

LivingSocial To Overtake Groupon With \$400M: LivingSocial Investor

by Tomio Gerom

UPDATED: Daily deals website LivingSocial has closed on \$400 million in new venture financing at close to a \$3 billion valuation.

But will it also soon overtake Groupon as the leader in the space?

LivingSocial has been gaining market share from Groupon over the last six months and will eventually overtake Groupon, said Todd Chaffee, general partner at new LivingSocial investor Institutional Venture Partners.

“Our investment thesis is not necessarily that it will surpass Groupon but my instincts are that it will,” Chaffee said. “(LivingSocial) will make a very nice return if it’s always ‘number 2’ but I think it will surpass Groupon.”

Why does Chaffee think that?

Because LivingSocial is going after a more affluent lifestyle-oriented target market, whereas Groupon is going for more of a land grab, he said. And technology-wise, LivingSocial’s been developing products like its mobile app that provides immediate deals in a geographic area, he added.

“Groupon is going broader in a global land grab, whereas LivingSocial is being a little more methodical, developing products like the mobile instant product,” Chaffee said. “We’ll see LivingSocial be more innovative as a tech leader and we’ve seen more innovative deals from LivingSocial like the Amazon and Fairmont deals. We’ll see more of that.”

The \$10 for a \$20 Amazon coupon that sold 1.4 million coupons showed the massive scale that’s possible. Meanwhile the deal for a \$10,000 coupon for a penthouse package at the San Francisco Fairmont hotel meanwhile signaled LivingSocial’s intent to move more upscale.

“Groupon is more downmarket, more coupons, as opposed to LivingSocial is a more affluent, aspirational, lifestyle thing,” Chaffee said. “In terms of marketing positions I think you’ll see LivingSocial emerge as more an affluent brand—not super high end but in relative positioning.”

The rivalry between LivingSocial and Groupon will be interesting to watch. Groupon has recently raised more than \$1 billion in new financing and is still the giant to beat in the space. However, this is not necessarily a winner-take-all market, Chaffee said.

LivingSocial confirmed the new \$400 million funding that was earlier reported by the New York Times. The investment was provided by new investors including T. Rowe Price and Institutional Venture Partners and existing investors Lightspeed Ventures Partners and Amazon.com.

Meanwhile, LivingSocial has 26 million members and is adding 1.5 million members per week. It is in 250 markets in 12 countries and should reach 400 markets by the end of the year.

The company is also on track to generate \$1 billion in revenue this year, according to a person familiar with the situation.

Tige Savage, LivingSocial board member and managing director at Revolution LLC, the first investor in the company, said LivingSocial has built its social expertise from the start, as it began as a Facebook app company in the early days of Facebook’s platform. It later switched to daily deals. Savage and Revolution’s Steve Case already knew the LivingSocial team, some of whom worked at AOL and later at Revolution Health.

LivingSocial is differentiating itself by offering “experiences” not just cheap deals, Savage said. LivingSocial’s new Escapes, a unit devoted to

travel packages, provides not just a hotel room, but a number of deals in a package. For example, a current deal at a cottage in the Redwood forests California costs \$193 for a two-night stay plus breakfast at a nearby bakery and free wine tastings.

"We're focused on trying to provide an experience, a lifestyle and interesting things for consumers," Savage said. "With Escapes we could deliver a hotel room for a night, but what really resonates is delivering a 'weekend in a box.' It's the hotel room, breakfast, flowers, a gift card to the local dairy bar, and a credit at the farmer's market."

LivingSocial could also push these kinds of packages or experiences across its various products.

Merchants also appreciate that consumers know that merchants are not just providing the "cheapest deal"—which is not necessarily how they want to be perceived, Savage said.

"Hotels know it's a number of other things, not just pure price transparency on behalf of the merchant," Savage said. "Merchants know that by delivering good value with consumers they receive that well. For consumers the value LivingSocial offers is not just on price but on the experience—that gives the merchant a little bit of latitude."

Savage also said LivingSocial and Groupon should not be categorized as "daily deals" companies but as local commerce or local advertising, which gives a better sense of the growth potential.

"This is the next generation of local commerce and local advertising," Savage said. "That's a \$100 billion business. We're a small percentage of that. So we feel great about the rate of growth in our markets."

Institutional Venture Partners, which has previously invested in Twitter and Zynga, made the largest investment in its history in the LivingSocial deal, ponying up more than \$50

million, which is the usual maximum of what it invests in a deal. IVP was able to invest, beating out about 20 firms that were angling to get in to the round.

"In the venture business you get these opportunities every now and then," said Chaffee. "It's not a question of do we invest; we have to fight to get an allocation... Their revenue ramp is clearly up and to the right. They're profitable. It's a huge growing market. It's a great financial model. And an exceptional management team."

One indication of the methodical and comprehensive approach of LivingSocial's executives: every night the management looks at a dashboard of about 100 different metrics that the company tracks. The numbers flash red, yellow or green depending on whether the company is meeting its goals.

"You just don't see that with venture-backed companies at this stage," Chaffee said. "You don't see that with Fortune 500 companies. It's a reflection that (29-year old CEO) Tim (O'Shaughnessy) is wise beyond his years."

Contrary to what some may think, the daily deal market is not nearly saturated, Chaffee said. LivingSocial is getting more hyper-local so that people will be able to get a targeted deal not just for the San Francisco Bay Area but for each small town or neighborhood in the area. Targeting could also include demographics, such as male versus female. And small businesses can get benefits from a new form of local advertising, he said.

At the same time Groupon is working on similar targeting as well. As are a number of other players.