

# Europe's venture capitalists make a play for shopping clubs

## INVESTMENT COMPANIES

### News analysis

The success of the online groups is drawing attention in funding rounds, says **Maija Palmer**

European venture capital companies are making a bet on online shopping clubs, with more than €300m (\$377m) invested in the fledgling sector over the past three years.

The latest addition to the growing list of buying club start-ups is Keynoir, a UK-based business launched by former Kelkoo executives Phil Wilkinson and Glen Drury at the end of March.

Keynoir, which focuses on discount offers for "experiences" such as spa days and restaurant meals, raised £1.3m (\$1.9m) from investors including Index Ventures and ProFounders Capital, whose founders include UK technology entrepreneurs Brent Hoberman and Michael Birch, the founder of Bebo. Keynoir says 5,000 users have signed up in their first full month since the launch.

Online shopping clubs offer exclusive discounts on items from designer clothes or holidays to members who sign up on the internet. It is often a way for brands to dispose of excess stock in a discreet way, or for companies to drum up new business through special offers.

The recession has helped boost business for many of these clubs. Not only are more people looking for a bargain, but designer brands have had more unsold merchandise to sell off through channels like these.

By far the biggest of the European shopping clubs is Vente Privee of France, which raised €180m from the sale of a 20 per cent stake to Summit Partners in 2007. It now has revenues in excess of €650m, and its success has spurred a number of companies to emulate their business model.

Most other funding rounds have been more modest, around €10m to €20m, but many are making good progress on sales.

Brands4Friends, the largest buying club in Germany and Austria, has revenues of €80m, and was profitable within two years of its 2007

Groupon raised \$135m in funding in April... implying a valuation of \$1bn for the company

launch. David Carratt, managing director of venture capital company Kennet, said Spain's BuyVIP, in which he is an investor, was expecting €95m in revenues this year.

Investors have also been encouraged by the success of Groupon, a US-based

online buying club, which raised \$135m in funding in April from Russia's Digital Sky Technologies, implying a valuation of more than \$1bn for the company.

Another US shopping club, Rue La La, was acquired by GSI Commerce for \$350m in October - around three times its annual sales. Although the European private sale market is estimated to be worth around €3bn, it is becoming increasingly crowded. In France there are now at least five companies battling it out with Vente Privee, including BrandAlley, AchatVIP, BazardChic, and Andrino Group.

Consolidation is already beginning. Germany's Brands4Friends recently acquired TripHunter, a two-

year-old shopping club focused on offering luxury holidays. It also invested an undisclosed amount in SecretSales in the UK.

In Italy, the number three and four companies in the market, Saldi Privati and Born4Shop merged this year to strengthen their position in the market.

Immediately after launch, Keynoir hoovered up two smaller competitors, Dealbunch and Snippa. "There is probably room for two significant players in each market," Mr Carratt said.

Patti Freeman Evans, analyst at Forrester, said: "We will end up seeing some degree of consolidation in the sector. Bigger buying clubs could end up aggregating the more specialised ones."

At the same time, Amazon and Ebay are eyeing the shopping club market with some interest. Ebay has recently begun selling discount designer goods on its own site in the US and UK, putting it in direct competition with the buying clubs.

Analysts remain sceptical over how big a category shopping clubs will be within the retail sector.

"It is not the easiest way to shop, you have to plan things out and it will not appeal to everyone. It is still pretty early and the penetration among shoppers is low," said Ms Freeman Evans. "I am not convinced it will have a disruptive role in retail, but it will be a viable business model for some companies."