Entertainment Publications – Another Chance

On March 12, 2013, 50 years after its inception, most of those years dominating its industry, Entertainment Publications, dba Entertainment Promotions LLC, was shuttered after filing for Chapter 7 bankruptcy. It came as a total surprise and shock to all but those who knew the most intimate details behind the firm’s operating exposure.

“Disruptive Innovation” (per Christensen – or Creative Destruction per Schumpeter) leaves behind a curious trail of firms with higher and higher profits until the very end – which shows that the managers involved are doing precisely as they’ve been told, bringing corporate performance to as high a point as it can possibly reach before the fuel tanks go completely dry. It would seem that nothing is saved for a soft landing – perhaps because both hard and soft landings lead to much the same result.

Corporate autopsies have never been overly daunting other than in two cases. One is when an entire industry drops off the map; the other even more so is when the failed industry is composed of a single firm. In both cases the reason, a mystery effectively until 1997¹, is a mystery no longer.

This is the actual story of such a firm that created the industry it then dominated for a half-century for all of the right reasons. It was subsequently sold to the highest bidder and then flown to the sky as described earlier. The difference between this case and others like it is that here, the son of the founder appeared at the crash site as if summoned by angels to collect and reassemble the remains.

We’re going to look at this case to better understand what to look for in other cases where an entire industry becomes replaced by entrants from another so that we can keep this from happening to the next one we help build or manage.

**Entertainment.com – Alive! – April 29, 2013**

Lowell Potiker, the elder son of Hughes Potiker strode into the Troy headquarters of Entertainment Promotions after having paid $17 million dollars to rescue the coupon-book firm that his mother and lawyer father started a half-century ago. It employed over a thousand people and was valued at hundreds of millions of dollars only a decade earlier. To this day Lowell could recognize the smell of the ink used in the press he helped run in the basement of his parents' suburban Detroit home to print the books that schoolchildren would sell to fund activities and learning opportunities that would otherwise remain unfunded.

The coupon book his father pioneered in 1962 began as a way to bring greater value to fundraising as traditionally performed by schools and charities. While Hughes and his associates, many with their own children engaged in similar campaigns, might contribute to charitable fundraisers no matter what might (or might not) be provided as an incentive, all were generally relieved once their children's (and their friends' children's) fundraising campaigns had ended for the season. After all, who really needs to buy, or help sell (or eat) yet another overpriced bar of chocolate or box of cookies?

Hughes built a firm on the success of that book, through which he achieved and maintained complete domination over the market that he was first to see and exploit. The books made it possible for charitable institutions to offer promotional discounts for sporting events rather than traditional consumables and incentivized persons like himself and those whom he knew to attend such events when they otherwise might not. With the Detroit area's tradition of early adoption and strong support for the broadest variety of professional athletics, it should come as no surprise that such a concept would become popular overnight. Who would have ever expected it to last so long – or, at the end, for it to be so mercilessly overrun?

**Where It All Began**

The “Sports Unlimited” coupon book was essentially a collection of Buy-One-Get-One (BOGO) promotional coupons for use at local athletic events (later adding restaurants, stores and more). By using them, couples could attend various leisure activities throughout the year at the same price one would have otherwise paid to attend alone.

While that alone would be responsible for a significant improvement in the type of premiums made available to fundraising efforts from that time forward, the true brilliance of the Entertainment Book (as it would be called by 1964), was that like no other premium offered before, it represented a real win-win proposition for each party involved in the transaction.

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2 For the first 2 years the coupon book and the company were both named “Sports Unlimited”. They were both later renamed as the Entertainment book and Entertainment Publications, respectively.
- Parents of the children, and their friends, which were usually other couples, who would be enlisted to solicit sales on behalf of their school were (as hindsight would make seem obvious) the perfect demographic for of a book filled with "couples coupons", allowing them to merrily attend events they might otherwise have forgone or attended alone in order to conserve a limited budget.

- Local merchants typically had no real means of marketing other than the traditional means (newspaper, radio, TV) which were expensive and not guaranteed to generate any revenue. With the Entertainment book, all that was required of merchants in exchange for printing and distributing their promotional coupons to what was discovered to be a premium demographic, was to honor the coupons when presented. This really was the first time marketing could be purchased (by anyone) on a fully contingent basis – e.g. the only time there was an expense was after the customer made a purchase. While at first glance, paying up to 50% of gross revenue on first purchase may seem exorbitant, on a per customer basis it compared very favorably to the alternatives, all of which were based on best-guess estimates of effectiveness.

