1.30%	0.70%
Cote d'Ivoire	21,504,162	968,000	4.50%	0.70%
Djibouti	757,074	61,320	8.10%	0.00%
Egypt	**82,079,636**	**21,691,776**	**26.40%**	**15.50%**
Equatorial Guinea	668,225	42,024	6.30%	0.00%
Eritrea	5,939,484	283,699	4.80%	0.20%
Ethiopia	90,873,739	622,122	0.70%	0.40%
Gabon	1,576,665	108,845	6.90%	0.10%
Gambia	1,797,860	159,012	8.80%	0.10%
Ghana	24,791,073	2,085,501	8.40%	1.50%
Guinea	10,601,009	95,823	0.90%	0.10%
Guinea-Bissau	1,596,677	37,123	2.30%	0.00%
Kenya	**41,070,934**	**10,492,785**	**25.50%**	**7.50%**

Table 3: Africa Internet usage and population data (continued)

AFRICA	Population (2011 Est.)	Internet users (31 Dec 2011)	Penetration (% Population)	Users (% Africa)
Lesotho	1,924,886	83,813	4.40%	0.10%
Liberia	3,786,764	20,000	0.50%	0.00%
Libya	6,597,960	391,880	5.90%	0.30%
Madagascar	21,926,221	352,135	1.60%	0.30%
Malawi	15,879,252	716,400	4.50%	0.50%
Mali	14,159,904	414,985	2.90%	0.30%
Mauritania	3,281,634	100,333	3.10%	0.10%
Mauritius	1,303,717	323,494	24.80%	0.20%
Mayotte (FR)	209,530	10,620	5.10%	0.00%
Morocco	31,968,361	15,656,192	49.00%	11.20%
Mozambique	22,948,858	975,395	4.30%	0.70%
Namibia	2,147,585	148,414	6.90%	0.10%
Niger	16,468,886	128,749	0.80%	0.10%
Nigeria	**155,215,573**	**45,039,711**	**29.00%**	**32.20%**
Reunion (FR)	834,261	300,000	36.00%	0.20%
Rwanda	11,370,425	818,048	7.20%	0.60%
Saint Helena (UK)	7,700	900	11.70%	0.00%
Sao Tome &	179,506	31,012	17.30%	0.00%
Senegal	12,643,799	1,989,396	15.70%	1.40%
Seychelles	89,188	33,900	38.00%	0.00%
Sierra Leone	5,363,669	48,520	0.90%	0.00%
Somalia	9,925,640	106,000	1.10%	0.10%
South Africa	**49,004,031**	**6,800,000**	**13.90%**	**4.90%**
South Sudan	8,260,490	n/a	n/a	0.00%
Sudan	45,047,502	4,200,000	9.30%	3.00%
Swaziland	1,370,424	95,122	6.90%	0.10%
Tanzania	42,746,620	4,932,535	11.50%	3.50%
Togo	6,771,993	356,300	5.30%	0.30%
Tunisia	10,629,186	3,856,984	36.30%	2.80%
Uganda	34,612,250	4,178,085	12.10%	3.00%
Western Sahara	507,160	n/a	n/a	0.00%
Zambia	13,881,336	882,170	6.40%	0.60%
Zimbabwe	12,084,304	1,445,717	12.00%	1.00%
TOTAL AFRICA	1,037,524,058	139,875,242	13.50%	100.00%

Source: Internet World Stats, 2012 (http://www.internetworldstats.com/stats1.htm)

