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Groupon, Inc. (GRPN)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, welcome to Groupon's Third Quarter 2022 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the company's formal remarks. [Operator Instructions] And just a reminder, today's call is being recorded.

And now at this time for opening remarks, I would like to turn the call over to the Chief Communications Officer, Jennifer Beugelmans. Please go ahead, Ms. Beugelmans.

Jennifer Beugelmans
Chief Communications Officer, Groupon, Inc.

Hello and welcome to Groupon's third quarter 2022 financial results conference call. On the call today are CEO, Kedar Deshpande; and CFO, Damien Schmitz.

The following discussion and responses to your questions reflect management's views as of today, November 7, 2022 only and will include forward-looking statements. Actual results may differ materially from those expressed or implied in our forward-looking statements. Additional information about risks and other factors that could potentially impact our financial results is included in our earnings press release and in our filings with the SEC, including our Annual Report on Form 10-K.

We encourage investors to use our Investor Relations website at investor.groupon.com as a way of easily finding information about the company. Groupon promptly makes available on this website the reports that the company files or furnishes with the SEC, corporate governance information and select press releases and social media postings.

On the call today, we will also discuss the following non-GAAP financial measures: adjusted EBITDA, adjusted EBITDA margin, free cash flow and FX-neutral results. In our press release and our filings with the SEC, each of which is posted on our Investor Relations website, you will find additional disclosures regarding the non-GAAP measures, including reconciliations of these measures to the most comparable measures under US GAAP. Unless otherwise noted, all comparisons to 2019 are provided on an FX-neutral basis.

And with that, I'm happy to turn the call over to Kedar.

Kedar Deshpande

Chief Executive Officer & Director, Groupon, Inc.

Hello, and thanks for joining us. Throughout this past year, we have talked a lot about the fundamentals of our turnaround strategy, reduce our cost structure, and at the same time, improve our core marketplace experience. Let's talk about the promise we have made on both fronts.

We are significantly streamlining our cost structure and aligning it to where our business is today. We are well on the way to achieve our Phase 1 goal to take out $150 million of annual cost and expect to hit this run rate by the end of 2023. We completed the majority of head count actions early in the fourth quarter and expect to begin to realize the benefits of our rightsizing starting in 2023.

Our new cost structure should provide us with significant operating leverage and ability to sustainably generate positive free cash flow as we execute on our turnaround strategy. Moving forward, we will continue to look for opportunities to optimize our cost footprint to ensure it remains aligned with current business, while still giving us room to grow. And for 2023, we have a goal to identify an additional $50 million of savings and related cost actions by the end of the year.

We are also executing on initiatives to improve our core marketplace and during third quarter, our local category was stable, with global local billings that came in at 49% of 2019 levels. This was in line with our expectation and consistent with our performance levels over the last six months.

We are orienting our marketplace around solving everyday customer problems and to do this, we need to deliver on two strategic priorities: improve our customer experience to ensure customer interactions on our marketplace are relevant, credible and actionable every time they want to come to our marketplace; and improve inventory density on our marketplace to ensure we have the right breadth and depth of inventory to satisfy customer intent.

I believe that if we get customer experience right and if we get our inventory density right, it will help us meet our customers' needs every time they come to our marketplace. Doing this, we'll unlock a customer's willingness to buy local experiences and services from us far more frequently. So, going forward, improving local purchase frequency is the most important metric and will be a key measure of how well we are executing our strategy. We are going to be relentless in driving this metric higher.

Today, we are seeing customers buy just two to three units of inventory from us per year and we are only retaining 30% of these customers on average for more than one year. These metrics are disappointing, given we are a horizontal marketplace. I believe that this is because we are not creating a reason for customers to engage with us more frequently. And so, we have created a roadmap of experiments and initiatives with the goal of driving purchase frequency higher. These include improving search and relevance, enhancing the way we work with our merchant partners, creating new customer incentives and testing new marketing channels and strategies to drive demand.