- For schools this represented a no-risk, low-aversion, high-reward means of soliciting donations as coupon books were sold on consignment with schools keeping a full 50% of the proceeds - for engaging in something that was far more popular (and useful) than selling flowers or candy.

- Finally, while Entertainment Publications would apply a part of the remaining 50% of the proceeds to print and pay for distribution (to the schools, who would distribute them individually from there) of the books that had been ordered; the (fairly considerable) portion remaining would be applied to organizational overhead and used to fund improvement and expansion initiatives.

In the very first year of publication, 8000 copies of the "Sports Unlimited" (Entertainment) book would be sold netting both the schools and the Potikers netted around $25,000 (the equivalent of $200,000 today). It quickly became apparent that soliciting the interest of Detroit-area parents on behalf of sporting events (and later, dining and other events) on behalf of schools and other charitable causes had the potential of creating significant benefit for both the Potikers and the community at large.

One need only imagine for a moment what an entrepreneur whose aspirations have finally been realized in this way might do going forward. After two years of unmitigated success, Hughes Potiker gave up law as his primary occupation and focused entirely on the charity-based couponing business. Even before the market for the book was fully developed in Detroit, Hughes Potiker recognized that the benefits and the profits of his fledgling business could be duplicated in any (and perhaps every) other metropolitan area in the US, making it eminently scalable, but also highly vulnerable to competition. It became clear that only by pre-empting such competition elsewhere could the young firm’s future be assured at home.

**Becoming/Remaining Dominant in the Business of High-Value Couponing**

Once printing and distribution of the annual coupon books was complete for the year, attention turned to expanding the business at home and to other cities. After 20 years of such diligence, Entertainment Publications had 600 employees and had added an average of one major city per year to its portfolio of coupon books filled with 300 to 500 high-value coupons for merchants and events specific to each locale. Although at this point Entertainment dominated the high-value event and dining coupon market in one of every 10 of the 220 DMAs (Direct Marketing Areas) in the US and Canada, couponing had become big business in the US ($120B of manufacturers coupons issued in 1982) and imitators emerged in the venues (both in locales as well as media, such as Valassis in newspaper inserts and Valpak in direct mail) that Entertainment had yet to claim. The alternate media, however, was never even able to come close to eliciting the kind of loyalty and merchant participation levels generated by no-cost (until redeemed), high-value (‘BOGO’) advertising, so taking note of the competition for location, Hughes took his (by then...
$18M) company public on the NASDAQ stock exchange, raising around $26M to be used (over the sometimes vociferous concerns of his board of directors) to compete with (or buy and rebrand where necessary) competitors in other DMAs. In doing so, Hughes quickly doubled Entertainment’s national footprint. In the crash of ’87 he took his company private once again and relisted it on the larger AMEX exchange where he traded equity for an additional $300M used to expand even further. In 1992, 30 years after the firm’s inception – when Hughes sold his personal interest in the company to CUC for $100M – Entertainment was the dominant, if not only, provider of leisure-time high-value coupons in 96 DMAs, accounting for fully half of the population in the US and Canada.

By that time, Lowell (Hughes’ elder son and primary caretaker of the business following its recent bankruptcy) and his younger brother Brian had both graduated from Pepperdine and passed their bar exams, after which they and their sister Jori continued helping to manage the family’s investments and charitable enterprise (HSP [Hughes and Sheila Potiker] Group, LLC) in LaJolla, California.

Professional Management Takes Over

From that point on the Potikers became observers as Hughes’ legacy continued to expand, first under CUC (which became Cendant), then as an independent firm once again having been recapitalized by the Carlyle Group following the fraud conviction of Cendant’s senior management in 1999. Carlyle was, of course, in the business of selling growth, so the growth trajectory set originally by Hughes was maintained, but rather than creating new affiliations in far flung locations, arrangements were made with bookstores and brick and mortar retailers already in those areas to carry and sell the book.

By 2003 the company had over 1000 employees managing a virtual monopoly over an area containing 80% of the population of the US and Canada, and in its current form, with $254M in revenue and $90M still going to schools and charities and $20M in earnings, the potential for growth for the physical book had pretty much been exhausted. Entertainment had tried to extend its domain over the years through the sales of alternative promotional products, the most famous of which was Sally Foster Cookie Dough, but none of these became sufficiently popular or profitable.
CEO Alan Bittker had just completed steps to facilitate the sale of Entertainment books on-line and make it possible for customers to look up and print coupons submitted too late for printing, when it captured the attention of Barry Diller.