In Africa, Groupon acquired Twangoo in South Africa and has not yet entered other countries in Africa. This could perhaps be due to limited internet saturation in other African countries. Table 3 above provides a list of African countries and their internet usage and population data. From Table 3 it is evident that only 13.9% (in a total population of 49 million) of South Africans have access to the Internet, whereas 26.4% (in a population of 82 million) of Egyptians have Internet access; 25.5% (in a population of 41 million) Kenyans have Internet access and 29% (in a population of 155 million) Nigerians have Internet access. Egypt, Kenya and Nigeria potentially represent a much larger customer base and have higher Internet saturation rates. If market share is one of their considerations for global expansion, then

these markets should have been included in their globalization strategy. Of course South Africa has business infrastructure that makes entering this market much easier; yet in the Global Competitiveness Rankings from the World Economic Forum, Egypt is rated higher on openness to foreign trade investment, perceived financial stability and infrastructure than South Africa – with Egypt ranked 38th and South Africa ranked 42nd (House, Hanges, Javidan, Dorfman, & Gupta, 2004, p. 108).

Table 4: Latin America Internet usage and population data

LATIN AMERICA	Population (2011 Est.)	Internet users (31 Dec 2011)	Penetration (% Population)	Users (% Latin America)
Argentina	**41,769,726**	**28,000,000**	**67.00%**	**10.70%**
Bolivia	10,118,683	1,985,970	19.60%	0.80%
Brazil	**203,429,773**	**79,245,740**	**39.00%**	**30.30%**
Chile	**16,888,760**	**10,000,000**	**59.20%**	**3.80%**
Colombia	**44,725,543**	**25,000,000**	**55.90%**	**9.60%**
Costa Rica	4,576,562	2,000,000	43.70%	0.80%
Cuba	11,087,330	1,702,206	15.40%	0.70%
Dominican Republic	9,956,648	4,120,801	41.40%	1.60%
Ecuador	15,007,343	4,075,500	27.20%	1.60%
El Salvador	6,071,774	1,257,380	20.70%	0.50%
Guatemala	13,824,463	2,280,000	16.50%	0.90%
Honduras	8,143,564	1,067,560	13.10%	0.40%
Mexico	**113,724,226**	**42,000,000**	**36.90%**	**16.10%**
Nicaragua	5,666,301	663,500	11.70%	0.30%
Panama	3,460,462	1,503,441	43.40%	0.60%
Paraguay	6,459,058	1,523,273	23.60%	0.60%
Peru	**29,248,943**	**9,973,244**	**34.10%**	**3.80%**
Puerto Rico	**3,989,133**	**1,698,301**	**42.60%**	**0.60%**
Uruguay	3,308,535	1,855,000	56.10%	0.80%
Venezuela	27,635,743	10,976,342	39.70%	4.80%
TOTAL LATIN AMERICA	579,092,570	230,928,258	39.90%	100.00%

Source: Internet World Stats, 2012 (http://www.internetworldstats.com/stats10.htm)

We find another example in Latin America. Groupon acquired ClanDescuento in Chile. From Table 4 above we can see that Chile has an impressive 59.2% Internet saturation. However, the total population in Chile is only 16 million which represents a mere 3.8% of the total percentage of Internet users in Latin America. Mexico has regional proximity to the USA and a population of 113 million, which represents a much larger market, as 36.9% of the population in Mexico has access to the Internet. However, Groupon has not bought an imitator in Mexico. Instead, it leveraged the operations in Chile into this market. Additionally, the largest market in Latin America is Brazil where 39% of a population of 203 million has access to the Internet. Thus, 30.3% of the total number of Internet users in Latin America resides in Brazil. No imitators in this market have been bought either. Again, Groupon simply leveraged the operations in Chile into this market. The operations in Chile were also leveraged into Argentina, Columbia, Peru and Puerto Rico (Martinez-Audet, 2010). All of these countries boast Internet saturation levels of between 34% and 67%. It would have made more sense to buy into a large market like Brazil or Mexico and to leverage into smaller

markets than buying into a smaller market (like Chile) and leveraging into larger markets with more diversity.

From a strategic perspective, for a company to maintain its status as the market leader in an industry with low barriers to entry where imitators abound, acquisition of competitors makes sense. However, an intentional strategy would imply a well-thought-through acquisition of the most viable competitors in the market. Looking at the strategic fit between Groupon and its acquisitions in terms of its intended future direction, there is evidence of hasty and ill-conceived acquisitions of companies that did not necessarily present the most viable option. Rather, these companies were easy to acquire.

