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Online Group Buying: What Is There For The Consumers?

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Abstract

Online group buying, which is a system that provides daily discounts for various services and products, is a new form of marketing at the junction of promotion and pricing that had attracted the attention of both practitioners and academia. Getting started initially from the USA context in 2008, the system proved successful; and just in a short time, lots of clone group buying web sites has sprung and spread throughout the world. The main reason for that boom is that the method provides a win-win situation to the shareholders of the systems, the firms and the customers. The purpose of this paper is to analyze the online group buying system in Turkey, where the practice is quite new and needs a thorough understanding for future strategy building. The customers were considered as the population of the sample and in depth interview method was used to shed a light on their motivations, behavior, and perception of the online buying system. The results indicated that customers mostly based their decisions on price advantage and discount amount. However, novelty and extraordinary nature of the offer also counted. The customers, on the other hand, complained about the discriminatory and dishonest behaviour of the service providers. Implications for the campaign holder firms, the intermediaries, and for future research were drafted.

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1. Introduction

Marketing is a dual value creation process, whereby the firms create value for the consumers and the consumers in return create value for the firm [1]. In other words, the realization of profits and growth for the firm is achieved through creating customer value, satisfaction, and loyalty. However, in today's competitive market place, different approaches to common methods of marketing and customer satisfaction are needed and possible with the latest developments in institutional structures of the marketplace such as the Internet. The Internet has affected the ways of doing business and earning profits.

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Therefore, in recent years, many entrepreneurs have tried to launch new and creative online businesses. One such is online group buying system, described as one the most successful and profitable online business since 2008. It has attracted the attention of both practitioners and also the academia because of the direct network effect it provides to the marketing practice especially to the pricing and promotion junction [2], [3], [4], [5], [6]. Online group buying is part of an innovative wave of online market-based mechanisms along with auctions, reverse auctions, and “name your own price” schemes [7]. Online group buying had been facilitated by the Internet and the easy, fast group coalition process brought by social networks [2]. There are mainly two different types of online group buying systems. First type of group buying is structured based on a dynamic pricing mechanism. In this first type, masses of consumers are aggregated, and perform collective buying to enjoy price discounts online [4], [5]. The system works as follows. The discount prices are decided by price-quantity functions or price-quantity tables defined by the sellers [8]. If in a predetermined time, buyers succeed to form a group, then every one of them in the group receives the product or the service at the same discounted price [2]. Thus, every potential buyer is willing to make effort to expand the buying group size to increase the likelihood of getting a lower price [2]. In the second type of the online group buying, the group buying company offers a certain product or service at a large discount price which is principally more than 50%, but the price is static, does not get lower as the number of the buyers increase. The only required condition is that the total number of the buyers who buy the deal must be greater than the predetermined limit of the minimum required number of buyers. In most of the group buying websites the time-frame per deal is one day [9]. During the process, group buying website is in the leading position. The website acts as an intermediary, making the contact and arranging group buying activities on the one hand, while spreading the word, attracting the consumers to the website, and inducing them to participate in group buying on the other hand [4].

Online group buying system provides a win-win situation for the companies who make discounts on their products and services, and the customers. The online group buying act is characterized by the dual value creation philosophy of marketing [1] that both sellers and buyers benefit through it [7]. Firms are believed to enjoy benefits of such price discrimination and advertising through online group buying [10]. First of all, they enjoy price discrimination advantages, by drawing in price-sensitive, deal prone consumers to the organization [7], [10]. Particularly for firms going through hard times, such as a recession, such discounts flock in new customers and make sales. Secondly, advertising benefits are realized since a large number of consumers are informed of the seller’s existence. Especially, firms with a low recognition among prospective consumers enjoy the benefits since initial trial is induced with lower prices in products and goods that consumers may otherwise ignore. Despite these advantages, Dhlokia’s study [6] shows that not all of the firms found the online group buying equally profitable and valuable. There were mixed empirical results on the subject matter. Even though customer satisfaction and loyalty along with positive word-of-mouth was expected from online group buying [4], Dhlokia’s study [6] showed that there was actually disillusionment with the extreme price sensitive nature and transactional orientation of the consumers using these promotions.

From the perspective of the consumer, on the other hand, online group buying creates an exciting and surprising shopping activity, whereby the consumer is faced with different offers each day by opening the webpage or checking their e-mails. The consumer also enjoys what Fei [4] calls a typical asset-light company, since they are free from the costs of logistics distribution. According to JP Morgan’s Nothing But Net: 2011 Internet Investment Report [11], 33% of the US Online shoppers have accounts on the group buying websites and 17% of them made at least one purchase through online group buying. In addition, the report put forth the demographic profile of the customers who prefer online group buying. Accordingly, mostly young people (aged between 20 and 35), white-collar workers and college students who are open to changes and like trying new products and services engage in online group buying.