In the Spotlight

Barry Diller\(^3\) had already served an illustrious career as Vice President of ABC, Chairman and CEO of Paramount Pictures, Fox Broadcasting and 20th Century Fox, QVC, and the USA Network – before taking over IAC/Interactive Corp, a media and ecommerce conglomerate through which he intended to demonstrate the (now infamous) principle of how synergies of ecommerce sites could be developed to create combinations worth far more than any of the individual parts.

Diller bought Entertainment from Carlyle for $360M in the hope it would fulfill the mission found in the following press release:

Consistent with USA's strategy of driving the online migration of traditional businesses in areas such as retailing, ticketing and travel, this acquisition is expected to place USA in a leadership position in yet another category that is today primarily distributed to consumers offline -- merchant discounts and offers.

“This new project totally fits within our strategy to be the leader in both size and profitability in electronic commerce,” said Barry Diller, Chairman and Chief Executive Officer, USA Interactive. “The growth opportunities for the distribution of Entertainment Publications' offerings to our growing audience of consumers are entirely

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\(^3\) Barry Diller and IAC may be best known as of late for the firm’s subsidiary Aereo, which recently won a controversial and expensive legal battle to collect and distribute live television from NYC TV stations over the internet – without paying for it or getting permission.
natural - from providing travel discounts to Expedia and Hotels.com consumers, to serving up dining discounts to the more locally oriented Citysearch user. The possibilities of weaving Entertainment Publications into the entire USA family are both exciting and endless.”

While mostly an offline business, Entertainment Publications has tremendous local reach, with extensive merchant relationships in more than 160 markets in the United States. Its business is similar to USA’s other leading transaction and subscription verticals in that they are all Web conducive and all category leaders. In addition to gaining distribution via USA’s interactive assets, Entertainment Publications will utilize USA’s proven technological expertise to advance online migration and to develop more convenient, seamless ways for consumers to redeem discounts electronically, offering consumers an alternative to traditional paper coupons. These enhancements will also drive growth of Entertainment Publications’ traditional distribution channels.

“We believe this is an excellent strategic fit as both companies are very focused on building exceptional consumer content that drives transactions,” said Alan Bittker, Entertainment Publications’ President and CEO. “When you combine our database of 50% off discounts from 70,000 well-known restaurants, hotels, attractions and retailers with USA’s reach and expertise in e-commerce transactions, you have a very powerful combination.”

Entertainment was no stranger to on-line communications. In 1995 it already had its own e-mail system and a headquarters direct-connected to its myriad of branch offices across the country using the 3rd largest WAN in the country (after the banks). In 1996 Entertainment headquarters was already connected to the internet. In 1998, the year Google came into existence, so did www.entertainment.com.

Therefore it wasn’t astonishing that Bittker was able to fulfill Diller’s mandate to transform Entertainment.com into an e-commerce site which, by 2007 would sell a million copies of its coupon book on the internet. In addition, the technology that made it possible for customers to look up and print coupons displayed on-line also made on-line-only memberships feasible – an area which was also looked to as a possible venue for growth.

What didn’t happen was the corporate synergy that was supposed to develop among components of IAC’s portfolio. A brief partnership with IAC’s Ticketmaster enrolled unknowing ticket purchasers into a $9 per month subscription to Entertainment Rewards, a service designed to provide automatic rebates to members using a registered credit card at participating merchants, which not only fell flat, but led to a class action lawsuit that cost Ticketmaster $23M and greatly tarnished the reputation of both enterprises. Entertainment sales began to plateau after hitting a peak in 2004 and margins began to fade. In 2006 with its critical metrics now on a steady decline, Bittker was thanked for his services in bringing Entertainment up to speed on the internet and replaced by Mary Ann Rivers, a bachelors-level Central Michigan University business graduate who had risen to become the Executive Vice President of Business Development and Product Management for the Targeted Print & Media group at Valassis (newspaper inserts). Mary Ann was someone who aspired to “help others believe in themselves and realize their own hidden and limitless potential.” She hoped to use this opportunity to “find and leverage the synergies” envisioned by Diller and for Entertainment to “manage the convergence of off-line and online media and present coupons and discounts or special offers in numerous ways to reach a changing and fragmented on-the-go audience”. In short, her objective at IAC would be to use the IAC’s resources and influence to transform the Entertainment book and website into the “go-to place” for cost-conscious shoppers and diners, and finally fulfill Diller’s dream of a fully integrated (and wildly profitable) e-commerce conglomerate.