4.2 Structural and Personnel Integration

Research in organizational learning demonstrates that for an organization to remain competitive in a changing global business environment, it needs to continuously renew itself through learning (Holland & Salama, 2010, p. 269). New knowledge acquisition represents a unique competitive advantage, since organizations that acquire the relevant knowledge and skills will outperform those who do not (Geroski and Mazzucato, 2002). Between May 2010 and May 2012, Groupon acquired fifteen high-tech companies in the USA and Canada to expand and improve on their underlying technology; thus strengthening and expanding their core business.

Groupon has over 10 000 employees. However, a mere five percent of these employees work in "technology" where they are simply supporting the company's infrastructure and not developing new technology (Arora, 2011). It seems therefore that Groupon does not employ the "brain power" to develop new technologies that can strengthen its core business. Additionally, there is negligible spending on research and development (R&D) which has to be a core characteristic of a technology company. The software Groupon utilizes is not unique. Similar software has been developed by Microsoft and Google and various software vendors can provide similar off-the-shelf software to Groupon's competitors – of which there are over 500 (Arora, 2011). Ironically, Groupon is touted as a technology company, which contradicts the minimal spending on R&D, the lack of engineers that can develop new technology and the apparent simplicity of their existing technology.

Groupon's retention of talented human capital in the acquired companies thus seems to be a reactive response to criticism from the marketplace on these points. Many of the software developers from acquired companies have been retained as heads of various departments within Groupon. For example, in September 2011 Groupon acquired OpenCal. The co-founder of OpenCal, Simon Vallee, was retained as Senior Product Manager (Jackson, 2012). When Groupon acquired Ludic Labs in October 2011, the CEO, Dr. Brian Totty, was retained as Head of Engineering and was to be responsible for international product development and innovation (Wauters, 2010). Although the retained talent will strengthen their core business and help them expand their existing technology, it proves to be a very expensive head-hunting exercise.

All the technology companies Groupon acquired were high-tech startups with a small staff complement. Therefore, they all had simple organizational structures; largely centered on the founding entrepreneurs. It was relatively simple for Groupon to integrate these companies as

they absorbed selected employees into their existing organizational structure. The same cannot be said of imitators in other countries.

4.3 Cultural Integration

Increased globalization and increasing interdependence among nations necessitates better understanding of the influence of differences in culture on management and organizational practices (House et al., 2001, p. 489). Knowledge about national cultures during the integration phase of an acquisition has proven to be a priority issue (Holland & Salama, 2010, p. 270). Differences in national cultures can lead to sub-par M&A performance. Individuals from different national cultures have drastically different social institutions that affect their thinking and behavior. A country's educational system, labor market and geographical mobility all affect the development of its national culture. These national cultural differences can be a source of conflict and misunderstanding that can hamper effective collaboration in the newly created entity (Ulijn et al., 2010). The issue of national culture is particularly relevant for Groupon when acquiring companies in markets other than the USA.

It is not only national culture that influences the firm but organizational culture. In some cases organizational culture can be a larger problem because it represents the operational differences in the norms of the organizations practices and the behavior of its members. Studies have shown that differences in management styles and business practices increase ambiguity and the potential for misunderstanding in the process of knowledge transfer (Ulijn, 2010). Successful mergers, acquisitions and joint ventures involve the co-operative development of a new company culture that reflects the new "partnership". With international mergers and acquisitions comes the need to establish a new organizational culture and social identity for the newly created company (Elsaa & Veiga, 1994). A collaborative effort that allows for both national and corporate culture to disseminate into the newly formed corporate entity is more likely to result in synergy and hence a competitive advantage (Larsson, 1993; Elsaa & Veiga, 1994; Olie, 1994). For this culturally sensitive leadership is required to manage cultural differences between employees (House et al., 2001, p. 490).

