

## On Competitive Strategy for Group Purchase Websites in China

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**Abstract**—Due to low sanctified standard, on-line Group purchase has burgeoned in an unprecedented speed, becoming a most popular on-line shopping way for a great number of consumers. As the number of these websites increases, Group purchase industry is getting homogenized. With the market competition gaining its momentum in the market gradually, these websites sink into a dilemma. Our paper takes the current developmental status of Group purchase websites into consideration, which is characterized by five homogenized features, i.e., web page, goods, services, marketing and profiting model, to provides some competitive strategies on how it runs.

**Keywords**—Group purchase websites; homogenized features; competitive strategies

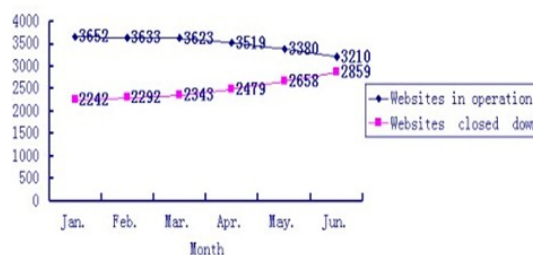
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### I. INTRODUCTION

In November 2008, an American Group purchase website, Groupon, was founded, it achieved great economical benefits by charging commercial commissions. Then in the latter half of the year 2009, this business model was introduced into China. In view of the relatively small initial capital and low sanctified standard, it was adopted by entrepreneurs at home and immediately got very popular in the field of E-commerce. Right after the establishment of the first domestic Group purchase website, ManZuo.com, other Group purchase websites appeared, including LaShou.com, MeiTuan.com, and etc. Under the coverage of all kinds of social media, the concept of Group purchase gradually got more and more popular among on-line shopping consumers. Web portals with innate resource advantages, SNS community and E-commerce websites all launched out their own Group purchase platforms, forming a situation of “a thousand regiments”.

### II. GROUP PURCHASE WEBSITES’ DEVELOPMENT STATUS IN CHINA

According to “Monitoring report on Chinese on-line Group purchase market data in the first half of 2012,” the number of Group purchase websites in China reaches up to about 6069 in total to the end of June, 2012, among which 3210 websites are still in operation, 2859 have already been failed, thus, the death rate is as high as 48 percent. In the first half of 2012, this number is on a steady decrease, reducing from 3652 in January to 3210 in the end of June. The closedown of large numbers of Group purchase websites is the result of the fact that the threshold of the industry gets higher and more mature over time. (please refer to Figure 1)



source: Chinese E-commerce research center

Figure 1. Increase and decrease of Chinese on-line Group purchase websites in the first half of 2012

The main source of profits for Group purchase website comes from merchants’ trading commissions, and the ratio is about 5 percent to 10 percent. Considering the high operating costs and the fact that it is rather difficult to profit, most Group purchase websites are operating in large scale so as to improve the upstream industry chain and the consumers’ bargaining power, and eventually to attract investments. However, this model doesn’t bring as many benefits as expected and parts of Group purchase websites face a lay off or closedown.

The report further reveals that about 86.6 percent of market share is occupied by 10 Group purchase websites, namely, JuHuaSuan, QQ Group Purchasing, MeiTuan, LaShou, WoWo, DaZhong Opinion, RuoMi, 58 Group Purchasing, F Group Purchasing and ManZuo, thus, creating a difficult situation for other middle and small websites to exist.

### III. ANALYSIS FOR GROUP PURCHASE WEBSITES IN CHINA

From the investigation and research which is conducted by some 45 Group purchase websites, homogenized phenomena is reflected mainly in five fields; web pages, categories of goods, services, marketing and profit models, which acerbates competitions inside the industry and many small and middle Group purchase websites closedown, signifying the challenges it faces.

According to “Monitoring report on Chinese on-line Group purchase market data in the first half of 2012,” the market turnover of on-line Group purchase, JuHuaSuan included, reaches 14,650 million RMB, a year in half increase of 124 percent. The amount of turnover rises rapidly from January to March in 2012, then it gets steady from April to June. The capability for Group purchase websites to attract new consumers is weakened and consumers’ interests

decline, thus, resulting in the decrease of the number of consumers. (please refer to Figure 2)



source: Chinese E-commerce research center

Figure 2. Market turnover of Chinese on-line Group purchase in the first half of 2012

The followings are the fundamental characteristics of the homogenized Group purchase websites.

#### A. Website pages copy each other

Due to the lack of web design technicians, the innovation capability for small and middle Group purchase websites is rather limited, which simply copy the web pages of big ones and mechanically apply basic template models. As a result, the page styles for most Group purchase websites are much alike, the colors are mainly composed of white, red and salmon pink, with decorations of abundant of lines, characters and pictures. At the same time, the overall setting lacks uniqueness and leaves no vivid impressions on customers.

#### B. Product category convergence

Due to fierce market competition, a single category can not meet various needs from the consumers in Group purchase. To maintain the loyalty of the consumers, Group purchase websites shift its main products and service to other kinds of goods. At the present time, most Group purchase websites are local-based, providing localized Group purchase services, which include five major categories, i.e., food, entertainment, travel, life services and cosmetic. For each category, what one Group purchase website provides is very similar to another and consumers can buy any goods or services in any one of these websites.

