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Groupon India: A Management Buyout Decision

Rajesh Panda, Madhvi Sethi, and Pooja Gupta wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On January 23, 2015, Ankur Warikoo and Sumeet Kapur were working late, as had become the norm. They were tense because they had not yet received a reply from the venture capital firm Sequoia Capital (Sequoia) regarding a proposal they had submitted to the firm. Warikoo’s phone pinged, indicating an incoming email. He quickly scanned the phone and looked triumphantly at Kapur, as he said, “Call everyone for a meeting tomorrow at 10:00 a.m. Sequoia wants to meet on the 27th of January.”

Warikoo was the chief executive officer (CEO) of Groupon India, a subsidiary of Groupon Inc. He had been associated with the company since it was established in India in 2011. Along with Warikoo, the core management team of Groupon India consisted of Kapur, the chief financial officer; Sachin Kapur, the chief marketing officer; Ankur Sarawagi, the head of business (travel and product); and Ravi Shankar, the head of business (local) (see Exhibit 1).

The management team at Groupon India wanted to revamp the company’s business model, as they recognized a huge potential in India for creating an online marketplace to offer offline services through tie-ups with different merchants, something they were not yet able to do because they were bound by the parent company’s strategies, which mainly revolved around selling deals online.

The team had proposed a management buyout to Groupon Inc. in the United States, which the parent company had agreed to, contingent on the Indian arm finding an investor for the company. The team had thus pitched the proposal to Sequoia.

Groupon Inc.’s Foray into the Indian Market

Groupon Inc. operated online local commerce marketplaces worldwide that connected merchants to consumers by offering goods and services at a discounted rate.[[1]](#footnote-1) Groupon entered India in January 2011 by buying Sosasta.com,[[2]](#footnote-2) which operated as a discount deal start-up. It was rebranded as Crazeal in August 2011 because it was believed that Sosasta was too close to sasta (meaning ‘cheap’ in the Hindi language), and may have been giving the wrong impression to prospective customers. Warikoo was appointed CEO of Crazeal in 2011, when Crazeal’s management team was also revamped to reflect the 2015 structure mentioned above.

In November 2012, Crazeal was rebranded as Groupon India to take advantage of the Groupon brand name. At that time, the Crazeal website featured deals from 400–500 merchants every month and sold a voucher every 33 seconds.[[3]](#footnote-3)

Groupon India followed the same business model as that of its parent company in the United States. The parent company operated in three segments: North America, which represented the United States and Canada; EMEA, which consisted of Europe, the Middle East, and Africa; and ROW (Rest of World), its international operations. Groupon India was part of the ROW segment. The company offered deals on goods and services in three categories: local deals (local), Groupon goods (goods), and Groupon getaways (travel).

Under the local category, both local and national merchant deals were available under multiple subcategories. The subcategories were classified as food and drink, events and activities, beauty and spa, health and fitness, home and garden, and automotive. Deals on different merchandise, such as electronic goods and household items, were available under the goods category, while both international and domestic travel deals were available through the travel category (see Exhibit 2).[[4]](#footnote-4)

The majority of the company’s revenue (more than 80 per cent) came from North America, with EMEA and ROW contributing the rest. Although Groupon India was one of the fastest-growing subsidiaries in the parent company’s portfolio, its overall contribution was not substantial enough to make it the prime focus of the parent company.

Challenges faced by Groupon India

Groupon India faced many challenges related to technology, projects being centralized in the United States, and meeting local requirements when customizing its services.

The business model, which relied heavily on merchants offering deep discounts and holding flash sales, was not working for many reputable merchants in India. For example, a flash sale offering a 65 per cent discount left only 24 per cent of the listed price with the merchant since Groupon Inc. typically charged 32 per cent commission on the discounted selling price (a listed price of ₹100[[5]](#footnote-5) with a discount of 65 per cent gave a discounted price to the consumer of ₹35; Groupon Inc.’s commission of 32 per cent of this amount was ₹11, leaving ₹24 for merchants). This business model’s disadvantage to merchants made it difficult for Groupon India to attract new merchants to its platform. For the parent company’s model to be successful in India, it was imperative for Groupon India to continuously discover new merchants who were willing to offer deep discounts, but this was not happening in the Indian market. Although the company put a lot of effort into signing up new merchants, retaining even the existing merchants was becoming a challenge.

Groupon Inc. had based its model on its understanding of consumers in the United States, but Groupon India realized that the demographics of consumers in India were different. Groupon India identified that around 60 per cent of purchasers on its website were male, unlike in the U.S. market where the majority of purchasers were female. It was further identified that, in India, college students were the primary customers purchasing deals on Groupon India’s website; however, students were neither loyal nor had much purchasing power. Hence, customer retention was a major issue. Groupon India had few active customers because of merchants’ low participation in offering deals. The team at Groupon India thus concluded that duplicating the parent company’s strategy was ineffective locally.

