

# The Revolution of Traditional Market: Community Group Buying

## —The Combination of Media Communication and Marketing

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### ABSTRACT

Community Group Buying, a new marketing model that combines media communication, this paper theoretically divides the latest and most advanced community group buying retail model into three parts and examines each part in depth. It also attempts to explore and explain the key reasons for the emergence of this new retail model through a wealth of data and examples. According to Hong Liang, founder of Shiva Assets, community group buying is a retail model that can facilitate all Chinese citizens and even promote social development. Considering its transformative impact on the retail industry, I think it is worthwhile to conduct some research on this model. The combination of data and real-world examples suggests that the community group buying model is a culmination of the existing logistics system, society's excess labor and the experience of traditional retailers. Consumers benefit from the timely availability of a large number of inexpensive and quality necessities.

**Keywords:** *retailing industry, community group Buying, logistics system, KOL management system*

### 1. INTRODUCTION

As the retail industry matures, consumers today expect much more from the shopping experience than ever before, including a need for efficiency and convenience. During preparing this paper, I read a lot of financial reports, papers, industry research reports, and collected a lot of real data from the top companies in the industry. An examination of these data and examples shows that community group buying is a brand new model, which can be regarded as an essential revolution in the retail industry. With more than 30 million households in China currently served and the number growing, I think it makes sense to further explore the success of this new retail model. [1]The purpose of this paper is to research and understand why community group buying is so influential and beneficial to society. According to CICC's industry research report, the GFA model stems from the development of modern logistics systems, a deep understanding of traditional retail and social labor surplus.[2] Facts have proved that community group buying has almost overturned the traditional retail industry, providing consumers with quality online shopping experience at a relatively low price and a fast speed. The promotion of this business model has attracted a number of large enterprises to

compete for the booming market with the new look of the retail industry and create a better future together.[3] Overall, I think community deals will eventually replace traditional retail, the only question is when replaces.

### 2. WHAT IS THE COMMUNITY GROUP BUYING ( IN THE BELOW PAPER WILL USE“ CGB” REPLACE COMMUNITY GROUP BUYING)?

CGB is a highly efficient and advanced retail model surging in China recently, stands for a group purchase and a delivery of groceries in bulk to the community. Largely relying on C2M (Consumer-to-manufacturer), O2O (online to offline) and social media such as Wechat, CGB solves two essential problems of traditional retailing: consumer acquirement and last-mile delivery, significantly improve the efficiency of retailing, and inevitably becoming the last large consumer battleground of those heavy weights, such as Pinduoduo, Meituan, in China.[4]

#### 2.1. How it works?

The CGB mechanism is quite simple and eliminates

the layers of distributions. Consumers place grocery and daily essentials orders via Wechat mini-programs or CGB platform Apps before 11:00pm (T); The brands or wholesalers will pack up and deliver the goods to the central warehouse (owned by CGB platform) before 1:00am (T+1). After 4-5 hours' sorting and 2-3 hours' delivery, those goods will be sent to the grid warehouses (mainly be rent by the social partner of CGB platform) nearly 8:00am (T+1).[5] Once the partners received the products, they will start a second-sorting and deliver those goods in bulk to each designated community leader around 10:30am (T+1). The designated community leader, who usually creates a social media group, like a Wechat group to coordinate orders in his/her community and set up a self-pick-up site in the neighborhood, will inform the neighbors to pick up the goods they ordered. As a return, the designated community leader will get a reward of new customer acquirement and 3-10% of GMV as commission fee from CGB platform.[6]

## ***2.2. The features of CGB***

Riding on the evolution of the e-commerce in China, online shopping has become more of a mainstream way for daily consumption. Unlike books or 3C, due to the perishability, fresh foods are still rare in online channel. CGB, however, solved the problem properly by shorten the "distance" from origin place to customers.[7] Relying on the advanced supply chain, logistic system and designated community leader group, CGB platforms are able to deliver the goods directly to the customers within 30 hours, maintaining the freshness of those fresh foods to the greatest extent. Moreover, by applying the C2M supply chain, CGB platforms eliminate the distribution layers and provide customers with lower price.[8]

## ***2.3. The start to prosper CGB***

CGB started in 2016 and has mushroomed ever since before exploding in 2018. According to 《2019 China's Social E-commerce Industry Research Report》published by IResearch, the total market size of CGB in 2018 reached Rmb7.3bn. Even in the context of the global economic recession, CGB platforms are still able to obtain investments continuously. Moreover, according to the 《2018-2023 Research on the Prospects and Investment Opportunities of China's PGE E-commerce Market》 issued by the Chinese Business Industry Research Institution, the total number of CGB consumers exceeded 200mn with a rapid growth of 117.5%. It was well-expected by the market that the scale of users is expected to break through 300 million people in 2018 and is expected to reach nearly half a billion people in 2020. Such impressive industry prospects have attracted a large number of Chinese tech giants, like Alibaba, Jindong and GGV, to invest heavily

in this field. According to the data from the National Bureau of Statistics, as of end 2020, the total market size of CGB has approached nearly Rmb300bn.[9]