Groupon which was founded in November, 2008 was the first daily group buying site that provided fixed but deeply discounted price to its members in the U.S. context. The operation of this site is as follows; the companies which aim to promote about their products and services apply to the Groupon.

The Groupon website, if agrees, announces the campaign including the actual price, discount rate, discounted price, the number of minimum required users and other terms. The users check the campaigns of the sites daily and buy the campaigns that attract them the most [12]. Just in 18 months after its launch, the approximate company value of Groupon had reached to 1.35 billion dollars and this uptrend and success made this market very attractive [13]. Thus, in a short time, plenty of clone sites, which provide similar group buying services for the customers, emerged [14] extended over the borders of the U.S. and started their activities in many different countries including Turkey.

2. Group Buying in Turkey

The first group buying site www.sehirsirsati.com (which is a Groupon company participation) started its operations on 23rd of April 2010 [15] in Turkey. Just in 5 months, the number of site members exceeded 1 million [16]. Since the market is very attractive and profitable, several competitors to the Groupon Company were founded soon. The head of Groupon Turkey, Emre Ekmekçi, claimed that Turkey had the most groupon clones in the world [17]. Some of the group buying sites in Turkey can be listed as Grupfoni, Grupanya, Yakala Co, Ekoloni, Tatil Zemini, Piriveta, Birlikte Alalım, En Uygun Fırsat, Grupca, Devir Fırsat Devri, Şehri Keyif, Trend Fırsat, Clupanya, Fırsat Kulübü, Fırsat 35, İstanbul Şehir Fırsatı, Bakmadan Gitme, Büyük Fırsat, Aktif Kampanya, Fırsatını Yakala, Fırsat Sizde, Grup Palma, Grupfun, Grup Fırsatı, Cixi Mixi, Fırsatları Takip Et, İyi Fırsat, Fırsatika, Gunluk Urun, Mekanist, Fırsat Avcıları, Firmanya, Kaçan Balık Büyük Olur, 24 Saat Fırsat, Romantik Fırsatlar, Güzellik Fırsatım, Fırsat Kovala, Ekozon, Qumpanya, Okazyon, Grupav, Zazanzi, BankoMarka, Kupon Garage, Deli Kupon, Yiyom İçiyom, Markapon. Among them, the main and most powerful clones of Sehirfirsati/Groupon, are Grupanya and Grupfoni. Grupanya was founded in 2010. It provides campaigns to 6 cities in Turkey. In October, they had more than 250.000 members [16]. The company has provided about 52 million TL discount to its members by selling about 700.000 deals¹⁸. On the other hand, Grupfoni has approximately 500.000 members and it provides 15 different deals per day [16]. Their turnover expectation is about 20 millions Euro per year [17]. Thus, overall the online group buying market is expected to reach \$ 100 million volumes at the end of 2011[16].

If the competition between these three web sites is analyzed, the results are as follows. Sehirfirsati ranks the 126th most visited web site in Turkey, Grupfoni is the 246th and Grupanya is the 398th [19]. In Figure 1, a daily traffic rank of the 3 main group buying sites in Turkey is shown. It is obvious that there are big daily fluctuations in the number visitors of each group buying web site depending on the desirability and profitability of the daily campaign for the customers. However, in some days, the web sites iterate the previous day's offer or they offer non-desirable and unprofitable campaigns that decrease the number of daily visitors of the websites according to Alexa's statistics [19] which could be seen in Figure 1.

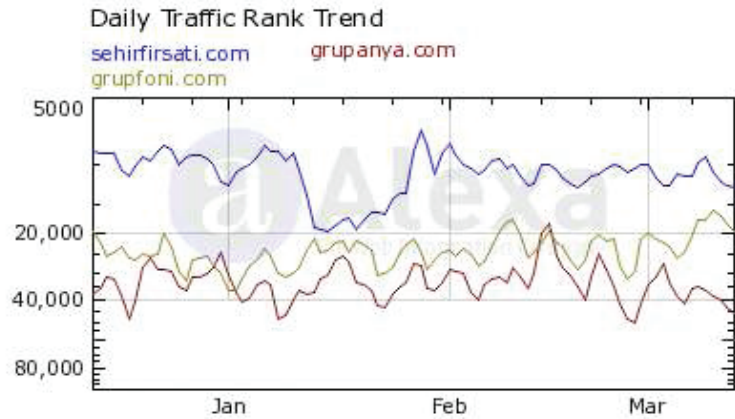


Figure -1. Daily traffic rank of the top three online group buying sites [19]

If the approximate sales of these three web sites are analyzed, The Groupfoni’s monthly turnover is surprisingly higher than the Sehirfirsati although the Sehirfirsati has more members and its traffic rank is higher than the Grupfoni. In Figure 2, the approximate monthly turnover amounts of the three web sites are shown [20] (Guner, 2011).

