

Advanced

Googles Negotiations with Groupon

A Warm-up Question

How you heard of Groupon?

B Today's Article

It seemed to be a **match made in Internet heaven**. Back in late 2010, Google entered into negotiations and made a \$6 billion bid for Groupon, the Chicago--based company that emails daily coupon deals for local goods and services to consumers around the world. (If enough people sign up, the daily deal “tips,” meaning the coupons are issued; otherwise, the deal is called off.) Google was looking for opportunities to branch into local search advertising, and Groupon appeared to be the perfect fit.

In its first two years, the **start-up** had expanded into dozens of markets, inspired scores of copycat competitors, and hired more than 3,000 employees. Groupon predicted it would reach more than \$300 million in revenue in North America in 2010, and an **acquisition** of the company would give Google access to the contact information of about 12 million consumers. In negotiations, many predicted that Groupon's board of directors wouldn't be able to refuse Google's **sky high** bid. Yet refuse it they did. The news that Groupon's board members had turned down the opportunity to become very, very rich **triggered a flurry** of speculation. Did company founder and chief executive Andrew Mason fear that Groupon's **quirky**, laid-back corporate identity would be swallowed up by the much larger firm? Were Groupon investors taking a gamble that they'd get even richer if they took the company public at a later date?

The reasons for the deal's collapse may have been slightly more complicated, Gina Chon and Anupreeta Das reported in the Wall Street Journal. Fear of legal limbo Google may have bid \$6 billion for Groupon, but about 40% of that amount—around \$2.5 billion—would have been **doled out** over time, and only if the company hit predetermined revenue targets. Groupon's board members reportedly were confident they could meet these targets and receive their “earn-outs.” Complicating the matter, however, was the likelihood that, because of Google's involvement, the deal would be tied up in an antitrust investigation for more than a year, insiders told the Wall Street Journal.

Groupon operates in a market with no barriers to entry; competitors abound. If the deal got stuck in regulatory limbo, Groupon could slide in the face of strong competition and have trouble meeting Google's revenue targets. "No 'material adverse change' [MAC] clause—written into deals as an 'in case the sky falls' provision—could have offset that period of "uncertainty" for Groupon, write Chon and Das. (A "loose" MAC clause would have given Google the right to walk away if Groupon lost significant value before the deal was signed. A "tight" MAC would have restricted Google's right to walk away, but if Groupon lost value, it would have had trouble collecting earn-outs from Google later on. Thus, a MAC was a lose-lose scenario for Groupon.)

Contingencies are often a smart way of dealing with negotiators' differing opinions about future events. But when multiple risks exist—in this case, a possible antitrust delay and mounting business competition—parties may have difficulty agreeing on how to structure earnouts and other types of contingent contracts. More broadly, Groupon's refusal to do the deal demonstrates the benefits of having strong alternatives. Mere weeks after rejecting Google's offer, Groupon raised \$500 million and used about \$344 million to buy shares from investors, thus rewarding the early investors and long time employees who would have benefited from a Google acquisition, the Wall Street Journal reports.

Groupon's funding round ultimately was expected to gather as much as \$900 million. With access to this kind of cash, the king of coupons seemed to be in no rush to court another suitor or engage in an initial public offering.

Unfortunately for Groupon, a mere two years later, their stock prices began to plummet, and their market cap fell to \$5.8 billion, which is .2 billion below what Google had offered, and soon after, founding CEO Andrew Mason was fired. As of March 2017, their market cap is 2.2 billion.

Key Vocabulary and Expressions

Synonym Match: Match the words that have similar meanings.
Please note: There may be more than one answer.
Explain how the words are used in the article and make sentences using the new vocabulary.

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|-------------------------|----------------|
| 1. match made in heaven | a. nose dive |
| 2. start-up | b. soaring |
| 3. plummet | c. perfect fit |
| 4. acquisition | d. burst |
| 5. sky-high | e. eventuality |
| 6. triggered | f. set-off |
| 7. flurry | g. new company |
| 8. quirky | h. given |
| 9. doled out | i. eccentric |
| 10. contingencies | j. purchase |

D Discussion Questions

Share your thoughts on the following discussion questions.

1. Have you ever considered creating a start-up?
2. Were Groupon right to refuse the deal?
3. How can small companies compete?
4. What is your opinion on Google?
5. Would you rather work for Groupon or Google?
6. How can Groupon increase their worth?

E Wrap Up

Take notes on what you can recall from this topic.