## **3. ANALYSIS OF THE CGB'S SUCCESS**

In order to fully understand the success of CGB model, I tried to divide it into three key parts, there are

- (1) Unique supply chain;
- (2) Highly-developed logistics system designed for CGB;
- (3) The special designated community leader management system.[12]

### ***3.1. The unique supply chain of CGB***

There are two typical ways for CGB platforms to collect various commodities and fresh foods for consumers, either direct-purchase from origin place or purchase from local wholesalers, See Figure 1. In the first case, given the large procurement scale, the CGB platforms could purchase goods directly from the farmers or factories at a very competitive price.[12] Once the transaction completed, those goods will be immediately transported to and stored in the local warehouse. After initial sorting, those goods will be delivered to the central warehouses owned by CGB platforms in different provinces. This process is usually completed in 5-8 houses. In the second case, the CGB platforms could also purchase the same goods from the urban wholesalers and surrender a small part of profit to these middlemen who charges slightly higher prices than origins. After the transaction is over, those goods will be sent to the central warehouse by those wholesalers. According to the CICC industry research report, it is a common practice for CGB platforms to purchase goods from large well-known brand names to ensure the product quality and stimulate consumers' consumption, as most Chinese consumers tend to make purchasing decisions on quality and brand.[13]

Relying on the C2M supply chain, CGB can provide consumers with high-quality and low-cost products without intermediate fee.[14] A competitive price offered to customers served as a main driving force for CGB to attract a large number of consumers. Meanwhile, given the economies of scale, the top CGB platforms are capable to provide consumers with diversified goods, which will also make a positive impact on consumer purchase behavior, according to Grandhi S's research.

In conclusion, the special supply chain of CGB helps ensure the quality and diversity of products and foods, which in turn provides consumers with sufficient choices, and stabilize the price at a very low level, which has become one of the advantages of CGB over traditional retail modes.[15] All of these are set to help

attract consumers to participate in this brand-new retail model, instead of the traditional one.

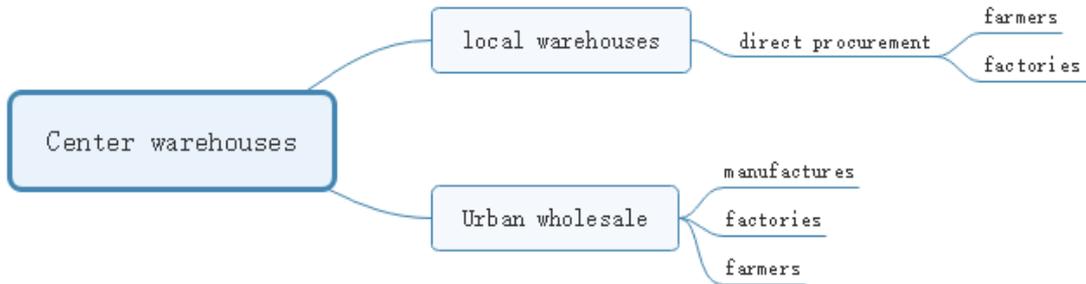


Figure 1. The Model of Supply Chain

3.2. The highly developed logistics system designed for CGB

After years of development, the logistic and warehouse system has been matured, which allows CGB platforms to send all deliveries to the customers in a very short time. Normally, the daily essentials and fresh foods should be sent in a completely different ways. [16]To keep the foods like vegetables, fruits and sea foods, as fresh as possible, CGB platforms usually adopt cold-chain transportations such as refrigerated trucks. For daily essentials with much longer shelf-life, normal trucks will be used. Typically, a complete delivering process consists of four parts:

- (1) All goods are stored at warehouses owned by brands or wholesalers in different provinces.
- (2) With simple package, those goods has been ordered will be delivered to different central warehouses owned by CGB platforms in different cities.
- (3) After initial sorting, those goods will be delivered from central warehouses to grid warehouses rent by the CGB platforms or their social partners in different regions.
- (4) With second-sorting completed in grid warehouses, those goods will be sent to different designated community leaders, who will inform their neighbors to pick up the orders they placed in a self-pick-up site in the neighborhood.