To that end she was funded to hire a veritable swarm of IT folks to help make that happen, 100 of whom were immediately brought onboard. The results were a resurgence of website visits (a 50% uptick in a
single year) and on-line coupon-printing, greatly slowing, almost even reversing the precipitous decline in revenues. Entertainment appeared to be back on a path to stability at a minimum, to the point of opening the potential for regained prosperity.

Which Turns Out To Be a Sinking Ship

Unfortunately, the mandate and resources provided to position for growth instead became a preparation for sale – and a fire sale at that. Shortly after Rivers was hired, IAC stock began to plummet. The fall lasted for 18 consecutive months, slicing away 60% of IAC’s value. As IAC was being dropped from the S&P 500, Harold Vogel, CEO of Vogel Capital Management explained, “No one can make heads or tails of the 60 companies operating under the IAC umbrella. You needed a playbook to figure out whether they were making or losing money.” Diller backed away from his unrealized vision of mass corporate synergy; IAC was to be rationalized and reorganized into five distinct companies with distinct purposes and identities. The world had lost its faith in Barry Diller and Barry Diller had lost faith that he could ever cost effectively accomplish what he wanted to with Entertainment. With none of the new categories being a good fit for a segment still largely dependent on sales and distribution of a physical coupon book and so little time before the reorganization, Entertainment with its 800 employees, finally, but just barely making a profit again while still servicing 200,000 merchant locations across the country ‘the old fashioned way’ was sold to MHE (Menard Hilbert Equity) for less than one tenth of its previous $360M sale price in cash plus $100M in tax write-offs.

Stuck in a Downdraft

If one were to describe Entertainment as sputtering under IAC, one might also say that it stalled and began to quickly sink under MHE. Shortly after the new owners took possession came the stock market crash of 2008, in which a large proportion of the establishments who used to place coupons in the book either exited the business or downsized to the point where it was felt that high-value coupons would no longer be a cost effective means to fill vacant seats. While other MHE’s assets were similarly affected, there were those who expected that Entertainment would help buoy the boat since coupon usage typically grows under conditions of financial duress. For a time, these board members were thinking of themselves as prescient having made the coupon book purchase at such a propitious time and at a bargain price. In fact, retail couponing did swell by 75% as expected during the recession that followed, but not for the now-half-size Entertainment book which had begun to include an increasing number of less-than-high-value coupons (such as $10 off of $40, and some with as little as 10% discount) to help fill space – acting more like an albatross than a lifesaver. Books for adjacent geographic areas had to be consolidated to achieve budget constraints and headcount had to be proportionately reduced. In some areas, many of the remaining staff ended up working as much for satisfaction as for pay and defections to other organizations became increasingly commonplace. Comparatively brisk online sales of books at ever-earlier seasonal discounts combined with sales made through retail outlets had also reduced the desirability of the Entertainment book as a fundraiser, forcing schools and charities, many of which had once depended on sales of the book, to add and more fully utilize other means.
Other direct marketing organizations, such as adjacent competitors like Valassis (VCI) and Valpak, quickly rebounded after experiencing an initial slowing (although Valpak was briefly offered for sale) in response to previous downturns. It was puzzling to management that Entertainment had not similarly recovered, but was thought by many to have been damaged by allowing its coupon values to fall and compete with those that could be freely obtained in the mail. While by 2009 much of the volume lost through waning interest by schools had been replaced by retailers, the premium traditionally associated with the unreduced pricing for the initial months of sales (associated primarily with school sales) was still missing from the mix. Still, the comparatively reduced expense of servicing an expanded network of retailers was thought to make up for any loss in premiums. However in 2010, with a recovery for Entertainment still lacking and the firm diving ever more deeply into debt, Ms Rivers was asked to make way for the next CEO, Dean Debiase, widely known as a “turn around” expert with a reputation for being tech savvy.