So far, this year, we made a lot of progress on initiatives aimed at building trust with our customers and we expect this progress to help support healthier customer retention going forward. As a marketplace, we have to create an environment that all but ensures customers will have a positive experience every time they come to Groupon.

We made meaningful progress here this year. First, we made sure that when customers come to our marketplace in search of a deal on something, they can trust that we offer the best deal. We put a process in place in North America to improve our ability to monitor pricing to make sure customers cannot find a better deal anywhere else.

Second, customers need to trust that whenever they purchase on Groupon, they will be able to use and that they will have a great experience. This is non-negotiable for us and we implemented a process to remove high refunding merchants from our platform and proactively identify and help those merchants with degrading refund trends.

Trust is one of the foundational elements for the Groupon customer experience we want to deliver. We are also focused on unleashing the power of horizontal marketplace by experimenting with pricing and promotions to encourage our customers to make more purchases across more of our verticals more frequently. We are testing and learning in a number of areas that will give us insights into how we can improve retention of both our existing customers and our new customers.

Let me walk you through two of these experiments. Last quarter, I told you about a significant test we were running to encourage cross vertical purchases. The goal of the test was to get customers to browse a specific set of inventory in our catalog instead of coming to our marketplace for one specific deal. We believe that by surfacing new specific inventory vertical to our existing customer, making their marketplace experience more interesting, we can improve customer retention. So the test offer incentives to customers who had purchased inventory from our dining vertical to make a subsequent purchase within our Beauty & Wellness vertical and vice versa.

During the test, we increased the cross vertical purchasers 150% versus the control group. Based on this success, we began scaling this initiative to our global marketplace in the third quarter. This initiative is currently scaled in 11 countries and we expect to ramp it up fully in North America before the end of the year.

We are also testing ways to leverage Groupon incentives as a means to get new customers to browse and engage with our full catalog of inventories. In our initial test, we are giving Groupon Bucks to customers when they purchase our full-price market-rate inventory. Our hypothesis is that by providing this additional value via Bucks, G Bucks, it will incentivize customers to purchase our full-price inventory and get them back to Groupon later to use their G Bucks and make another purchase.

Our initial test results have been promising. We have seen anywhere from 6% to 22% lift in conversion, depending on the test. We are also seeing repeat purchases. I have to say, it's still very early and we are only testing in our Atlanta market, but we are excited about the potential of this initiative to improve conversion and purchase frequency. We will continue testing, learning and tracking our existing test cohorts before scaling in North America and international markets.

Another way to incentivize customers is to meet customers where they are by making it easier for them to purchase and book their services and experiences with merchants they know and love. We had a great win here recently with a large theme park, Universal Studios Hollywood. Our team was able to create a bespoke integration that transitioned this merchant from a physical voucher-based experience to an online bookable experience that provides customers with a date based pricing and convenient streamlined ticketing experience. This update means that we can now provide our customers with a more seamless search and purchase and redemption journey.

In addition to improving trust and driving and unleashing the power of our horizontal marketplace like other marketplaces out there, we are continually looking at ways to improve search and relevance. We recently began testing a new ranking algorithm in some of our international markets and have seen early but promising results. In our test, we are adding an auto-complete function that features specific deal offerings in the search drop down menu.

So, for example, when a customer begins typing in sushi, instead of providing matching recommended search terms like sushi making class or sushi buffet, the search bar will populate with local and relevant sushi deals available on our marketplace. This allows them to click directly onto a deal page skipping the search landing page altogether, with a goal of driving higher conversion.

We are also testing ways to optimize our search algorithms and better showcase personalized deal recommendations throughout the customer journey. For example, we are testing the impact of including personalized deal at the bottom of a deal page and during checkout. While we just started testing in October, in the four countries where we are testing these combined improvements, we are seeing 10% higher revenue per customer. We plan to expand these tests to North America in fourth quarter.