Groupon India had debuted handsomely in the Indian market. It continued its dramatic progress with a growth rate in net gross billings of 317 per cent in 2012 on a year-on-year basis. The growth rate in subsequent years was 146 per cent in 2013 and 89 per cent in 2014 (see Exhibit 3). The team felt that the market for deals was saturating very fast and that they would need new strategies to maintain their growth.

The management team believed that the focus in India, unlike in the United States, should have been more on the offline services categories. They identified five such categories—food and beverages, wellness, movies and events, entertainment and activities, and travel. While services in these categories were provided offline, there was tremendous potential for selling them online. The market size of these services was estimated to be in the range of US$80 billion–100 billion, of which a small fraction was being sold online. The potential growth opportunity in selling such services online was expected to be huge, and to grow constantly. To tap into this opportunity in the Indian market, the Groupon India team believed the company would have to collaborate with local merchants in the above categories and give them the freedom to decide on the deal parameters, which differed from the practice that Groupon Inc. followed in the United States.

the Groupon APAC Conference in Jakarta

The management team from Groupon India attended the Groupon Asia-Pacific (APAC) summit in Jakarta, Indonesia, in March 2014. The summit was a meeting of all top Groupon management teams in the APAC region to discuss future strategies to grow the business in their respective countries. One of the presentations highlighted the fact that, unlike North America and EMEA, the ROW region had shown negative growth in the past two quarters.[[6]](#footnote-6)

After the day’s presentations, Warikoo met with the head of Groupon APAC. In the meeting, Warikoo highlighted the differences between the global and the Indian markets and the corresponding need for a more localized, India-based strategy. He pointed out that Groupon India was one of the fastest-growing subsidiaries and had nearly doubled its business in the past year. He felt that to exploit the full potential of the Indian market, Groupon India needed more agility and more autonomy in decision-making. Accordingly, Warikoo suggested that Groupon Inc. run Groupon India as an independent entity not bound by the global strategy.

Warikoo later discussed with his team members the idea of spinoff he had presented to the Groupon APAC head. The team agreed that to grow and be successful in India, they had to move toward localized strategies, and so they considered their various strategic options.

One idea discussed was to exit Groupon Inc. and start a new venture with a localized business model to exploit the vast potential of increasing service retailing on an online platform in India. Although the idea was at first welcomed by all, doubts and concerns about it slowly crept in. One concern was the funding of the project and another was the loss of time and effort invested by the team over the past four years to build the current business. The team also felt that for the new venture to reach the level of Groupon India, they would require multiple rounds of funding and a subsequent dilution of owner’s equity. They believed that three to four rounds of funding would be typical in a start-up; the founders would dilute 40 per cent in the first round and 30 per cent each in subsequent rounds. Taking the idea of a spinoff further, the team discussed the extent of autonomy that such a move would provide them with in terms of revamping the business model and making it more localized. They were skeptical of the role of the existing team if the spinoff option was pursued.

After much deliberation on possible alternatives, the team decided to propose a management buyout to Groupon Inc. for the Indian operations. The team finalized the proposal and Warikoo pitched it to the CEO of Groupon Inc. The CEO seemed interested in the idea and asked Warikoo to look for investors for the buyout.

the Management Buyout

A management buyout typically entailed a company’s top management buying the company from the existing shareholders, usually with the help of outside investors. Warikoo understood that Groupon Inc. wanted to remain a shareholder in the new entity, with the top management team at Groupon India being one of the other shareholders. After his meeting with the CEO of Groupon Inc., Warikoo and his team began talking to various venture capitalists and private equity investors, including Sequoia. The team was looking at an investment of ₹800 million–1,200 million for expansion and localization.

On January 24, 2015, the management team at Groupon India met to discuss the points in their term sheet that they deemed essential and presumed would be raised by Sequoia in the negotiations (see Exhibit 4). They discussed the company’s value: If they agreed on a higher valuation, they would have to dilute less and their equity stake would become more valuable; if they went for a lower valuation, they would have to be ready to give up some amount of financial gain for more voting rights. As per the management team’s estimates, the pre-money value of the company was approximately ₹2.3 billion. How should the shareholding pattern of the new entity be decided? Should all three shareholders have an equal stake in the business? What would the repercussions be if one of the shareholders had a majority stake? The management team discussed several shareholding options, and considered how many directors should be on the board and how the board of directors would be chosen (see Exhibit 5). They also deliberated on dividend rights, liquidation preference, anti-dilution protection, and other terms.

Warikoo was hoping for a positive response from Sequoia. He was confident in the business model proposed by his team and was sure that Sequoia would come on board. The only question remaining was the size of the investment and the shareholding pattern. He was rueful that although it was called a management buyout, management would never have majority control of the company. He wondered whether starting a new company in the same sector with 100 per cent management control would be a better option.