**Something Has to Work – Trying It a Different Way**

Directly prior to joining Entertainment, as CEO of TNS Media, DeBiase had successfully orchestrated a similar roll-up of traditional and digital media groups, which he then sold at a premium to WPP on observation of how advertising dollars were increasingly moving from traditional media to the internet. It was expected that at Entertainment he would do something similar to save the company from what was starting to look like inexorable obsolescence. DeBiase was also the first CEO at Entertainment to understand the enormous impact of consumer convenience in the digital world. Until his term, the only real accommodation made for end-users of coupons had been for the contents (as a whole) to be roughly tailored to buyer demographics. The huge book had never even had an index, which led it to have a reputation as something used once or twice during the year and then forgotten until approached by children and/or charities again in the following year.

DeBiase set out to change all of that by creating easier ways to both find and use the offers that Entertainment was able to make available. The printed book was published with an index for the first time, and not just one but two indexes – one by name and the other by location (city or township). A digital version containing its own unique offers (some of which overlapped with book offers) plus offers added too recently to be published was also made available with a price tag of $20 bearing a subscription of one full year from date of purchase (vs the calendar year of the book), and book buyers were given free access to the digital version, from which coupons could be printed using a computer. Mobile was another
venue Entertainment sought to occupy by providing offer listings and participating-location maps for both iOS and Android operating systems.

DeBiase had also, however, become aware of two very different web-based approaches to deep-discount promotion that had emerged in the Chicago area over the past decade – Restaurant.com and Woot.com. While both made offers as compelling (in terms of percentage discount) as the traditional Entertainment BOGO, the former provided discount dining coupons called gift certificates to create an expectation of use as gifts (no membership required), purchased as individual offers, each to be printed by the purchaser prior to use rather than as an assemblage of pre-printed coupons in books. The other discounter of note, Woot (or w00t, or Woot!), which attracted the attention of the youth market in hordes, was more a means to clearance merchandise than anything else.

**Restaurant.com**

When Cary Chessick’s attempts at marketing websites to restaurants and (thereafter) selling gift certificates for those restaurants on eBay both failed, he founded his own (Restaurant.com) website to help his clients give away customizable, conditionally-valid high-value promotional discount vouchers on a limited basis. The business plan was simple; he would simply use AdWords to attract customers to his site, wherein he would help individual restaurants post customized deep-discount offers in a way which would meet both the needs of preferred clients as well as that of the participating restaurateur. Chessick’s Restaurant.com took off and went on to establish and occupy a $50M niche through which corporate partners and the public could inexpensively obtain deep-discount dining coupons to use for themselves or to give away as incentives or rewards for joining or supporting various programs.

**And then there was Woot.com (or w00t, or Woot!)**

Simultaneously across town, while the world was still trying to understand (and Entertainment was trying to achieve) Barry Diller’s vision of hyper-synergistic e-commerce, a decade-old 15-person PC-components wholesaling firm named Synapse Micro launched and led by (then) 32-year-old Matt Rutledge created a one-deal-per-day website which would, in fact, open up a new way for on-line promotions of all kinds to be presented from that day forward. Rutledge’s markedly irreverent new site woot.com started as a way to clear out built-up caches of overstocked electronic gear. Each day a new item would be offered for one day only (or less, when items would sell out before the end of the day) at half the price of standard gear. Bose® would be sold at the price of GoldStar® and Sennheiser® at less than the price of Bose®. The idea took hold and Rutledge was soon buying mass quantities of premium electronics specifically to peddle on Woot. As a result of Woot and the hundreds of daily deal sites that emerged thereafter, the deal-of-the-day paradigm became firmly and favorably ensconced in American techie culture. Of the hundreds of Woot clones that were launched, Rutledge’s marked

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4 Pay-per-click marketing ads shown in the right hand column of Google search result pages

5 Unlike Entertainment coupons, on Restaurant.com a merchant-limited number of offers of various denominations would be made available per month. While merchants could further tailor the terms of individual offers (e.g. an offer might still exclude the cost of alcohol or require the purchase of at least one entree), they tended not to unless required by the needs of (or laws governing) the individual enterprise.
few actually survived for the long term – with the notable exception being in 2008 with the advent of Andrew Mason’s Groupon.

Prior to Groupon, Mason was running a on-line petition website based on Malcom Gladwell’s “tipping point” paradigm\(^6\) for the benefit of social causes. After the banking crash of 2008 the site’s owner, Eric Lefkowski, noted (and promoted) that the same group-involvement mechanism could be used to facilitate discounted group purchases. Mason agreed and elected to use the Daily Deal format made famous at Woot as a basis for the pitch.