The demographics of the group buying web sites users in Turkey is parallel with the studies which were conducted in other countries. People aged between the 18-34 and females prefer to buy daily campaigns more. In addition to this, the users whose yearly incomes are more than 100.000\$, and are university graduates use group buying web sites more [19]. In Figure 3, the demographic profile of the online group buyers in Turkey is shown.

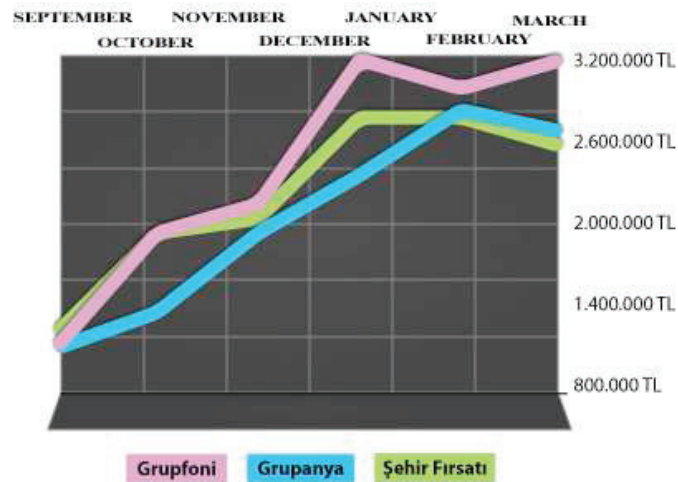


Figure-2. Approximate monthly turnover of the top three online group buying sites [20]

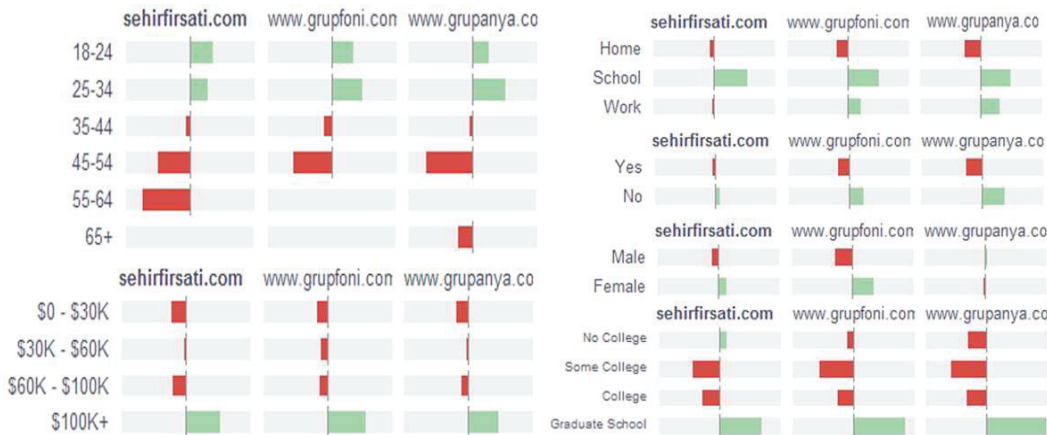


Figure-3. The demographic profile of the online group buyers in Turkey [19]

As seen from the information and statistics provided, the Turkish online buying market has a potential to grow in the future and will become a target of interest to many online group buying websites. However, as the competition severs, not all of the companies will enjoy the profits equally. Thus, it is timely and needed to understand the dynamics of this market and the driving forces for the consumers to be involved in such activity so that winning campaign strategies are created based on consumer insight. Since the market is founded newly, there is not enough qualitative or quantitative research on the subject matter. The aim of this study, therefore, is to shed a light on group buying behavior of the Turkish consumers by conducting a qualitative research. The next section explains in detail the research design process.

3. Research Design

The Online Group Buying System is a new business type. Therefore, there is only very limited academic studies related to online group buying system in the literature such as the motives of using that kind of sites, and the effectiveness of the system. In order to find the answers to these questions, a qualitative method, in depth interview approach was employed since the knowledge on the subject is rather limited and forming [21]. A face-to-face semi-structured interview was done to let the participants bring about their ideas openly. Data was collected from a sample of 20 online group buyers. Nine of them were females, whereas 11 of them were males. Six respondents were at the age between 20 and 25; nine of them were at the age 26-30; and five of them were at the age between 30 and 35. All of them had undergraduate or graduate degrees. The profile of the sample matched the general demographic profile of the Turkish online group buying users.