Exhibit 1: Biographies of groupon india’s Top Management Team

Ankur Warikoo, chief executive officer (CEO), Groupon India

Warikoo was made CEO of Groupon India in 2011 when Groupon Inc. entered the country. From June 2013 to December 2014, he had an additional charge as head, Groupon APAC Emerging Markets, comprising India, Indonesia, Thailand, and the Philippines. Before joining Groupon India, Warikoo was a venture partner for Rocket Internet SE, working with two other venture partners to set up the company’s India office. He was then part of the pre-launch team for Jabong.com before moving to Groupon India (which, at that time, was also a Rocket Internet SE investment). Warikoo was also co-founder of Accentium Web Pvt. Ltd. (Accentium), where he worked part-time, until September 2010, while also maintaining a full-time commitment at A.T. Kearney (2007 to 2009). In 2009, he jumped full-time into his role at Accentium, eventually exiting the venture in September 2010. Accentium, at that time, operated a portfolio of six websites, spanning products and services comprising Gaadi.com (India's number two auto portal site), SecondShaadi.com (India's number one site for people looking for a second marriage and the country’s fourth-largest matrimonial site), StudyNation.com (India's largest education website), Taaza.com (a horizontal-content platform with content across multiple domains), SitaGita.com (one of the leading online brands catering to a female audience), and AdLift, considered one of the best known search engine optimization firms in India. Warikoo was listed on Fortune India's “40 Under 40” list in 2013 and 2014. He was awarded India's Most Promising Entrepreneur for 2013 by Enterprise Asia, and in 2014 he was recognized as one of India's top 25 executives under the age of 40 by *Business Today*. Also an angel investor for Internet and technology start-ups, Warikoo was passionate about ideas that bet on tomorrow, and was backed by a fearless team for whom risk was just a state of mind.

Sumeet Kapur, chief financial officer (CFO), Groupon India

Sumeet was regional finance director of Groupon APAC Emerging Markets from June 2013. Before joining Groupon India, Sumeet was co-founder and director, finance, at Edutopper.com, an e-learning company that had developed a strong line of e-learning products called Mathtopper and Sciencetopper for the kindergarten-to-grade-12 market in India. From May 2010 to August 2011, Sumeet was a senior consultant in merger and acquisition transaction services at KPMG India, after having worked there as assistant manager, audit.

Ankur Sarawagi, head of business (travel and product), Groupon India

Sarawagi joined Groupon India in March 2011 to set up Groupon India's National Business, Travel and Product division. Prior to this, Sarawagi had served as associate consultant at Bain Consulting India Pvt. Ltd. since April 2007.

Ravi Shankar, head of business (local), Groupon India

Shankar joined Groupon India in September 2011 to develop the company’s business in South India. Before joining Groupon India, Shankar was a national sales manager at Wipro Ltd., India, from 2008 to 2011, where he was responsible for India geography sales for their new proposition. He started the business from scratch and grew it to a more than ₹1,000-a-month total contract value in three years’ time and earned customers from across banking, financial services, education, and other sectors. He had been with Wipro Ltd. from 2003 until 2008, first as a pre-sales consultant and then as regional practice manager.

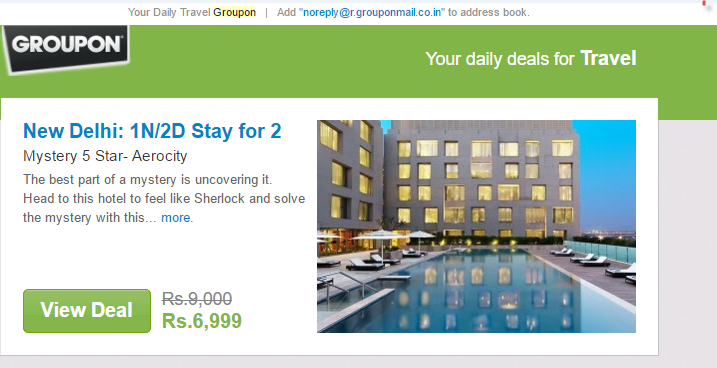
Sachin Kapur, chief marketing officer (CMO), Groupon India

Kapur was head of marketing for Groupon APAC Emerging Markets from February 2014. He had been senior manager, marketing and strategy, at BigRock (a division of the Directi Group) before joining Groupon India as CMO in September 2011. He was group head for Fever 104 FM (HT Media Ltd.) between 2009 and 2010. Prior to 2009, Kapur had worked in a variety of roles at Info Edge (India) Ltd., India’s premier online classifieds company for recruitment, matrimony, real estate, education, and related services, including manager, marketing; brand manager, NaukriGulf.com; manager, corporate sales; assistant manager, corporate sales; and senior executive, corporate sales. Kapurwas recognized as one of the “50 Most Talented CMOs of India” (World Brand Congress and CMO Council) in 2013 and was awarded Digital Marketer of the Year at the World Brand Congress’ Global Brand Excellence Awards.