Managers might wrongly assume that what made them successful in one market, will also guarantee them success in another market (House et al., 2001, p. 490), thereby underestimating the influence of national culture on employee attitudes and behaviors. It seems that Groupon has made this same error. Groupon directs international imitators it acquires in other markets to adopt its organizational culture, potentially underestimating the impact of existing organizational culture on retained management and staff from the original company. This can jeopardize achieving the valuable synergies that mergers and acquisitions are often lauded for (Underwood, 2010, p. 118).

An example of how Groupon has failed to consider the impact of national and organizational culture can be found in Gaopeng. A joint venture between Groupon, Tencent Collaboration Fund and Yunfeng Capital in China resulted in the formation of Gaopeng – which is the operating name used by this newly formed entity in the Chinese market. At the peak of its operations there were more than 3 000 employees operating in more than seventy cities. After several rounds of downsizing, it now operates in fewer than twenty cities all within the space of less than eighteen months (Jiang, 2012). According to Jiang (2012), the decline can be attributed to the following factors:

1) Blind expansion before understanding the local market
2) Hiring too many expatriates with insufficient knowledge of local markets and an inability to communicate effectively because they were unable to speak Mandarin
3) Failure to acknowledge differing market and social conditions

As already mentioned, the success of any prolonged merger and acquisition strategy is largely dependent on the organizational learning that occurs during the post-acquisition assessment phase (Agrawal & Jaffe, 2000; Epstein, 2004; Harding et al., 2004; Hitt et al., 2009). The post-acquisition assessment phase is where envisioned synergies and expectations are either realized or broken (Collan & Kinnunen, 2011, p. 118). During this phase the acquiring company has an opportunity to assess how adept they are at identifying the right company to acquire and how successfully they managed to integrate the new acquired company into the existing corporate culture. However, a sufficient period of integration is needed before a true value assessment can be done. Although there is no prescribed timeline for successful integration after an acquisition, it is doubtful that buying thirteen daily deal imitators between May 2010 and April 2011 (a timeline of a mere eleven months) provided enough time for successful integration and a robust assessment of the value thereof. Gaopeng was the second last international imitator that was acquired during this time. Had post-acquisition assessment and learning occurred, perhaps operations at Gaopeng would have been handled differently.

4.4 Stakeholder Integration

Stakeholder integration demands consideration of all the external stakeholders that will be affected by the merger or acquisition. Stakeholders include customers, business partners (merchants), shareholders and governments (Ruess & Voelpel, 2012, p. 79). Early in 2012, Groupon commissioned ForeSee, a leading market research company in the USA to assess customer satisfaction, using their company's standard methodology. Compared to findings from the last five years Groupon delivered a customer satisfaction score that is among the highest for any online retailer in the USA (Hess, 2012). Groupon has not published customer satisfaction ratings for any of the international markets where it currently has a presence. In some of these markets the daily deal site's functionality is limited to major cities with only a few deals available. This would probably influence customer satisfaction rates in those countries in comparison to the USA where there is high market saturation. For example, Groupon/MyCityDeal (in South Africa) boasts special deals in various cities. However, upon closer investigation some of these cities only have one or two deals on offer and in other cities no deals are available yet, despite a website advertizing a presence in these cities. A local customer complaints website in South Africa – i.e. HelloPeter.com – reveals 2 282 dissatisfied customers complaining about poor service or no follow through on deals offered as well as difficulty in contacting Groupon and Groupon's failure to respond to their queries (Group Buying South Africa, 2012).

