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## OpenTable vs. Groupon: Party of Two?

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By [Brad Stone](#)

The Essex, on Manhattan's Lower East Side, offers creative cocktails, \$1 oysters, and its signature Colorado lamb chops over ricotta gnocchi. On weekday nights and during off-peak hours, it also features lots of empty tables.

To fill his 150-seat restaurant in an economy that can spoil anyone's appetite, The Essex's owner, David Perlman, has turned to Internet coupons. Last spring, he used one of the hottest startups on the Web, Groupon, to sell \$30 coupons at \$15 each to about 1,500 people on the site's New York e-mail list. In August, Perlman went the discount route again, this time with the just-launched coupon service of OpenTable, the online restaurant-reservation booker. Slightly fewer than 1,000 people purchased that deal, a \$50 coupon for \$25. Still, Perlman says he favors OpenTable's service because it brought in gourmet diners who were more likely to turn into repeat customers. "We had a positive, profitable experience with both, but I liked OpenTable better, just because it is more geared toward restaurants," he says. "The people we attracted with OpenTable are people we want to add to our customer base."

Daily deals are everywhere online. That has a lot to do with privately held Groupon, based in Chicago, which has emerged from nowhere to revolutionize local advertising and build a business recently valued at \$1.35 billion, according to two people familiar with the company.

Groupon works like this: It sends a daily e-mail to more than 17 million subscribers in over 230 cities, employing flowery prose ("A love of layers may even lead your archeological side through the house lasagna") to offer group discounts on everything from pastries and spa treatments to pilot lessons and restaurant meals. If enough people take the offer and pay in advance, the deal is activated and Groupon splits the resulting revenue 50-50 with the merchant. Subscribers get only one offer per day, which has left room for hundreds of copycats to offer their own variations on the formula. "We stuck a pin in something and now there's a giant eruption," says Andrew Mason, Groupon's 29-year-old founder. "The demand from business owners is much greater than anything a single business like Groupon can meet."

Restaurants account for nearly half of Groupon's deals, making OpenTable the imitator best positioned to eat its lunch. OpenTable, started 12 years ago in San Francisco, has put its reservation-management system into more than 14,000 restaurants. (Restaurants either lease computers for a \$600 installation fee plus a \$199 monthly subscription or they use the cheaper, Web-only option.) It seats about 4 million diners each month. Restaurants pay OpenTable up to \$1 dollar per head; diners make reservations for free. The company has the e-mail addresses of tens of millions of gourmands, as well as a sales force devoted to pitching additional marketing services to restaurants using OpenTable. And like Groupon, OpenTable has its own overcooked valuation: Its stock, valued at \$1.56 billion, is trading at 72 times its estimated 2011 earnings—more than six times the S&P 500 average.

OpenTable unveiled its Spotlight coupon service in August and has rolled it out in Boston, New York, San Francisco, Chicago, Washington, and Philadelphia. Spotlight is Groupon-like right down to the verbiage. ("Their menus showcase artisanally grown, fresh fare that sings.") CEO Jeff Jordan says Groupon's deals aren't tailored to people's individual interests. "Groupon is sending me ads for hair removal. Nature is doing that for me," he jokes. That lack of focus, he says, has created an opening for him to hone in on foodies.

Groupon believes its size and some upcoming features meant to personalize pitches will keep the competition at bay. It has raised money at a ferocious pace. In April it received a \$135 million infusion from two Facebook investors—the Russian-based investment group DST and venture capital firm Accel Partners—and others. Groupon has used the cash to enter new cities, buy competitors in Chile and Germany, and expand its 1,600-person sales force, which makes up about half its head count. The company is beginning to tailor deals to subscribers' location, gender, and any information they volunteer about their buying interests on Groupon's website. It aims to offer deals based on a subscriber's Groupon purchase history, Mason says. (And now it's planning to use that data to help its customers meet: On Sept. 29 it announced the Groupon Date Assistant.)

Analysts are divided on how this coupon contest will play out. "What Groupon lacks in protective competitive moats, I think they get in the fact that this is a scale business," says Scot Wingo, CEO of e-commerce consulting firm ChannelAdvisor. He says the size of Groupon's sales staff is its best competitive advantage: "This is like the yellow pages business. They are going to need

to cover hundreds of cities and have feet on the street in all of those places."

Mark Mahaney, an analyst at Citigroup, downgraded OpenTable's stock in June because he believed the shares were overvalued. He reversed course in September after the company sold 16,000 Spotlight offers in the program's first six weeks, bringing in an estimated \$200,000 in revenue. "OpenTable can go right to its customers, all of whom are interested in restaurants," Mahaney says. Groupon and its other imitators acquire most customers either by word of mouth or by running targeted ads on Facebook and Google. Another formidable competitor is also joining the fray: Yelp, the local-business review site, is introducing a daily-deal service. With its 300-strong sales force focused on local ads, Yelp, too, has relationships with merchants.

One clear beneficiary of all this competition will be restaurants. As new entrants undercut each other on coupon commissions, rates could be driven below 50 percent. The coupons are already moving into the upper echelons of gastronomy. Metrazur, a high-end restaurant in New York's Grand Central Terminal, recently sold 1,200 \$50 coupons for \$25 using OpenTable; Rouge Tomate, another pricey New York eatery, just sold 385 \$100 coupons for \$50 on Yelp. Perlman, of The Essex, says discounting by the swankiest establishments helps him. "If anything, keeping such company on the deal sites actually enhanced our reputation," he says.

***The bottom line:*** Groupon, which started the boom in daily-deal sites, faces tough competition from similar services offered by OpenTable, Yelp, and others.