CASE 19

Andrew Mason and the Rise and Fall of Groupon

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.

With these words, predictably flippant in their tone, Andrew Mason stepped down from his position at the helm of Groupon, the deal-of-the-day company that sells coupons for deeply discounted goods and services to customers who must get others to buy them, too, before they all can use them. Mason will always enjoy the distinction of having founded what became the "Fastest Growing Company Ever," to quote *Forbes* magazine. But Isaac Newton could have directed his words as aptly to Groupon as he did to gravity: What goes up apparently must come down.

So how did things go so horribly wrong? It may have been Mason's playful behavior that established the culture at the company that seemed to serve it so well for so long. He clearly had a reputation for being something of a goofball, often coming off more like a big kid than the leader of a major new firm with a multi-billion-dollar market value. These antics might have been seen as cheap entertainment while the company was growing, but when sales began to decline and the firm's stock price retreated, Mason's offbeat style and the company's fun-focused atmosphere suddenly became less than amusing.

It also didn't help that Mason had no significant business experience prior to starting Groupon. The music-major-turned-software-developer stumbled upon the idea for the company and became its CEO almost by default. And it showed. With his often-rumpled appearance and strong leaning toward all things wacky, he seemed more intent on promoting the company's comical vibe than on actually making the business work. Mason fashioned Groupon into a lively place to work, where the dress code and vacation policy were loose, and comedians wrote ad copy and served in customer support roles. But this was just the tip of the iceberg. Making the fun last at Groupon was very serious business.

And then there were the problems with the company's business model. Consumers didn't like the forward planning required to take advantage of its offers—that is, the need to buy a deal in advance, print it out, redeem it in time, and so on. Participating vendors also had complaints. If a deal ended up being a smash hit with subscribers, the merchant could very well be flooded with more customer demand than it could handle. And because the deals featured steep discounts in order to get new customers to bite, they could be expensive to offer. Many vendors quickly noticed that they were getting a lot of bargain hunters coming through their doors but few continuing customers, so as a result, they started to cool to the idea of signing up for more offers.

The extraordinary pace of change at the company was also creating serious headaches for Mason. The tempo of innovation was so fast and so furious that management struggled to keep up, which generated its share of conflict. One observer described the situation this way: "The size and complexity of Groupon grew so quickly that it outpaced the rate of maturity of the organizational culture—much like a gangly, pimply teenager [who] grows to 6 feet tall."

Finally, there were concerns about Mason's struggle to relate to some of the employees. Many respected his grasp of Web technology and keen product development prowess but recognized that he wasn't much of a people person and often failed to appreciate employees in roles that were vital to the company and its success, most notably sales. For example, there were at least five layers of bureaucracy between Mason and the company's sales staff, causing a disconnect between the two and leading some to believe that he probably would have preferred to have had fewer salespeople and the headaches that naturally go along with them.

Despite the problems, the firm did have something going for it; at least Google thought so. The online-search giant reportedly made an offer to buy the business for about $6 billion in November 2010. The two sides negotiated for weeks, but Mason, figuring the deal wasn't sweet enough, decided to walk away. It was at this point that observers seriously began to question his business judgment and his ability to lead such a large enterprise. But Mason stood by his decision:

> *Life is not about money. . . . The reason that we made a decision to be an independent company is we quite simply wanted control of our destiny. We wanted the ability to make big bets and take smart risks and go after what we saw as a big opportunity.*

The shortsightedness of Mason's decision is now very apparent, but life offers very few "do-overs."

Mason's rejection of Google's offer was only the beginning of his slide at Groupon. The chorus of questions about his ability to lead such a large and growing business were about to grow much louder. In June 2011, Groupon filed for an IPO (an initial public offering, allowing shares of the company to be sold to the general public) and raised $700 million in the process. But this focused an intense spotlight on the firm and how it was being managed. Suddenly Mason's "incessant jokiness" was no laughing matter for government regulators and investors. His college-kid-like demeanor raised doubts about his suitability to lead a publicly traded firm. One business writer recounts an episode that occurred during a series of presentations given to raise interest in the IPO that certainly lifted more than a few eyebrows:

> *Between meetings with bankers, Mason, a self-professed video game junkie, played a game called Whale Trail on his iPhone. In the game, the player navigates a cheerful flying whale named Willow through a psychedelic sky while trying to gobble rainbow-colored bubbles and avoid black clouds that do the bidding of the evil Baron Von Barry.*

Mason explained his behavior by saying that the game was great "for just tuning out," adding with a laugh that iTunes had just listed it as "one of the best games for four- to six-year-olds." That's not exactly what investors want to see in the CEO who is running their business.

