



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Subject Code & Name : **BGN2304 Strategy and Innovation in the Service Industry**
Semester & Year : May – August 2017
Lecturer/Examiner : Joseph Choe Kin Hwa
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:
PART A (40 marks) : TWO (2) essay questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.
PART B (60 marks) : FOUR (4) case study questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College of Hospitality regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College of Hospitality.

Total Number of pages = 5 (Including the cover page)

PART A : ESSAY QUESTIONS (40 MARKS)

INSTRUCTION(S) : **TWO (2)** essay questions. Answer **ALL** questions in the Answer Booklet(s) provided.

Question 1

Organisations that see and act upon the opportunities and possibilities for change through innovation in the current volatile and uncertain business environment will successfully compete and even flourish in the face of the range of emerging adverse and fluctuating business and economic conditions.

Explain the reason why innovation is important to businesses today.

(20 marks)

Question 2

In the perspective of the Multinational Corporation as a differentiated network, different subsidiaries are assigned different tasks and roles, and heterogeneous location advantages of the different foreign subsidiaries are exploited. This perspective clearly illustrates the multi-faceted nature of the motives for being active in foreign countries.

Examine **FIVE (5)** motives for internationalisation.

(20 marks)

END OF PART A

PART B : CASE STUDY QUESTIONS (60 MARKS)

INSTRUCTION(S) : **FOUR (4)** case study questions. Answer **ALL** questions in the Answer Booklet(s) provided.

THE RISE AND FALL OF GROUPON

After graduating with a degree in music from Northwestern University, Andrew Mason spent a couple of years as a web designer. In 2008, the then 27-year-old founded Groupon, a daily-deal website that connects local retailers and other merchants to consumers by offering goods and services at a discount. The mission is “To Become the Operating System for Local Commerce. Groupon creates marketplaces by bringing the brick-and-mortar world of local commerce onto the Internet. The company basically offers a “group-coupon.” If more than a pre-determined number of Groupon users sign up for the offer, the deal is extended to all Groupon users. For example, a local spa may offer a massage for \$40 instead of the regular \$80. If more than say 10 people sign up, the deal becomes reality. The users pre-pay \$40 for the coupon, which Groupon splits 50-50 with the local merchant. Inspired by how Amazon.com has become the global leader in ecommerce, Mason’s strategic vision for Groupon was to be the global leader in local commerce.

Measured by its explosive growth, Groupon is one of the most successful recent Internet startups. It has over 200 million subscribers and works with over 500,000 merchants in the United States and some 50 international countries. Indeed, Groupon’s success attracted a \$6 billion buyout offer by Google in early 2011, which Andrew Mason declined. In November 2011, just three years after its founding, Groupon held a successful initial public offering (IPO) and was valued at more than \$16 billion with a share price of over \$26. Just a year later, Groupon’s share price had fallen 90 percent to just \$2.63. In early 2013, Mason posted a letter for Groupon employees on the web, arguing that it would leak anyway, stating “After four and a half intense and wonderful years as CEO of Groupon, I’ve decided that I’d like to spend more time with my family. Just kidding – I was fired today.”

What went wrong? Its competency to drum up more business for local retailers by offering lower prices for its users was certainly valuable. Before Groupon, local merchants used online and classified ads, direct mail, yellow pages, and other venues to reach customers. Rather than using one-way communication, Groupon facilitates the meeting of supply and demand in local markets. When Groupon was first launched, this type of local market-making competency was also rare. Groupon enjoyed a first-mover advantage. Its ability to use technology to spur local commerce was considered so valuable and rare that Google offered \$6 billion to buy the company—just a little over two years after Groupon’s founding! Things started to go wrong soon after that.

The multibillion-dollar Google offer drew the attention of many potential competitors to Groupon’s business model. As it turned out, Groupon was more of a sales company than a tech

venture, even though it was perceived as such in the wake of the Web 2.0 boom. To target and fine tune its local deals, Groupon relies heavily on human labour to do the selling. Barriers to entry in this type of business are non-existent because Groupon's competency is built more on a tangible resource (labour) than on an intangible one (proprietary technology). Given that Groupon's valuable and rare competency was not hard to imitate, hundreds of new ventures (so-called "Groupon clones") rushed in to take advantage of this opportunity. Existing online giants such as Google, Amazon (via LivingSocial), and Facebook also moved in. Spurred, Google almost immediately created its own daily-deal version with Google Offers.

Also, note that the ability to imitate a rare and valuable resource is directly linked to barriers of entry, which is one of the key elements in Porter's five forces model (threat of new entrants). This allows linking internal analysis using the resource-based view to external analysis with the five forces model (which also would have predicted low industry profit potential given low or no barriers to entry).

To make matters worse, these Groupon clones are often able to better serve the needs of local markets and specific population groups. Some daily-deal sites focus only on a specific geographic area. As an example, Conejo Deals meets the needs of customers and retailers in Southern California's Conejo Valley, a cluster of suburban communities. These hyper-local sites tend to have much deeper relationships and expertise with merchants in their specific areas. Since they are mostly matching local customers with local businesses, moreover, they tend to foster more repeat business than the one-off bargain hunters that use Groupon (based in Chicago). In addition, some daily-deal sites often target specific groups. They have greater expertise in matching their users with local retailers. For examples, the Daily Pride serving LGBT communities; Black Biz Hookup serving African-American business owners and operators; Ideal, a Jewish group-buying site in New York City, and so on.

"Finding your specific group" or "going hyper local" allows these startups to increase the perceived value added for their users over and above what Groupon can offer. The problem is that although Groupon aspires to be the global leader, there is really no advantage to global scale in serving local markets. This is because daily-deal sites are best suited to market experience goods, such as haircuts at a local barber shop or a meal in a specific Thai restaurant. The quality of these goods and services cannot be judged unless they are consumed. Since the creation of experience goods and their consumption happens in the same geographic space, there is really no advantage to having global scale.

Once imitated, Groupon's competency to facilitate local commerce using an Internet platform was neither valuable nor rare.

Source: Rothaermel, F.T. (2015), *Strategic Management*, 2nd Edition, McGraw-Hill Education, New York. Pp. 109-110

Question 1

Describe the strategy statement of Groupon.

(15 marks)

Question 2

Using the Porter's **FIVE (5)** forces model, analyse the local commerce industry that Groupon operates in.

(15 marks)

Question 3

Critically evaluate Groupon's business model that allow the company to enjoy an advantage over its competitors.

(15 marks)

Question 4

Suggest to Mason on the possible strategies for Groupon to sustain its competitiveness in the market.

(15 marks)

END OF QUESTION PAPER