Strategic Category Development on Daily Deals Platforms

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A daily deals platform typically features multiple categories. By examining longitudinal data on deal offerings and sales of Groupon and LivingSocial, we find that different categories experience different growth patterns. We propose and identify four inherent category-specific factors that can explain these differences. Consumer-side word-of-mouth (WOM), merchantside advertising, and observational learning (OL) contribute to the ability of past category demand to generate new demand, which primarily affects category growth in the early stage. In contrast, consumer-side deal substitution affects the ability of a category to expand in the mature stage. The empirical results are supported by survey data on consumer consideration, purchase, and sharing of daily deals. Using a two-category model simulation, we also examine how a platform should strategically allocate available resources across categories with different inherent strengths. We find that the platform should invest in both categories and that the optimal investment allocation depends on the relative effect sizes: while stronger WOM, advertising, and OL effects lead to a more lopsided investment, a stronger substitution effect leads to a more balanced investment.