Note: APAC = Asia-Pacific; ₹1 = US$0.016 on January 31, 2015.; SEO = search engine optimization

Source: Company files.

Exhibit 2: Sample Deals from Groupon India





Source: Company files.

Exhibit 3: Financial Highlights of Groupon India, 2011–2014 (in INR MILLION)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2011** | **2012** | **2013** | **2014** |
| Gross Merchandise Value | 69.6 | 294.0 | 724.9 | 1,384.9 |
| Gross Billings (net of order discount and goods and service tax) | 68.0 | 283.7 | 707.5 | 1,348.2 |
| Net Gross Billings (net of refunds) | 63.9 | 266.3 | 654.2 | 1,234.1 |
| Earnings Before Interest, Taxes, Depreciation, and Amortization | (149.3) | (330.8) | (283.9) | (147.4) |

Note: ₹ = INR = Indian rupee; $US1 = ₹62.167 on January 31, 2015

Source: Company files.

Exhibit 4: sample term sheet

Term Sheet for Potential Equity Investment in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Month, Year

Scope:

This term sheet summarizes the principal terms with respect to a potential sale of equity securities of

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This term sheet is intended solely as a basis for further discussion and is not intended to be and does not constitute a legally binding obligation.

The Company and the Investor are discussing a private placement of shares on the following terms:

Amount of Investment: \_\_\_\_\_\_\_\_\_\_\_

Founder’s Pledge: \_\_\_\_\_\_\_\_\_\_\_

Investors: \_\_\_\_\_\_\_\_\_\_\_

Type of Security: \_\_\_\_\_\_\_\_\_\_\_

Valuation of the Company: Pre-money Valuation: \_\_\_\_\_\_\_\_\_

Type of Security: \_\_\_\_\_\_\_\_\_\_\_

Price per Share: \_\_\_\_\_\_\_\_\_\_\_

Use of Proceeds: \_\_\_\_\_\_\_\_\_\_\_

Return/Dividends: \_\_\_\_\_\_\_\_\_\_\_

Conversion: \_\_\_\_\_\_\_\_\_\_\_

Voting Rights: \_\_\_\_\_\_\_\_\_\_\_

Liquidation Preference: \_\_\_\_\_\_\_\_\_\_\_

Board of Directors: \_\_\_\_\_\_\_\_\_\_\_

Options and Vesting: \_\_\_\_\_\_\_\_\_\_\_

Financial

Statements and Reporting: \_\_\_\_\_\_\_\_\_\_\_

Redemption: \_\_\_\_\_\_\_\_\_\_\_

Right of First Refusal: \_\_\_\_\_\_\_\_\_\_\_

Right of First Refusal and

Co-sale: \_\_\_\_\_\_\_\_\_\_\_

Other Provisions: \_\_\_\_\_\_\_\_\_\_\_

Conditions to Closing: \_\_\_\_\_\_\_\_\_\_\_

This offer expires in its entirety unless signed and accepted by \_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Time and Date).

Agreed and Accepted:

By: Company Name By: Investor

Source: Company files.

Exhibit 5: groupon india’s options for the distribution of Equity ownership (%)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Groupon Inc. (United States)** | **Management Team** | **Sequoia Capital** |
| Option 1 | 50 | 24 | 26 |
| Option 2 | 24 | 26 | 50 |
| Option 3 | 40 | 30 | 30 |
| Option 4 | 26 | 50 | 24 |

Source: Company files.

1. “Profile: Groupon Inc (GRPN.O),” Reuters, accessed April 26, 2016, www.reuters.com/finance/stocks/companyProfile? symbol=GRPN.O. [↑](#footnote-ref-1)
2. Press Trust of India, “Groupon Acquires India’s e-Commerce Portal SoSasta.com,” *The Economic Times*, January 17, 2011, accessed April 26, 2016, http://articles.economictimes.indiatimes.com/2011-01-17/news/28427352\_1\_portal-groupon-india-undisclosed-amount. [↑](#footnote-ref-2)
3. Press Trust of India, “Crazeal.com Rebranded as Groupon India,” Business Standard, November 20, 2012, accessed April 26, 2016, www.business-standard.com/article/companies/crazeal-com-rebranded-as-groupon-india-112112000164\_1.html. [↑](#footnote-ref-3)
4. “Profile: Groupon Inc (GRPN.O),” op. cit. [↑](#footnote-ref-4)
5. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.016 on January 31, 2015. [↑](#footnote-ref-5)
6. “First Quarter 2014,” Groupon Inc., accessed May 4, 2016, http://investor.groupon.com/results.cfm. [↑](#footnote-ref-6)