Now, let's get into how we are improving our inventory density. We need to have inventory that is engaging and meets the needs of customers every single time they come to our marketplace. This is critical to our success. This is how we satisfy intent. This is how we create more reasons for our customers to buy from Groupon again and again. To do this, we are working on few priorities.

At the highest level, we are working to make sure we have the right breadth and depth of local experiences and services, inventory in any given geography, delivering on this goal all the time will tell customers that they can come to Groupon first when they are looking for local. They can trust that we will have what they need.

So how are we working on this today? In two ways. First, we have restructured our North American sales force to better align with our inventory density goals. Second, we are relying on resources like merchant marketing, self-service and card-linked offers to help us scale.

Regarding our sales force, we now have a smaller, more focused team. We are doing a better job of using our deep treasure trove of data to inform our supply acquisition efforts and identifying inventory that will create a better customer experience. Our supply acquisition strategy is now focused on acquiring and retaining inventory in geographies and verticals that we believe will drive incremental consumer demand. This is the first and most important criteria.

What does this mean in practice? This means that our sales team is incentivized to acquire merchants' inventory that customers want to buy in targeted geographies where we do not have adequate coverage. Instead of eight massage in any given geography, let's say, we would direct our team to bring on the first or second nail salon, et cetera. Our North America sales team alone cannot help us to scale our inventory strategy, so we must do a better job of leveraging scalable resources to take us the rest of the way and we are. We are leaning into three of those resources today: merchant marketing, self-service and CLO.

First, we are stepping our efforts to leverage merchant marketing to help acquire and deepen relationships with merchant partners. Merchant marketing will support our supply acquisition strategy in three key ways. One, by using marketing resources to target specific inventory verticals and geographies where we have gaps; second, by helping to improve the perception of Groupon brand before our sales team reaches out; and third, managing leads more effectively and channeling merchants to sell our self-service depending on their needs and potential.

After merchant partners join our marketplace, merchant marketing will focus on deepening relationships with our merchants by driving self-service awareness as means of quickly and effectively managing campaigns and cross-selling into new deal types our products.

With self-service, North America continues to leverage our improved platform to help our merchant partners to launch and help their deals and also to bring new merchant partners to our marketplace. In fact, in September, over 75% of our new inventory onboarded through self-service. These two resources are allowing us to figure out new better ways to supplement the reach of our sales team as they focus on acquiring and retaining right merchant partners and helping them grow on Groupon marketplace.

Rounding out the trio of scalable resources is card-linked offers or CLO. As a reminder, CLOs are digital cash-back rewards that consumers automatically receive when they opt to link their debit cards or credit cards to Groupon. Our hypothesis is that we can seamlessly and quickly bring on the specific types of inventory through partnership and technology to help, A, to fill inventory gaps, B, to showcase inventory, like dining options that consumers are using more frequently. Having more of this type of inventory on our platform should drive traffic, engagement and purchase frequency.

We recently completed our CLO integration, which more than tripled our North America dining inventory. Since the beginning of the launch in September, we have already seen signs of success. Dining inventory search conversion increased by more than 15% since we launched CLO and we hit our target redemption rate. This means that more customers are searching for and discovering great quality local dining merchants, claiming CLO offers and redeeming them by making purchases at local merchants.

While these early results are promising, we still have more work to do to really move the needle. First, we need to make this inventory easier for customers to find by improving our search and relevance. And then, second, we need to improve the user experience so it is easier for customers to engage with this type of inventory. And if we get this right, I believe this initiative can be an important driver to improving customer engagement and purchase frequency.

We have launched a number of initiatives in Atlanta, which we are using as a test case to see how we can supercharge results and get customers to buy more frequently. Ultimately, our goal in Atlanta is to keep customers engaged on our platform and improve our customer purchase frequency by 20%. In early results, we have seen Atlanta customers come back more frequently in the last 45 days compared with customers in other US cities.

