Groupon Q&A: Taming an Internet Tiger

By **Randy Myers**, February 15, 2011


Photo courtesy Groupon

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Jason Child could have coasted. At 42, he had already enjoyed 12 good years with Amazon.com, where he had been promoted to chief financial officer and vice president of finance for the company's $15.5 billion international division. During his tenure, the company grew from promising prodigy to world's largest Internet retailer.

But Child wasn't ready to coast. In December, he became the first CFO of Groupon Inc., the two-year-old social commerce company that offers daily group shopping deals to subscribers numbering 50 million and counting in approximately 40 countries. In a typical deal, members can buy a product or service — dinner at a local restaurant,a spa treatment — at some discount off the regular price, and Groupon and the merchant split the proceeds. Merchants get a one-time spike in traffic plus exposure to new customers, with the thinking that some will buy additional goods and services when they redeem their purchase.

By *Forbes* magazine's reckoning, Groupon is growing faster than any web company in history. The company hasn't released revenue figures, but Child notes that from the time he started talking to them late last summer until January, Groupon's subscriber base almost tripled, to 50 million from 18 million. Launched in December 2008, the Chicago-based company already has more than 1,000 employees in the United States and more than 3,000 worldwide.

Shortly before Child's arrival, Groupon turned down a reported $6 billion buyout offer from Google Inc. Since then, the company has raised $950 million in venture financing from a number of investment firms and confirmed that it is exploring an initial public offering. Many analysts anticipate an IPO could happen as soon as this year.

Inside Edge writer Randy Myers caught up with Child recently to find out how Groupon executives are managing the company's phenomenal growth, coping with competition, and maintaining a pace he says is "five times faster" than anything he's ever experienced.

Inside Edge: What are the biggest challenges you face as the first CFO of such an extraordinarily fast-growing company?

Child: There's the challenge of building a corporate finance structure — the functions of accounting and tax and treasury. Another is figuring out how to get a sufficient control structure in place that allows us to be able to close the books of a 40-country operation in multiple currencies and multiple languages, and do it all very quickly with entities that are, in most cases, less than one year old. Then there's the financial planning and analysis function, strategic planning, all that stuff, which is going to require that we build a business-intelligence data warehouse.

I.E.: With so much to do, what are your priorities?

Child: One is to find a balance between implementing the necessary controls and processes that any company needs as it gets bigger, and making sure we continue to be agile and able to react to a highly dynamic marketplace. To the extent we think about going public, there also are requirements to consider there.

I.E.: Are your existing software systems up to the job?

Child: Our accounting software works well in the United States. It is not as robust internationally, so that is one of the things we're trying to solve. We haven't decided if we're moving to a new platform yet. Certainly we're evaluating any and all options.

"I have to figure out how to squeeze out 25 hours of work every day, and sleep. I compare it to driving a car at 75 mph and trying to rebuild the transmission at the same time."
Jason Child, CFO, Groupon

I.E.: Where else are you spending resources?

Child: In addition to the business-intelligence data warehouse that I mentioned, people. We really need to add more in every function and every geography.

I.E.: Groupon is a classically entrepreneurial company. Have you gotten pushback from employees unaccustomed to having finance looking over their shoulders?

Child: The good news is that Andrew Mason, our founder and CEO, and Rob Soloman, our president and chief operating officer, understand what a good finance team can do to help the business. In fact, throughout the organization it seems like people generally understand what we're trying to do. We want to be something pretty special and we want to be pretty big, and everyone kind of respects that there has to be some process.

I.E.: Are you involved in operations or strategy or are you too busy getting the finance organization set up?

Child: At my previous company, I was spending a lot more time on operational and strategic issues. Here I have to figure out how to squeeze out 25 hours of work every day, and sleep. I compare it to driving a car at 75 mph and trying to rebuild the transmission at the same time.

I.E.: Where was the biggest hole in the finance organization when you arrived?

Child: Since there was no CFO, everything the team was doing was generally backward looking. Because the company was growing at a crazy rate, forecasts were irrelevant within months if not weeks after being created. We're trying to be more proactive on most everything, even accounting and tax planning and forecasting.

I.E.: Groupon typically keeps half of what members spend on its website, or 25 percent of a purchase's face value. Have you seen pushback from merchants on this

fee structure? Is it sustainable?

Child: I haven't been here long enough to have gone through that in lot of detail. Ultimately the fee we take has to be a win-win. It's got to provide value for us and the merchant. One of our big opportunities is to help merchants understand and calculate that value. Much like other forms of advertising and customer acquisition, it's one of the things that we're going to learn more about over time.

I.E.: Groupon reportedly has been profitable since its seventh month of operations. How are you managing cash flow during such ultra-rapid growth?

Child: Very carefully. One of the things I put in very quickly was a rolling three-month cash forecast. We have so many different markets operating at many different stages. Some are producing very significant cash flow and some are burning cash. It's important to understand where each is and make sure we're forecasting that. Theoretically that's what we're doing, but the model is not perfect. There's definitely some art and some science.

I.E.: How are you handling payments?

Child: In each market it's a little different because every market has different payment patterns and customer preferences. The United States is heavily oriented toward credit cards, so that's relatively simple; you accept the most common credit-card mechanisms. It's a little more complicated when you go to a cash-based society, which, with the exception of a few countries in Europe, is what you generally find outside the United States. In most of those cases, we handle it in-house. In my previous job overseas we outsourced some pieces of it, and that's a decision I still need to take a look at here.

I.E.: What kind of stock options are you giving employees?

Child: We moved to issuing restricted stock units shortly before I arrived. That's something I'm a big fan of. It's a great way to align employees and shareholders, and because you're giving out shares instead of options, the accounting is simpler, too. Also, you can give away a lot less stock because there's value from day one, which minimizes dilution to existing shareholders, yet you can still vest them over a period of time to make sure you're motivating employees.

I.E.: Do all employees get restricted stock units?

Child: That's something we're working on. We are partly a technology-oriented workforce and partly a sales-oriented workforce. With a sales workforce it's not normal to have equity compensation, it's more normal to have a variable compensation plan. So stay tuned. At this point, it's not completely consistent and we're trying to figure out the best way to do this.

I.E.: Competitors for Groupon are cropping up everywhere. How big a threat is that?

Child: Competition is always there and always will be. I take the classic economics point of view: competition makes all of us get better. It really helped us do a lot of innovative things at Amazon, and I expect it to do the same thing here. It does force us to sit down as a management team and say, what are our competitive advantages? One of the competitive advantages for us is being first to market. All these competitors are copying the model to some extent.

I.E. What does the future look like?

Child: Groupon is an interesting model, just like Amazon was an interesting model when I joined that company in 1999. But what makes Amazon interesting today is the innovation they've had since. It's a long list of things, more recently Kindle, web services, third-party platform and the Prime shipping program. Groupon (has) a really robust subscriber base and a fairly rich base of merchants. We're in this nice position where we're connecting customers to merchants in a way people seem to like. Our plan recognizes there are opportunities to offer more sophisticated services to help customers and merchants find each other in even more innovative ways.

I.E.: What's the biggest surprise you've had?

Child: The company's growth trajectory and the pace at which everyone here has to move. I remember Internet time. I was part of one of the survivors. This is something I don't even know what it is. It's five times faster than anything I've ever seen.