#### C. Lack of service character

Group purchase websites are at an early development status, with a weak sense of serving the consumers, and the main goal is to enlarge the scale and occupy market share. What is worse, due to the lack of the sense of innovation, service of character is drown in a sea of similar services. Group purchase websites should continuously perfect safeguard mechanism so as to attract more consuming. For instance, MeiTuan supports refund at any time and overdue refund; DaZhong Opinion supports refund in 15 days and refund when there is no consumption.

#### D. Plain marketing methods

Group purchase websites take no innovation and changes when it comes to setting up a brand and occupying the market share, with very plain marketing methods. For instance, websites like DaZhong Opinions, LaShou and RuMi sent Group purchase information to members via e-mail, but the problem is that the content as well as the format lacks any division among specified people or characterized e-mails.

#### E. The dilemma of the profit model

The profits of Group purchase websites comes from trading commissions, commodity booking, advertising, club member, business services and joining privileges, etc, among which trading commissions by the merchants is the main part, and the commission ratio is about 5 percent to 10 percent. With such high operating costs, it is very difficult for these websites to get profits. According to some data, up to the end of September 2012, ManZuo is the only one that makes profits, and the profit amount is just 1 RMB.

### IV. COMPETITIVE STRATEGY FOR GROUP PURCHASE WEBSITES IN CHINA

The model of Group purchase has development rapidly ever since it was introduced into China, with increasing number of Group purchase websites. However, this industry is getting more and more homogenized because of the blindness of the market, the malignant competition among Group purchase websites and the lack of innovation and capability. Under such circumstances, the existence and development of this industry is threatened. Specified competitive strategy is given below as a countenance to those five homogenized features.

#### A. Design web pages

- Positioning of the web pages. The web pages of Group purchase websites should be designed in accordance with the requirements of the consumers, which at the present are mainly made up of cost-effective and fashion chasing young people. All Group purchase websites should design their own page styles based on the preference of this particular group so as to attract more consumers.
- VI website design. Group purchase websites should combine the content with the form of the web and set up an overall image through VI design. For instance, continuously strengthen audience's consciousness and raise its trust. The design of the logo of the website should be appropriate, conveying the business concepts to consumers by vivid pictures.

#### B. Create disparate points of goods

- Subdivide the categories of goods. For small and middle Group purchase websites, the target market can be further divided. They should take advantage of their strengths and avoid fierce and malignant completion with the large ones. As to local entertainments, small and middle Group purchase

websites can dig the market and form their own special goods.

- Sales combination of goods. Group purchase websites may come to a certain agreements with the merchants on Group purchase package pricing, business interest distribution and site commission ratio, and make the optimization of the goods from different merchants but are innately interconnected so as to increase the competitiveness of the websites. For instance, the combination of the restaurants and movies would definitely increase the attraction and the sales.

### C. Provide individual services

- Individual services. Group purchase websites set up a CRM database through the basic information, consuming behaviors and preferences of the registered members in store. Through the deep analysis of data, they can grasp the potential needs of every member. If permitted, send Group purchase information to them by via texts, fetion or e-mails. Only when Group purchase websites fully understand what is needed out there can this kind of individual services be provided, whose goal is to gain the loyalty of the consumers.
- Develop mobile client. With the continuous improvement of the mobile phone functions, Group purchase websites should launch out mobile client that supports major operating systems, such as IOS, Android, Symbian and WP, so as to provide convenience for consumers and increase the sales volume. Meanwhile, the functions of the mobile client should be perfected continuously, for instance, search the surrounding areas where the consumers live for any consuming information via GPS.

### D. Broaden marketing channels

- On-line community marketing. Group purchase websites may establish a virtual community block in the web pages where registered members can raise questions, launch a certain Group purchase website, or just make comments on the purchasing goods, while the merchants may recommend their goods and timely communicate with the customers. Group purchase websites may understand and bring out what the consumers really needs with the help of on-line guidance.
- Websites of festival marketing. It is a fixed consuming habit for Chinese to spend more money on holidays, which is mostly offline. Thus Group purchase websites can organize favorable Group purchase theme activities, transforming what is done offline to on-line consuming. Meanwhile, increase sales volume for the goods of the websites and promote the brand. For instance, Group purchase

websites can hold some activities whose themes are about travel during the National Holiday.

### E. Increase profits for websites

- Increase profits of group purchase websites. For the time being, the profits of most Group purchase websites come from charging commissions for merchants' trading, and the only way for those websites to increase the profits is to raise the ratio of commission, which would be impossible if the websites receive little popularity with a bad reputation, and the market share and the quality of services they provide also count. Group purchase website offline sales team may negotiate with the merchants and raise the ratio correspondingly. The websites may gain extra profits by selling advertisings under the premise that they are operated on a large scale.
- Decrease output of Group purchase websites. The promotion cost for off-line Group purchase websites is rather high and needs a large sum of money, which includes advertising and site publicity. As this model gets more mature, Group purchase can be promoted on-line, with the help of network video and community discussions, it can attract the attention of consumers and cut cost.

## V. CONCLUSION

Ever since the model of on-line Group purchase is introduced into China, the number of Group purchase websites has increased immensely, and homogenized phenomena appears, which is specifically reflected in its five features. This paper comes up with specified competitive strategies based on its deep research into the development status of Group purchase websites in China and profound analysis of the problems. For these websites, the innovation of marketing model is a must, and individual services should be provided to satisfy the customers. Besides that, Group purchase websites should strengthen their managements and build a brand awareness so as to improve their popularity and reputation.

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