According to findings from ForeSee, merchant satisfaction in the USA was also ranked high and was above the average of Fortune 500 companies in business to business dealings. The biggest challenge for merchants advertising through Groupon is that customers obtained through offering daily deal coupons are mostly bargain hunters and do not necessarily have the intention to become loyal customers (Davis, 2011). Furthermore, potential merchants should consider the profit pay-off. Offering a 50% discount on a product or service, of which

Groupon takes about half the profit may be unaffordable for the merchant (Del Rey, 2010, p. 104). Groupon's payment terms can also be disastrous for merchants with limited liquidity. Groupon typically sends payments in three installments – one in the week that the deal is offered, the next, thirty days later and the final payment, sixty days after the deal is offered (Del Rey, 2010, p. 104). Competitors have already cottoned on to the weakness in Groupon's business model. LivingSocial and Google Offers are offering faster payment terms and Amazon Local is paying merchants immediately (Davis, 2011).

When considering international markets to invest in, companies value economic, legal and political stability in the countries and markets they enter. Regulations protecting consumers and governing operations in each one of the foreign markets Groupon has entered will vary to some degree. Groupon needs to familiarize itself with the specific legislation and business practices that will affect its operation in these foreign markets so as not to fall foul of the law.

Groupon recently boasted one of the largest initial public offerings (IPO) at US$700 million. After the first day of trading, the three year old company was valued at US$16.5 billion (Rusli, 2011). Groupon offered only five percent of its outstanding shares, making it the second smallest stake float in the last decade and conveniently pushing up the stock price (Kessler, 2011). After the initial hype, Groupon was forced to restate its earnings for its first quarter ending February 2012 by adjusting its revenue and income downwards after a change in their expenses was reported (Cohan, 2012).

However the biggest threat to investor confidence is likely to come from the weakness in its internal financial controls that Groupon made public after its first quarter as a listed company. The Securities and Exchange Commission (SEC) apparently does not require the disclosure of weak internal financial controls in a company's IPO prospectus before a company is listed. Thus, it was perfectly legal for Groupon not to reveal this flaw to potential investors. The seventeen percent devaluation of their stock following the announcement is a strong indicator of how investors feel about being misled (Weil, 2012).

Stakeholder relationships are complex and multi-dimensional. They require continuous effort to ensure harmonious relationships. No company can ever claim that they have arrived when it comes to building stakeholder relationships as these require continuous effort. It is therefore more important for the company to consistently re-evaluate and work towards mutually beneficial relationships than to simply rely on past successes. Whether this type of ethos exists at Groupon is yet to be seen.

5. Conclusions and Implications

Groupon, the fastest growing company in the daily deal social e-commerce arena, has undertaken mergers and acquisitions as its primary growth and globalization strategy. During 2010 – just two years after its inception – Groupon embarked on a spending spree to build an empire, acquiring twenty eight companies in the USA and around the globe for two major reasons: (1) to acquire new markets and customers and (2) to strengthen their underlying technology. However, Groupon's ability to leverage possible synergies from its mergers and acquisitions should be questioned in light of the pace of its growth. Conventional strategic wisdom dictates that a business first establishes itself as successful and profitable in its home market before exploring growth on a global stage. An intentional growth and globalization

strategy would imply a well-thought-through acquisition of the most viable competitors in each market. Looking at the strategic fit between Groupon and its acquisitions in terms of its intended future direction, there is evidence of hasty and ill-conceived acquisitions of companies that did not necessarily present the most viable option.

Groupon directs international imitators it acquires in other markets to adopt its organizational culture, potentially underestimating the impact of existing organizational culture on retained management and staff from the original company. This can jeopardize the achievement of synergies. The success of any prolonged merger and acquisition strategy is largely dependent on the organizational learning that occurs during the post-acquisition assessment phase. While there is no prescribed timeline for successful integration after an acquisition, it is doubtful that buying thirteen daily deal imitators in a mere eleven months provided enough time for successful post-acquisition integration. In order for Groupon to discern the wisdom of future acquisitions, sufficient time should have elapsed to enable them to analyze and learn from previous acquisitions. It is important for Groupon to consistently re-evaluate and work towards mutually beneficial relationships with its external stakeholders. Whether this type of ethos exists at Groupon is yet to be seen.

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