In terms of what is working, we have seen our Groupon Bucks customer incentive initiatives deliver a lift in repeat purchase rates, but, again, it's still early and we have some more work to do to optimize other initiatives in Atlanta, such as how we surface our CLO inventory to customers. We expect to make further progress here as we continue to test and iterate and I look forward to updating you on our progress.

As we continue to make progress improving our core business, marketing will play a key role in retaining and bringing new customers to our platform. During the third quarter, we significantly increased our investment in SEM and display marketing. And we are confident that these were some investments that will deliver incremental ROI over time. That said, we have not yet optimized our strategy to use mid-funnel marketing investment to maximize our imperial returns in our performance marketing channels.

So in the fourth quarter, we are reallocating some of performance marketing dollars into mid-funnel marketing campaigns to see if we can optimize our marketing spend. We started testing in October with the launch of second annual Groupon Day event, which featured big savings on local experiences and services and one-of-a-kind deals. The goal of this campaign was to grab customers' attention and get in early on holiday purchasing patterns.

So what did we learn from this campaign? We learned that we can drive more consumers to our site and improve billings. While we did not quite reach the goal we set for the campaign, we did drive traffic up nearly 5% and conversion nearly 7 basis points during the eight-day period. Also, we are sowing the seeds with the future customers. We were able to drive increased app downloads, email subscribers and SMS subscribers.

I'm excited about the progress we have made so far, but we still have more work to do. Over the next few quarters, we are continuing to test, learn and recalibrate our marketing investment so that we can improve our brand perception, put Groupon in the consideration set for both customers and merchants and make our investment in performance marketing deliver better returns.

Finally, on the inventory front, we are on track to launch a standalone Beauty experience platform to better serve high-intent customers looking to explore and find trusted providers for high-end minimally invasive beauty treatments. A test of this concept is planned for a launch before the end of 2022 in the Charleston market.

We are pleased to share that we released our first-ever ESG report this October, which outlines how we are working to create value for and uplift all our stakeholders, including our employees, our customers, our merchant partners and the communities where we operate. This report helps us paint the picture of the foundation we have established for ESG at Groupon, what we have accomplished to date and where we can go. You can find the report on our corporate website and I encourage you to read it when you have a chance.

Before I turn it over to Damien, I want to congratulate him on being named permanent CFO. I have been impressed with Damien's extensive experience and leadership since joining Groupon, and I'm excited for him to continue to lead our finance and accounting organization.

With that, I will turn it over to Damien to walk you through our Q3 results.

Damien Schmitz

Chief Financial Officer, Groupon, Inc.

Thanks, Kedar. I'm really pleased to step into this role on a permanent basis. Thank you as well to everyone who is joining us today. I'll use my time today to provide further insights into our third quarter operating financial results, and factors to consider for the fourth quarter. In addition to my prepared remarks, I encourage you to review our slides, press release and 10-Q, which contain more detail on our Q3 results.

Taking a step back, before we go into our third quarter financial results, our performance this quarter underscored the stability we are seeing within our core local category. While we haven't seen the impact yet from the initiatives we've launched to support our strategic priorities, we are taking steps to drive engagement on the platform and unlock growth. So let's jump into our consolidated third quarter results.

We delivered $434 million of gross billings, $144 million of revenue, $126 million of gross profit, negative $9 million of adjusted EBITDA. We ended the quarter with $308 million in cash, including $110 million drawn on the revolver and we had approximately 20 million active customers worldwide.

Turning to our local category, consolidated local billings were at 49% of 2019 levels. This compares with 52% of 2019 during the second quarter. In October, we began to pick up some momentum and have seen North America local billings recovered to 52% of 2019 levels. Within our North America customer base, we had 9.9 million active local customers in the third quarter, down 9% year-over-year. And within our international markets, we had 5 million active local customers in the third quarter, which represent a growth of 22% year-over-year.

Moving to our Goods category, in the third quarter, billings were $54 million and in line with our expectations. As a reminder, we completed the international Goods transition to a third-party marketplace model in the fourth quarter 2021, which means we recognize Goods revenue on a net basis.