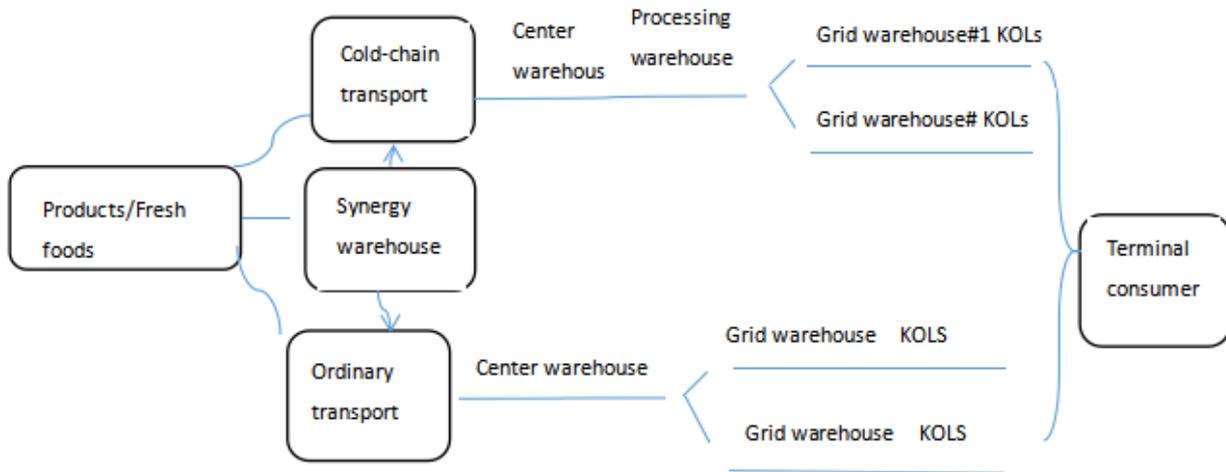


Figure 2. The model of logistics and warehouse system

In the process, two special warehouses are set to assist the logistic system to function well. One is shared warehouse and the other is processing warehouse. The shared warehouse is set to store extra goods that has not been ordered yet in case new orders been placed or anything went wrong.[17] The processing warehouse is set to process the sea foods in the cold-chain transportation between the central warehouse and grid warehouses, in order to provide a better consumption experience of consumers.

This sophisticated logistic system will ensure that consumers receive their orders within 30 hours. After a few rounds of selections and eliminations, this logistics system minimized the transportation fee incurred in this process, by this I believe that the problem mentioned by Huang Xi will never exist. Moreover, this logistics system also played a vital role in lowering the price of goods provided by the CGB platforms, which, indeed, further stimulate the consumption on those platforms.[18] According to a series of data provided by CICC, the cost structure of the CGB model is optimized as compared to traditional retail model as the delivery

expense/"store entry fee" in CGB model only accounted for 3-25%/5-15% of the price paid by consumers, which are much lower than the 30%/30% in traditional retail.[19]

This attributes of CGB clearly addressed two key issues in China's retail industry including a) the unsatisfied demand of the broad middle- and low-income group for cost-effective products and necessities and b) the information asymmetry about the cost and price of products between consumers and producers."

### **3.3. The special designated community leader management system**

Finally, I would like to discuss about the designated community leader management system, which is an important and unique part of this new retail model. As Huang Xi and 《China Fishery newspaper》indicated that "CGB is a business model rooted in community, with designated community leaders serving as the distributing nodes, and Wechat groups, mini-programs and other e-commerce tools serving as group purchase platforms for consumers." [20]

The ordinary flow path of the business model is: a) CGB platform targets a community and recruits a designated community leader; b) the designated community leader creates a social media group (mostly a wechat group) and set up a self-pick-up site; c) the leader present the product information in the wechat group while customers place orders and discuss in WeChat group; d) the leader gather all the orders and confirm with the CGB platform; e) consumers to pick up the goods they ordered

Not only that, the CGP companies also provide a platform for those designated community leaders to obtain additional compensations. For instance, those community leaders are allowed to explore new designated community leaders in new communities and in turn they will be rewarded by 10% of the income gained by those KOLs they explored.[21]In addition, CGP companies will also provide professional trainings for those top community leaders, as they generally contributed 80% of the companies' turnover.

The designated community leaders will also be responsible for promoting their CGP group throughout the community, because their income are basically determined by the number of products they sold and the customers they servered in the community. This mechanism is enacted based on the fact that those "bonus" will encourage the community leaders to cultivate more consumers inside their communities.

Actually, this method functions well. As per the conclusion drawn by Li qi and others, based on the SOR and SR theory, "the community creates an intimate

relationship between the designated community leader and community members and establishes an emotional connection between them". Moreover, according to the research of Hus and others, "if a trust relationship exists, the consumers will be more likely to purchase products on those CGB platforms". This view has been further confirmed by Han Jing Xing. His experience shows that "in a CGB group, the interaction between consumers will strengthen the mutual trust and ultimately affect their purchase behaviors."

In summary, the designated community leader system would stimulate the consumptions on those CGP platforms and eventually take over the traditional retail industry.

## **4. CONCLUSION**

This paper provides a detailed introduction to the business model of community group buying to help those interested in joining community group buying to understand the various aspects of community group buying. Community group buying can provide consumers with diversified, high-quality products (information quality factor), which can be sold at lower prices and delivered faster (group buying factor). All participating consumers can experience an efficient and convenient purchasing experience. Due to its special KOL management system (service quality factor), logistics system and supply chain (information quality factor), there has been a positive influence relationship between community group buying programs and consumers' willingness to participate in the programs. This means that in the near future, more and more consumers will participate in community group buying, and eventually, community group buying will replace traditional retailing with all its advantages. It shows that community group buying is not only a new retail format, but also developed on the basis of the traditional retail format.

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