The research questions included the motives behind online group buying, the criteria for evaluating the campaigns, methods of getting informed about the campaigns, types of products or services bought through online buying, the satisfaction levels with the previously bought campaigns, relationship progress with the campaign provider firms after the purchase, and overall attitude towards the online buying websites. Upon the receipt of answers from the respondents, all comments were collated and analyzed using the content analysis technique, which is a systematic approach to quantifying the frequency, intensity, and direction of the responses [21]. The findings of the research are presented in the next section.

4. Findings

All of the respondents had bought at least one campaign from one of the online group buying websites in the last two months. The most preferred website was Groupfoni. 13 of the respondents mentioned Groupfoni among the preferred online group buying websites, whereas 11 of them mentioned Sehir Firsati, and another 11 mentioned Groupanya. Two respondents further mentioned Yakala.co. Finally, three respondents also mentioned Firsatbufirsat, and one person mentioned Hergunkampanya among the preferred online group buying websites. These last two websites function as collective intermediaries, which announce the campaigns from all group buying websites. As one respondent put it, "I like the idea of being able to reach all the campaign deals at the same time from one intermediary. It saves my time and energy." All of the respondents mentioned low price opportunity as the primary motive for enrolling into online group buying. As one respondent put it, "When I see that price of something is less than its normal price, I cannot help myself from thinking about buying it. It is a good opportunity." Although less frequent, other motives were also mentioned. They can be listed as exploration of new activities and places (three of the respondents), seeking joy and variety (two of the respondents), trial of non-routine activities (two of the respondents), socializing (one of the respondents), and need satisfaction (one of the respondents) in respective order. The campaigns were tracked down mainly by the respondents' e-mail accounts (11 of the respondents). Six of the respondents, however, preferred to check the group buying websites; and three of the respondents used both their e-mails and checked also the websites to track down the campaigns. 14 of the respondents told that they checked the campaigns every day. One respondent put it as "Ever since I became a member of this website, an addiction started. I cannot help myself from checking the deals every day." Three of the respondents, on the other hand, told that they checked the available campaigns three or four days a week; and two of them told that they checked the campaigns twice a week.

The most preferred service was restaurants. 18 of the respondents had bought at least one restaurant campaign coupon through online group buying. Sport activities (four of the respondents), vacation (three of the respondents), personal care (three of the respondents), cinema (two of the respondents), concert (one of the respondents), and plane ticket (one of the respondents) coupons were also preferred and bought by the respondents. There were several criteria to evaluate the campaigns. 14 of the respondents cared for the discount amount when making their decisions. As one respondent put it, "I do not want to miss out the opportunity to buy something off its regular price, especially if it is a thing I would be interested in otherwise, but would not spare my income to buying it." Location of the activity, and perceived quality of the service provider were also important evaluation criteria since seven respondents mentioned these factors respectively. The validity period of the campaign also mattered to six of the respondents since they wanted an extended period of time to make use of the campaign as they found a vacancy in their busy lives. Whether the campaign targeted one of the unsatisfied needs was important to five of the respondents. These needs were related to spending good time in their vacancies. One respondent put it as "I would not want to miss the chance to have a Sunday brunch at a nice restaurant for a discounted price." Finally, trust and reputation of the service provider counted and affected two of the respondents' decisions' to buy the campaign.

12 of the respondents were satisfied with their purchase, whereas six of them were somewhat satisfied. Only one respondent was dissatisfied with the purchase. However, when asked about their repurchase intention from the same service provider, only nine of them were positive. One respondent put it as "Even though I may not be wholly satisfied with a deal I bought from online group buying, I may still prefer it in my next purchase. A previously experienced company is always a better choice than another company, I had never heard of." Five of the people were indecisive, whereas six of them did not consider repurchase. 12 of the respondents, on the other hand, liked the idea of being kept informed of the campaign opportunities as they arose. As one respondent put it, "Companies list me on their databases; therefore I receive information from them. This, however, does not bother me much. I like to be informed about these

companies.” However, one respondent said that “I like being informed about the deals that different companies announce. However, I never think about them when I have to make a purchase at regular times.” When asked about what they disliked about online group buying, four of the respondents told about the discomfort they felt towards the regular customers of the service providers. One respondent put it as “Some of the dealers are applying negative discrimination to the campaign users. They are separating us from the rest of the customers. I do not want to feel like an alien. I want to seem like and treated like a regular customer.” Another respondent further explained as “When I hear that regular customers are also given the same discount and that my coupon does not bring any real discount, I hate that company and never think of buying from there again.” Two of them, on the other hand, complained that the service providers were always booked at the weekends and that they could not make use of their campaign coupons at those times.