Turning to operating expenses, SG&A was $119 million and included higher than expected expenses related to our migration to the cloud. We still expect to reduce SG&A by at least $10 million in the second half of 2022 versus the first half of 2022, despite higher cloud costs and the timing of benefits related to our cost actions. We are committed to substantially reducing our cloud costs over time, which will be complemented by lower payroll expenses resulting from the cost actions we took this year. To-date, we incurred $6 million in one-time pre-tax charges related to cost actions we announced last quarter.

Marketing expense for the third quarter was $38 million or 30% of gross profits. As we continue to deliver improvements to our fundamental marketplace experience, we expect to continue calibrating our marketing investment to drive customer engagement and purchase frequency.

As I mentioned earlier, we ended the quarter with a cash balance of $308 million, which includes $110 million drawn on our revolver. During the quarter, we successfully amended our revolving credit facility, giving us full access to $150 million borrowing capacity. We also remain on track to take $150 million in cost out of our business.

Groupon continues to hold the 2.29% equity stake in the privately held global payments provider SumUp. As a reminder, we reflect the value of this stake as well as other minority investments on our balance sheet. Carrying value for this investment is approximately $120 million. While there is no public market for SumUp securities at this time, if an opportunity arises to monetize this asset, we will consider this path forward.

Given our current equity market valuation, our SumUp stake and our operating plan focused on unlocking both top line growth and expense savings, we do not believe that our public valuation reflects our business opportunity. Between our assets and a lean cost structure we're creating, we believe we have the resources we need to execute our turnaround strategy and deliver free cash flow consistently.

To help with your models, we've included a slide in our earnings presentation to show how savings from our cost program are expected to translate to our P&L over the next several quarters. The highlights haven't changed from what we disclosed in the second quarter.

In addition, specific to the fourth quarter here are some key factors to consider. So far in Q4, our trends are improving or holding steady. October North America local billings are estimated to be approximately 52% of 2019 levels or roughly 300 basis points above 3Q. International local billings in October are estimated to be in line with

3Q levels or approximately 50% of 2019 on an FX-neutral basis and consolidated local billings for the month are estimated to be 51% of 2019 levels on an FX-neutral basis.

As Kedar mentioned, we plan to reallocate some marketing spend in mid-funnel channels and we'll look to continue to invest in marketing overall if we see opportunities to drive attractive returns. We expect fourth quarter SG&A to be relative in line with the third quarter and we expect to generate free cash flow in the fourth quarter.

With that, I'll turn it back over to Kedar for a few final prepared comments.

Kedar Deshpande

Chief Executive Officer & Director, Groupon, Inc.

Thanks, Damien. Our team has been hard at work executing on our cost action plan and on initiatives to improve our marketplace. And over the past few months, we have taken important steps forwards. We are executing on a multi-phased cost savings plan and expect to achieve $150 million in run rate savings by the end of 2023.

We've made progress reorienting our marketplace around solving everyday customer problems. We have a number of initiatives implied aimed at delivering a better customer experience and improving our inventory density so that we can better satisfy customer intent and drive purchase frequency higher.

We have a plan to launch our new Beauty experience platform in Charleston market by the end of the year. And now, with our improved marketplace, we have begun testing into marketing to help us drive customer engagement and purchase frequency. While this progress is not yet reflected in our financial results this quarter, we have begun to see green shoots of progress and I'm confident that there are brighter days ahead for Groupon.

Based on this, we are reiterating our 2023 goals to generate $100 million in annual free cash flow and deliver a 15% to 20% adjusted EBITDA margin. All of this work should position us to begin capturing new growth opportunities as we exit 2022 and to do so profitably in a variety of economic cycles.

With that, I will turn it over to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Deshpande. [Operator Instructions] And we'll take our first question this afternoon from Trevor Young of Barclays.

