

Montreal Gazette

Strength In Numbers; Good for consumers and retailers, group buying has become wildly popular

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Illustrations: Graphic/Diagram: 20% Off 30% Off 15% Off 50% Off; Photo: ALEN MCINNIS THE GAZETTE / Eduardo Mandri (principal investor) with Nicole Tarazi (Montreal manager) of Tuango. ca. Mandri says the company is turning a profit, and plans to expand to offer deals in Quebec City, Ottawa, Toronto, Winnipeg, Edmonton, Calgary and Vancouver.;

When Eduardo Mandri and a group of entrepreneurs started Tuango. ca last June, they were one of only three offering daily deals for businesses and events in Montreal.

By the end of this year, there will be eight such companies, and the space will get even more crowded next year.

Tuango is based in Old Montreal, and competes with Toronto-based Teambuy. ca, and Guelph, Ont.'s StealtheDeal. com. In the next few months, Yellow Pages will launch competing ventures, with English and French offerings. Four other companies are also looking to establish themselves in this rapidly growing market.

The trend is called group buying, or social buying, and it was made popular by the wildly successful Chicago-based company Groupon.

Group-buying companies come to agreements with merchants to get a large number of people to try out their services, at heavily discounted prices (typically from 50 per cent to 90 per cent). They offer deals like \$50 worth of goods for \$25, which can be bought on the group-buying websites. There must be a critical mass of people buying the deals for them to be honoured.

The payoff for retailers is they can tap into the vast networks of the group-buying companies and reach a new clientele. The group-buying companies generally get 50 per cent of the value of the deal, so in the above case it would be \$12.50 per coupon sold.

Usually, retailers working with group-buying companies are local ones, with limited advertising budgets, but Groupon recently had a national campaign with the clothing store The Gap, which was a huge success, evidence - group buying is more - just a fad.

Groupon, - started in 2008, - on pace to - \$500 million in revenue this - and is valued now at about \$1.35 billion. It could be the fastest company to achieve \$1 billion in revenue, outpacing giants like Google, Amazon and Priceline.

Mandri, one of the entrepreneurs behind the website travelalerts. ca, said he started Tuango because there appeared to be a void in the Montreal market. Although Groupon is present in 22 countries, and has established a presence in Toronto, it has yet to

come to Montreal.

"It required a lot of investment to start it up," Mandri said. "It looks simple, but we had to get the technology, we had to hire salespeople and get them out there, and we had to spend a lot of money on online advertising."

Mandri said so far he's surprised by how quickly the business has grown. About 40,000 people subscribe to Tuango.

He said the company is turning a profit, and plans to expand to offer deals in Quebec City, Ottawa, Toronto, Winnipeg, Edmonton, Calgary and Vancouver.

Mandri is also preparing his company to face stiff competition in the coming months. This year, Yellow Pages Group bought the website Redflagdeals. com, and plans to launch a feature called Deal of the Day through the site next month. The French daily deal will be offered on the paid classified site LesPac. com.

Other upcoming new entrants in this sphere are locally based iget. it, ilovemtl. ca, rabaisdujour, and Washington D.C.-based Livingsocial. com.

Derek Szeto, the founder of Redflagdeals. com, said group buying has become a hot sector because the business model is easy to replicate in any market. He added that the group-buying companies also tap into a market that had until recently been reluctant to spend on online advertising.

"For small businesses that generally don't spend a lot of money on online advertising, this is a very effective way to do that with a low risk," Szeto said.

Sebastien Provencher, an entrepreneur, social media guru and former head of online strategy for Yellow Pages, said the concept was tried in 1999, but failed miserably. He said the advent of social networks has helped spread messages quickly, and now people can find out about a deal in a matter of minutes. He said the recent recession also created perfect timing for the launch of a discount-based company.

"People have been looking for deals, and merchants have been trying to find new ways to market more efficiently," Provencher said. "With group buying, you get customers who are sure to come to your store and buy something."

He said because of the deep discounts, companies don't make a lot of money, but they're betting on getting repeat customers, or hoping that customers will spend over and above the discounted rate.

Provencher said group buying isn't revolutionary, but it is game-changing.

"It's essentially an evolution of the coupon concept," Provencher said.

"It's a new option that small businesses will be able to use as a tactic to bring people to their stores."

He added that he expects traditional media companies like newspaper publishers will start their own ventures or buy out existing ones, because group-buying sites are now "eating their lunch."

In the coming months, Provencher expects such mass media companies as Quebecor, Gesca and Transcontinental to launch group-buying initiatives in the coming months or years.

"They must be thinking about it," he said. "It makes sense for their business models."

And it's a good idea for Yellow Pages to get into this market because it already has an extensive marketing strategy, and good brand recognition, Provencher said. He added this will allow the company to diversify its revenue, rather than relying on annual subscriptions.

Log on to montrealgazette.com/technocite to see a video interview with Tuango's founder and manager.

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