5. Conclusion

Online group buying is a new phenomenon that takes advantage of both online marketing and social media influence. Despite its recency, the online group buying market is growing at a fast rate throughout the world. Whether it will prove to be an effective promotion tool of marketing or not will be seen in the coming years. For today, it is important that companies pay attention to this phenomenon and craft a well-thought strategy and employ it if it is suitable for them. Therefore, customer insight is important. This paper attempted this end of providing customer perspective on the subject matter to help managers with strategy building. In the Turkish context, the online group buying was warmly welcomed and soon, many different online group buying websites were launched to get their share in the pie. This is not surprising given the fact that Turkey is described as a collectivist nation according to Hofstede’s cultural classification and thus [22], Turkish people act on a collective basis and the word about something new and profitable spread soon, as happened to online group buying. Additionally, Turkey was going through tough times because of an economic recession when the first online group buying websites were initiated. In such times, online group buying might have been considered as an effective promotion tool for catching the hearts and minds of deal-prone, savvy customers. However, more information about customer perception might aid the future decision making of the Turkish firms which want to take advantage of this new tool.

The results of the in-depth interviews with customers showed that the discount, and also the rate of discount was the primary motivator for engaging in online group buying. However, the quest for novelty, variety, exploration, and learning were also influential in people’s decision to buy a campaign. Respondents saw online group buying as an act that would enrich their experiences and told that the discounts let them buy things that they would not otherwise think of buying. This information might be interpreted as even though the discount rate is the major decision factor, the novelty, and extraordinary nature of the offer is also effective on consumer decision making. Therefore, it could be said that online group buying is suitable for a firm if the firm’s offer is something that consumers hesitate to spend money at regular times. Then, online group buying may induce trial for the consumers, and the customers might get acquainted with the activity offered. Online group buying may offer these firms a chance to be heard and start up relationships with the prospective customers.

The consumers were interested in buying recreational activities and services through online group buying rather than products. Restaurants campaigns were mostly preferred by the respondents in this study. As belonging to the Mediterranean culture, Turkish people like to spend their time at restaurants. Eating and drinking is valued in the Turkish society. Therefore, this result is not surprising. Other than the discount rate, however, location of the service provider and the perceived quality of the service provider are also important factors in making the final decision of purchase. Services by their nature are usually location-specific. Therefore, when announcing a campaign through online group buying website, the firm should make sure that its target market, who live close by, would go online, hear about the promotion, and

be interested in buying it. Additionally, when announcing the campaign, the firm should also provide information that would position it as a trustworthy, reputable, and high quality service provider in the consumers' minds so that the consumers' perceived risks are reduced.

The respondents also mentioned about the discomfort they felt related to the negative discriminatory treatment and dishonest behavior of the service providers. Firms, which commit to this promotional approach, should make sure that they treat every customer equally and avoid making it public who the promotion buyers are and who the regular customers are. The firms should also make sure that the promotion they held in the online group buying website stays exclusive to the subscribers. The online group buyers like the feeling of specialty about catching that campaign opportunity. Seeing that the same campaign is also available to everyone offline makes them feel deceived and they see the service provider as dishonest. Rather than being liked, the firm is then disliked by the consumers. Thus, the firms should avoid announcing the same promotion offline at least during the campaign period. The service provider websites should also be aware of these complaints since it would also have negative image reflections for them as well. Online group buying websites may take precautions and warn the campaign holder firms of the negative consequences. If needed, the firms that behaved unethical and unmannerly may be sanctioned to compensate the dissatisfied customers. The online group buying websites should announce guarantees and compensations schemes provided to the customers. As such, they may earn the trust and loyalty of the customers and thus gain a competitive advantage on group buying wars.

Besides the implications of this research on the campaign holder firms, implications for researchers can also be touched upon. This study is preliminary, based on a limited number of respondents to improve the understanding on the subject matter. Thus, the results cannot be generalized. However, a research model explaining the impact of online group buying on brand awareness, brand image, satisfaction, and brand loyalty might be carried on empirically to come up with more generalizable results. Additionally, segmentation study could also be carried on to understand the market variability and diversity of the online group buyers. The profiling of the consumers based on demographics and behavior could be done to see if different strategies should be created for each segment.

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