Trevor Young
Analyst, Barclays Capital, Inc.
Q

Great. Thanks. First off, Damien, congrats on the permanent CFO appointment. First question, on the 2023 guide of the 15% to 20% EBITDA margin and $100 million free cash flow, it looks like the underlying assumption is now local billings to be around 60% of 2019 levels. That seems a pretty healthy ramp versus as you pointed out, Kedar, kind of treading water around that 50-ish percent level. Can you help us understand what's embedded in your framework there in terms of like macro recovery versus inventory ramp or versus stabilizing or even growing the local customer count versus the current run rate versus purchase frequency? Just help us understand some of the puts and takes that inform that view of getting to that 60% threshold.

Damien Schmitz
Chief Financial Officer, Groupon, Inc.
A

Yeah. And thank you, Trevor. It's Damien here. You're right that in our 2023 number sets assuming higher local billings around 60% of 2019 levels. So, you heard from Kedar's remarks today around how we've improved the numbers of the fundamentals of our marketplace and are seeing some degree of stability.

A lot of the initiatives we touched on really in the early stages and hadn't fully manifested into the P&L to enhance the core marketplace experience, whether that's adding inventory and [ph] posting a CX search (00:34:55) relevance, Groupon incentives and calibrating our marketing investment.

And so, when you think about where we're at today to where we need to go, it's really around driving purchase frequency. And we can get to those numbers that we've cited on our existing customer base with just a little bit more purchase frequency. So, that's really what's underlying the 2023 number set.

Trevor Young
Analyst, Barclays Capital, Inc.
Q

That's really helpful. And then just by extension, we're trending around this 50-ish percent level versus 2019. And I think you commented that in North America here in October, we're kicking up a little bit. Can you talk through what the cadence was, one, throughout 3Q and then two, what's kind of informing that uptick here so far in 4Q?

Damien Schmitz
Chief Financial Officer, Groupon, Inc.
A

Yeah. So, Damien here again and let me unpack and reconcile a little bit around the third quarter for you. So, we did say that we're seeing stability in the local category in both North America and international for [ph] some more little (00:35:57) additional color really when looking at all the various puts and takes within the quarter operationally, there were a few smaller headwinds, namely a timing shift for one of our major retailers, Hurricane Ian at the end of the quarter and some other miscellaneous items.

So, net-net, normalized trends are relatively steady. And that's why we were encouraged to give the October number for North America as well. And those few points of tick back up are really broad-based. It's not one vertical versus the other. We're really just kind of seeing that lift across the board.

Trevor Young
Analyst, Barclays Capital, Inc.
Q

Got it. So sounds a little bit more broad-based. That makes sense.

Damien Schmitz
Chief Financial Officer, Groupon, Inc.
A

That's right.

Trevor Young
Analyst, Barclays Capital, Inc.
Q

Last one. Kedar, just on the new Beauty marketplace, you shared a little bit of color there on timing by year-end. Any details you can share on branding? And then, I think you mentioned trying it out in Charleston first. Any color on why that market versus other potential geographic markets? And then, lastly, is there any embedded contribution in that 60% of 2019 level threshold for next year?

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.
A

Thanks for the question, Trevor. I think the geographical market or what we are trying to do with – particularly in the Beauty, Charleston area represents one of those ideal demographics for us in terms of the customer composition that they use these particular services, we have seen that particular behavior in the past. But stepping back, this particular Beauty offering is mostly to make sure that the customer starts with customer problem and trust first, as opposed to starting with the price. And I think that's one of the reasons we are first starting to make sure that we get the, first and foremost, customer problems right, we be able to establish this trust and then from there, if we believe that we have solved the customer problem, so hey, how do I find the trusted provider because it's not five-star reviews or three-star reviews or it's not some text reviews. You actually want to go through the problem and somebody actually verifying that for you, how they went through this particular process in a different either video or imaging format. That's what we are trying to test it out. That's what we are trying to launch it out in the Charleston market.

As far as the 2023 is concerned, we are not considering the recovery percentages as part of this particular initiative is not going to materially impact that 60% recovery.