In the wake of the IPO, Groupon's financial difficulties escalated. After the company posted a new loss of $67 million, the firm's stock took a tumble, from a peak of around $31 to a low of $2.63 in November 2012. It eventually settled at $5 per share, but by that point, the company had lost around 75 percent of its IPO value. And as a telling sign of investor sentiment, the price bounced up by nearly 12 percent when the news of Mason's firing was finally announced.

Before being forced out as CEO, Mason was already moving the company away from the daily-deal business and toward the creation of what he was calling an "operating system for local commerce." This software platform would allow customers to turn to Groupon as a source of information to guide their search for products, services, and the lowest prices for both. Merchants could use the system to advertise their offerings, as well as using it as a touchpoint for the sales they made and as a hook for pulling customers back for more business. It was an ambitious project, leading some investors to further question Mason's wisdom and business acumen—even *after* his departure from the firm. They came to think of Groupon as a public company that was in desperate search of a business that just might pull it out of its sticky situation. Also, there was a concern that existing competitors would challenge the company on its planned path for recovery. These included powerhouses like OpenTable (which dominates online restaurant reservations), customer loyalty program providers (such as American Express, Visa, Citibank, and Amazon), Google and PayPal (with recently expanded offerings for local merchants), and Square (with its suite of software that reduces the transaction costs and hassles for small businesses). Finding a competitive opening in such a crowded marketplace would not be easy.

While the Groupon story did not have a happy ending for Mason, it provides important lessons about entrepreneurial leadership. As one writer put it,

> *Andrew Mason has his own kind of panache. Not the epic, Steve Jobs panache. Or the eclectic, Barry Diller panache. Or even the oafish, Steve Ballmer panache. But as CEO of one of the fastest-growing startups in history, he had the small-scale, misfit quirkiness of an indie movie. Panache-ette.*

Without a doubt, the story is unique. But to be fair, Mason's distinctive leadership style and the company culture that it engendered may have been both Groupon's greatest advantage and the very anchor that eventually pulled it nearly under. The playful and giddy style that Mason personified spawned the company's meteoric rise to greatness, but did not endear it to the Wall Street players who laid a heavy hand to the rudder of this publicly traded company. That's the way the game is played, and some entrepreneurs are simply not suited to be a part of it. Perhaps Andrew Mason was one of them.

Questions

1. How would you describe the leadership skills of Andrew Mason? How would you rate his leadership style? In what ways does he fit the profile of the typical business founder? In what ways is he different?
2. Assess the organizational culture at Groupon. What are its strengths and its weaknesses? What changes would you make to the culture to improve the performance of the company?

3. Do you think that it was because of Mason that Groupon was unable to transition smoothly through its growth and development stages, or can you identify other possible causes?
4. What kind of leader do you think would be best suited to run Groupon? Create a profile of its ideal leader. Then create a profile of the ideal leader of a technology startup, and compare the two. What would you recommend as a plan for developing leaders of startups into leaders who are well equipped to manage large but still-entrepreneurial firms?
5. In your opinion, what are some of the other problems at Groupon?

Sources: David Streitfeld, "Groupon Dismisses Chief After a Dismal Quarter," *The New York Times*, March 1, 2013, p. B1; John Kotter, "Andrew Mason's Departure Reflected His Leadership Style," http://www.forbes.com/sites/johnkotter/2013/03/02/andrew-masons-departure-reflected-his-leadership-style, accessed March 23, 2013; Lauren Etter and Douglas MacMillan, "The Education of Groupon CEO Andrew Mason," www.businessweek.com/articles/2012-07-12/the-education-of-groupon-ceo-andrew-mason, accessed March 23, 2013; Kevin Kelleher, "The Defenestration of Andrew Mason," http://pandodaily.com/2013/02/28/the-defenestration-of-andrew-mason, accessed March 26, 2013; Eric Jackson, "Source of Groupon Problems: Managing People," www.forbes.com/sites/ericjackson/2012/08/14/source-of-groupon-problems-managing-people, accessed March 24, 2013; Joan Lappin, "Don't Cry for Groupon's Andrew Mason," http://www.forbes.com/sites/joanlappin/2013/03/05/dont-cry-for-groupons-andrew-mason, accessed March 23, 2013; Herb Greenberg, "Worst CEO in 2012," www.cnbc.com/id/100320782, accessed March 26, 2013; and "Hey Groupon, Can You Spare Some Culture Change?" http://chicagobrander.com/tag/groupon-culture, accessed March 25, 2013.