The first group-coupon then, or Groupon as it became known, was a group-buy of pizza from the “Motel Bar” on the ground floor of the Montgomery Ward building in Chicago where Mason’s website was being run. That offer was fully subscribed [as well as consummated and consumed] in a single afternoon, making it clear not only that the Gladwell mechanism could be deployed to offer discounts based on contingent purchase agreements, but that the irreverent daily deal format, with its deep discount and limited supply – would be an exceptionally effective means of presenting such an offer.

Local businesses with staff and relations associated with the site were solicited to continue the experiment thereafter and coverage of the phenomena’s success by the local news media did the rest. Group couponing (Groupon-ing), using the daily deal format became very rapidly popularized and the new sole purpose of Mason’s social-action aggregation enterprise. After a rousing success in Chicago, followed by similar successes in Boston, New York, and Washington DC, Groupon clones appeared as if by magic in every major city in the US (and an equally great number overseas).

**More Can Play At This Game**

Since merchant expense was capped at 50% for Entertainment vs 75% for Groupon and Entertainment book customers were given hundreds of 2-for-1 offers for the price of a single Groupon, the superior value of Entertainment appeared to signal that having a digital version of the book would re-establish Entertainment’s pre-eminence in the industry. The problem was that the excitement associated with the “Deal” paradigm was growing so quickly that for many it might overshadow the more cost effective option. So as is the case with a speeding train, there were really only two things one could rationally do – One must either get on the train, or get off the

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\(^6\) Gladwell established that people are far more disposed to commit their resources to a cause if assured their commitment will only be called upon once the critical mass needed for success has been secured.
track, because making any other choice will result in getting run over. Moreover, there really seemed to be no reason why Entertainment, with its remaining 70,000-strong merchant base and 7 million registered book users couldn’t out-Groupon Groupon (or at least grab and hold a portion of the seemingly limitless Daily Deals market) with a Deal site of its own. So on Feb 18 2011, Entertainment launched its own Daily Deal website and DeBiase believed he’d finally hit the home run he’d been hired to hit.

As late as September 2011, DeBiase was still proclaiming victory. “With more than 350 daily deal sites in the U.S. alone, several of them considering IPOs before the end of the year and more launching each day, this industry, and we with it, are growing at an impressive pace”.

It didn’t take long, however, for the reality of a subsidiary of a cash strapped holding company competing with the “fastest growing company ever” to sink in. By the time Entertainment had completed its Deals website and gotten its book app up on mobile, Groupon had already added geolocation to its iPhone app. Now, all one had to do to find Groupon Now offers (instantly redeemable and automatically fully refunded if not used by days’ end) which were nearby one’s current location or on-the-way-to-a-destination was to use Groupon’s mobile map application to get directions.

Mason appeared also to have insight reminiscent of Hughes Potiker 30 years earlier when it came to the necessity of and means to achieve domination. In 2011, Groupon used $1B of venture capital to add 50 million new subscribers and enough merchants to blanket both the US and Europe in preparation for the firm’s IPO. The resulting stratospheric rankings on Alexis and Yipit (digital equivalents of Nielsen ratings for TV) made Groupon the typical merchant’s first (and second, and third) preference for on-line promotion, despite the truly exorbitant cost. At this point Groupon was turning away eight merchant applications for each one accepted, and given the common prohibition against having simultaneous offers on multiple sites, the Entertainment Daily Deal website with its relatively meager rankings simply could not compete. In November, by the time Groupon IPO’ed, it not only dominated its own demographic (young/single/upwardly mobile), but had already infringed deeply on Entertainment’s (mid-to-upper-mid-income, married with children) market.

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7 So named by a plethora of analysts to reflect Groupon’s record setting 2500% revenue expansion of 2011.

8 Entertainment was not unique in this regard. Both Facebook and Yelp, sites with far greater reach, rankings, and engagement with local merchants and their customers both launched their own Daily Deal sites in 2011 and both were shuttered after only 4 months of operation, ostensibly for the same reason.
At this point DeBiase recognized that even if he were to have been able to raise $1B (impossible, as this was twice MHE’s total worth even before the 2008 crash) to emulate Groupon, neither he nor anyone else could have any real likelihood of success in emulating Groupon’s strategy. In the past year alone with Groupon gobbling up subscribers and Deal sites multiplying like rabbits, the price per typical subscriber (having at most a 1-in-8 chance of making one or more purchases) had risen from $1.20 to an extraordinary $5.65. Moreover, the attempt at having the same organization manage three different types of businesses, with three entirely different customer bases – paper book members, digital-only members, and now Deal subscribers, created a logistical and organizational nightmare.

