Groupon fires CEO, still faces underlying problems

BARBARA ORTUTAY - AP Technology Writer - Associated Press

Now that Groupon has gotten rid of its quirky founder and CEO, the chief question is whether the company's underlying online deals business is promising enough to reverse its falling stock price, declining revenue growth and waning consumer interest.

Groupon Inc. fired Andrew Mason on Thursday, one day after the company reported another disappointing quarter amid worries that people are tiring of the restaurant, spa and Botox deals that Groupon built its business on.

In a refreshingly candid memo to staff, Groupon CEO Andrew Mason admitted he "failed at this part of the journey" and said the company's employees "deserve the outside world to give you a second chance. I'm getting in the way of that. A fresh CEO earns you that chance."

Mason's firing has been "fairly widely expected" given the company's performance, and the surprise was how long it took, Gartner analyst Michael Gartenberg said.

But a new CEO may not be enough to tackle all of Groupon's problems.

"The question is whether this as a business model can last," Gartenberg said. "It's easy to replicate and under a lot of pressure. The question is where the company goes from here.... Clearly something wasn't working, isn't working."

Benchmark Capital analyst Daniel Kurnos also questioned whether a change in leadership will be enough, but he said a successor might succeed in getting Groupon more focused and steering it toward more traditional businesses. For example, Groupon Goods, which sells products rather than restaurant or spa deals, has been performing well. With its deals, Groupon's challenge is to balance pleasing merchants who sell the deals with pleasing the customers who buy them, he added.

"There was always a sense that Groupon had a lot of good ideas but no real focus," he said.

The company appointed Executive Chairman Eric Lefkofsky and Vice Chairman Ted Leonsis to the Office of the Chief Executive while a replacement for Mason is found.

Groupon Inc.'s stock jumped more than 4 percent in extended trading following Thursday's announcement.

Mason, a Northwestern University graduate and former punk band keyboardist, founded Groupon in 2008, pioneering the daily deals business. The idea is that if

enough people sign up for a discount — for restaurant meals, manicures or weekend getaways — offering the deals will be worthwhile for businesses, especially if customers bring friends or come back. Groupon makes money by taking a cut from those deals. By 2010, Groupon was available in 25 countries, and some people saw online deals as the next big thing in retailing.

But analysts have been questioning the long-term viability of such a business, not just at Groupon but also at the long list of copycats, which include LivingSocial, Google Offers and Amazon Local.

While the business is easy to set up, it is difficult to sustain and to stand out. Companies must make both their customers and the businesses that offer the deals happy. Many merchants have become reluctant to offer deals because of how little they were getting in payments and repeat business once the promotions ended. And to keep growing, companies need to make more from each subscriber, rather than simply add more addresses to email deals lists. Investors had been worried that instead of buying more, people were suffering from fatigue over the frequent emails.

LivingSocial, Groupon's closest competitor, laid off 9 percent of its workforce late last year. To diversify its business, Groupon has expanded into product sales, payments services and other areas, but there have been worries that those efforts haven't been paying off.

Mason, known for an eccentric character that didn't fit the mold of a buttoned-down CEO, made no qualms about what had happened.

"I've decided that I'd like to spend more time with my family. Just kidding — I was fired today," wrote Mason, 32. "If you're wondering why... you haven't been paying attention."

He referred to controversy over its accounting practices, "two quarters of missing our own expectations and a stock price that's hovering around one quarter of our listing price." The stock fell another 24 percent Thursday before the announcement and closed at $4.53, 77 percent below the $20 it started trading at when Groupon went public in November 2011.

"The events of the last year and a half speak for themselves," he wrote. "As CEO, I am accountable."

Groupon, which is based in Chicago, has faced scrutiny about its high marketing expenses and enormous employee base. Its staff has ballooned to more than 11,000, more than that of other Internet darlings such as Twitter, Facebook or Zynga Inc., the other fallen star of the latest swath of Internet IPOs.

Groupon's IPO was one of the most highly anticipated — and controversial — among the social media and Internet companies that began publicly trading in the past year and a half. It faced regulatory scrutiny for reporting as revenue the total amount its customers spent on deals, not just the money it got to keep. After

federal regulators questioned the practice, Groupon submitted new documents that showed that net revenue in the first half of 2011 was about half of what it originally reported.

Though it made a profit in the second quarter of last year — its only profitable quarter as a public company — investors have been more focused on its slowing revenue growth. In 2012, its first full year as a public company, Groupon's revenue increased 45 percent to $2.33 billion. But that's much slower than the five-fold growth in 2011 and 22-fold increase in 2010, compared with the previous years.

Thursday's announcement came one day after more disappointing news on revenue. The company said revenue in the current quarter would be in the range of $560 million to $610 million, below analyst expectations of $647 million.

Groupon said Mason was not available for interviews.

The company did not disclose details about any severance package he might have received, though it will be required to do so by next week. In a regulatory filing last year, Groupon said Mason is potentially entitled to $4,344.36 in total compensation if he is fired "without cause or for good reason." The bulk of that amount is for health coverage, as Mason voluntarily reduced his base salary to $756.72 in 2011, from $180,000.

Much of Mason's wealth comes from Groupon's stock. He owns 7 percent, or about 46 million shares, according to FactSet. Based on Thursday's closing price, that's worth more than $208 million.

In a statement, Groupon's Leonsis said that the company "will continue to invest in growth, and we are confident that with our deep management team and market-leading position, the company is well positioned for the future."

Gartenberg called the way the announcement came out "refreshingly honest."

"There was no pretense that he is leaving to pursue other interests or spending more time with his family," he said.

Groupon's stock hasn't traded above $10 since last July and hit its lowest point, $2.60, in November. Until Wednesday's earnings report, the stock had been crawling back up, but the results disappointed investors who sent it tumbling once again.

After the announcement of Mason's ouster, the stock gained 19 cents to $4.72 in after-hours trading. The modest 4.2 percent gain, compared with the 24 percent drop earlier in the day, is a sign that investors will need more than the CEO's firing to start believing in Groupon again.

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