Trevor Young
Analyst, Barclays Capital, Inc.
Q

Great. Thank you both.

Operator: Thank you. [Operator Instructions] We'll take our next question now from Eric Sheridan of Goldman Sachs.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC
Q

Thanks so much for taking the questions. Maybe two if I can. Can you give us a little bit of color on what you're continuing to monitor with respect to the Atlanta test and how elements of that might fit into growth versus rationalizing for costs looking forward to next year? Thanks.

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.

A

Thanks, Eric. So Atlanta test, what we are trying to do in Atlanta is specifically focused on two aspects. We are trying to make sure that we can sell the inventory where customers come to Groupon platform and they are like, they – as you see in some of our numbers, you have seen us talk about one and done. Customers are coming in, they go for a specific deal and then they don't come back to the Groupon platform as such. To address such specific problem, we have this incentive called G Bucks, which is launched, where we give an incentive to customers, they come back, they browse our catalog, understand, better understanding of what Groupon has to offer.

And then, in parallel to that, we are also trying to make sure that we have the better search experience, we have the better overall inventory experience by having the everyday inventory for them in terms of CLO. These particular inventory compositions give us the confidence that, hey, customers are finding our platform much more useful than they have seen in the past. And so we are monitoring Atlanta cohort of the customers with what do we call the control cohorts of Dallas and Houston and few other cities to make sure that the retention on this particular cohort is actually a growing retention. And we have seen that particular trend. It's not up to the level that we would like it to be, but it's much better than our control cohorts.

And so, just to summarize what we are doing here and what we are monitoring, better inventory density with the better incentive structure that aligns with customers coming back and improving our purchase frequency in that specific market. That's what we are very focused on in Atlanta.

Operator: And Mr. Sheridan, did you have anything further.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

If I can take an opportunity, I'd love to ask maybe just one. You talked a little bit about realigning marketing towards the middle of the funnel. How should we be thinking about that in terms of both the pace of marketing dollars in the next year and some of what you need to do to realign those dollars the way you want to be in the purchasing funnel? Thanks.

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.

A

Yeah. So I'm going to – Eric, I'm going to use this opportunity to give you my thought, which I have been actually trying to get across in our presentation. So I'm sorry, it's again reiterating some of this particular opportunity.

So, look, at the beginning of the year when I started as CEO, one of the things we did is we stepped – reduced our marketing spend, performance marketing spend, and the reason we reduced our performance marketing spend was because our customer experience was not so great. There were a lot of refunds. There were a lot of customer contact challenges. And so by reducing, we focused in Q2 on improving those operational elements.

In Q3, we leaned into performance marketing. And we believe that once we fixed all these particular challenges, which is now we have a systematic mechanism for refunds, we have reduced, take some of merchants out of the platform, actually made the behavior better by informing and working with a lot of merchant partners. And so, we have now a much better, healthier customer experience. So we leaned into Q3 on performance marketing.

Some of that performance marketing spend is coming back later down the line. But as we are launching this particular experiment to increase the purchase frequency and we are trying to make sure that we have this inventory density with whether it's everyday inventory in terms of dining or whether its inventory that is in the Beauty marketplace, we are creating this particular flywheel that customers can now engage with Groupon much better with the Bucks and all these incentives.

So marketing is just a part of that experiment where we are trying to say mid-funnel spend, we are trying to optimize that. But as the core retention improves, we will be able to spend more and more on the specific part of the marketing, which is acquiring the customers more as opposed to trying to get them to retain. And that's why we are trying to make sure that the marketing spend is much more focused through all these optimization as opposed to only in the performance marketing.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for the color.

Operator: Thank you, Mr. Sheridan. [Operator Instructions] And it appears we have no further questions this afternoon. So that will conclude our call.

Ladies and gentlemen, we'd like to thank you all so much for joining Groupon's third quarter 2022 financial results call. Again, thank you so much for joining us and we wish you all a great remainder of your day. Goodbye.