The Leader Locked Out Of It’s Own Market By The Amateur

With the Entertainment Deals website having been so quickly rendered obsolete and the coupon-based paradigm practiced by Entertainment increasingly regarded as ill-suited to compete, DeBiase implemented a fairly drastic series of headcount reductions, salvaging what capital he could by referring selected merchants of Entertainment’s collection to Google for their consideration in using them to populate the still-developing Google Offers.

Without a sanctioned redefinition as to what the business (what was left of it) should become or the resources with which to make such a transition, DeBiase’s options became limited. He left the firm, handing the reigns to Melissa Fisher, a Harvard graduate who had been recruited by Mary Ann Rivers to be Entertainment’s marketing manager and who rose to the rank of operations manager thereafter. One of Ms. Fisher’s first responsibilities was on New Year’s Day of 2013 to finally shutdown Entertainment’s limping Daily Deals site.

At this point Entertainment had lost virtually every vestige of exclusivity, with its market and its methods aging and becoming outflanked by competition of every kind, and the waning demand for its coupon book was grossly insufficient for profitable operation at existing levels. More cuts would have to be made. It was made clear to Melissa that while there was still support from MHE to keep the doors open, the future would need to be in the form of a sensible merger, perhaps with an established Daily Deal site in which the relationships Entertainment already had with merchants and their customers could conceivably, along with the coupon book and the truly first class skills it had developed in mobile deployment become the basis for a more robustly grounded spectrum of promotion.
The End Comes Quickly

On March 12, however, with losses of the partner who had sponsored Entertainment reaching and exceeding 70%, MHE changed its mind about providing additional support and about seeking potential merger partners. Entertainment would instead petition the bankruptcy court in Delaware for Chapter 7 (dissolution) proceedings. All remaining employees were let go and Entertainment headquarters in Troy became dark, vacant, and abandoned.

When the surviving members of the Potiker family heard the news, it seemed to re-kindle an all but lost passion. Lowell as the senior sibling took charge and approached the court to allow him on behalf of his family’s philanthropic interests to quickly reconstitute and immediately run the firm by buying its current assets for their estimated value of $11M. The court agreed that the firm would be worth far more to its creditors as a going concern but required that competitive bids be solicited towards this purpose. By April 25, Lowell Potiker, representing HSP (Hughes and Sheila Potiker Group) had outbid Savearound (the producer of a smaller but similar coupon book launched in 2002) to re-purchase his father’s company for $17.5M

A New Lease On Life (What are you going to do with it?)

So on Monday April 29, 2013 with the Entertainment senior staff, consisting primarily of previous Entertainment employees and Steve Lemberg, Lowell’s trusted advisor from HSP, convened around Lowell Potiker in Entertainment’s re-opened executive meeting room, and the planning for Entertainment’s new future began.

The first order of business was to determine (and address where needed) whether everyone had sufficient resources to restart operations needed to meet existing obligations to merchants and marketing partners. The more important question for Lowell and his team, however, was on where “we can and should we go from here” – and whether there might be a way to revive Entertainment’s heritage for the long term while remaining solvent.

The conversation quickly turned to questions of a self-sustaining strategy suitable for the long term. Of the plethora of topics and approaches that were discussed, some of the more resounding were:

1. Whether the iconic coupon book had outlived its usefulness, or (the reverse):
2. How much and what kind of role do (or should) the (a) internet and (b) mobile play in Entertainment’s future planning?
3. Whether Entertainment should engage in greatly increased marketing, and even
4. Should Entertainment strive to remain independent?
5. How large should Entertainment anticipate becoming (or not) to be sustainable?

Clearly, the mission to serve a long-term goal would play a role in deciding these questions. Jumping ahead, one of the considerations in Lowell’s mind was whether Entertainment could reliably “go back to its roots” to get a solid re-start, or whether things had changed so much as to eliminate this as a possibility. What was equally concerning was that the income stream from existing products, although revived somewhat following the bankruptcy, were still less than they’d been in the last 20 years and still declining. Current projections were that at current levels of sales and profits and without additional funding, Entertainment would likely be able to maintain a staff of 100 full time persons for about a year at best to implement whatever strategy was selected, so whatever decisions were to be made would need to be made quickly and as correctly as possible the first time around.