

DISCOUNT MANIA: GROUP-BUYING ON THE WEB

Литвинова А.Д.

Научный руководитель старший преподаватель Каширина В.М.

Сибирский федеральный университет

1. What are Group-Buying Websites?

As the economy tightens, many people are taking advantage of special offers to save money or to get more at the same price. But, unfortunately, few shops can offer really cheap goods and an average buyer simply has to buy goods or services with a huge price markup. But still, is there such a chance of buying quality goods at a considerable discount? Yes, there is. It becomes possible due to Internet and online shopping. Recently the trend of Internet social commerce is rising in our country and every single day thousands of people seek for profitable deals via Internet. Those sites giving such an opportunity offer daily discount coupons and are actually called Co-Buying or Group-Buying websites.

Web-based variants of Group-Buying have received a lot of attention recently as a part of the wave of innovative online market-based activities. The Group-Buying mechanism is extensively used now in the United States, Western Europe (including Germany, France and the UK) and Asia (India, Thailand, Singapore and Egypt). In fact the USA sets a brilliant example of how this system works for they were the founders of the idea itself. The most attended sites there are those offering coupons, the most attended places and most popular services are those serving through coupons.

Group-Buying is a progressive type of online-shopping of the 21st century. It hasn't been a long time since online Group-Buying market has appeared in our country, nevertheless by now it's becoming more and more popular day by day. This market allows consumers to purchase goods and services such as eating out, gifts, furniture, computer hardware, software, travels etc. at substantially reduced prices that result from higher sales volumes. So we can have free access to everything through these sites, literally everything.

2. How Does This System Work?

Group-Buying sites play the role of a reseller (broker) between a retailer (supplier) and a consumer. They offer a simple and cost effective opportunity for small and medium-sized businesses to combine their individual power for the overall benefit of each member. The mechanism works through a process of demand aggregation wherein buyers commit to purchase quantities to certain price ceilings. It really is a simple way of getting better value by bringing people together via the Internet. Involving as many members as possible negotiates lower prices. The more people, the lower the prices.

A business promotes their products or services on the Group-Buying website, typically marking down the cost of the item as much as 50%, sometimes more and sometimes less. Consumers may take advantage if a minimum number of buyers have bought in. All members are assured of an initial maximum price - a "price ceiling". As they place orders, increasing the total volume demanded, the resulting price declines are broadcasts until the market clears at a predetermined time. So if there's enough consumers signed up to buy goods, they'll get a significant discount. All buyers pay the same market-clearing price. If there's not enough people interested, the deal is canceled and no one is charged.

There are two types of discount coupons available.

1) The 1st type. The coupon represents a certificate which you can use to buy goods or service. Getting it you don't have to pay anything in addition. The cost of such certificate includes full cost of goods.

Certificate Price = Goods Price at a Given Discount = Sum Total

2) The 2nd type. It costs a fixed sum and represents a peculiar coupon that gives an opportunity to buy something with a considerable discount. So, getting this coupon, you'll have to pay a certain sum for the goods, though it would be much lower. That way your costs include:

Goods Price at a Given Discount + Discount Coupon Price = Sum Total

As a rule, such type of discount coupons is applied to expensive goods and services.

It is easy to guess that both retailers and buyers are supposed to benefit through Group-Buying websites. First we'll try to figure out the profit for suppliers.

3. Why Is It Profitable for Suppliers?

When they first appeared, as paper discount coupons, the discounts seemed real. But as discount coupons websites proliferation increase, some people are asking whether these discounts are genuine or just marketing tricks. It's a false assumption to think that through this service suppliers try to get rid of some old stock or unwanted goods. It's interesting that in some cases suppliers first commit to a price schedule leading to demand realization, and then produce (or procure) the products in volumes exactly calibrated to the realized demand. In other cases, suppliers first produce goods and then sell via a Group-Buying market through a volume discounting mechanism.

The first reason for producers, retailers and retail networks to reduce prices by offering discounts is a common competition. That's how they're ensured to have enough sales during the periods when buyers aren't so active. So these sites help to draw consumers' attention. Therefore the sites offering discount coupons gather a large number of clients, forming a kind of a major wholesale buyer.

There's no doubt - a 50% or more discount will definitely raise sales. But it's important to realize, however, that they are unprofitable sales by nature. As it turns out the retailer gets only a half of their discounted deal, the rest part of it belongs to the site. No, the retailer doesn't make real money.

So, for what is it worth then? The main point here is relying on side effects of discounts coupons to provide the real ROI - return of investment. The bet is that this "exposure" will attract full price customers offsetting the loss. In fact, many websites across all types of products, services and countries, explicitly and prominently claim that 'enhanced buyer bargaining power' is the single biggest advantage of Group-Buying.

Specifically, one big draw of group-buying deals for businesses is the word of mouth generated both pre- and post-redemption. Businesses offering the deals hope that users who buy the coupon will share it, spreading the word about their brand. This requires clients to have a great - not just good - first experience; great enough that they could remember it and later tell their friends about it.

Retailers are also counting on repeat business. The purpose of quantity discounts is to encourage the buyers to purchase more of the seller's goods, or, at least, in larger batches. Brands provide discount coupons to their loyal customers to motivate and encourage them to stick to their brand for long. They hope that after trying their business, visitors will become loyal customers and return to pay at full price. So a good word of mouth is necessary to drive more customers to try the business, generating more repeat customers.

So, exceptional customer experiences and positive word of mouth are keys to retailer success in Group-Buying deals. If a business determines a Group-Buying as a right option for them, they should definitely take the hit on labor costs and staff up (with their best employees) during the special deal. In addition, they should take extra steps to help bring customers back and get them to share their insights.

4. Why Is It Profitable for Consumers?

Alright, but are there any advantages for us? There are a lot of them.

With these coupons you can find lots of substantial savings on many products. In these days, so many people are trying to know the importance of these coupons and using them successfully when they are planning to shop and get the maximum profit.

According to the research held in order to find out the class structure of Group-Buying clientele about three-fourth of the total coupons are accessed by the high income group people. In this era of financial crises who wants to pay twice the original rate of things? No one, I guess. That is why coupons are getting very popular among all classes of people living worldwide.

4. The Current State of Praxis in Our Country: Which One To Choose?

While studying currently operational online markets, we can clearly see that Group-Buying is a widely spread discount-price mechanism in a variety of markets and contexts. These markets are not limited to a particular geographic region or a particular product category. By now Group-Buying discount market is already hugely competitive, with little or no barriers to entry.

The number of active Group-Buying sites in Russia is well-over 40 at the moment. The most popular and trusted are «Groupon», «Biglion», «KupiKupon», «Vigoda», «MegaKupon», «DailySmiles», «S Kuponom», «CityRadar», «bupl» and many others.

So which one to choose among this great variety? There are simple rules helping to make a right decision.

1. Before you spend any time contacting Group-Buying sites it is imperative that you pinpoint what you're searching down to its most important details.

2. The second step is to find your Group-Buying site. Although there are tons of such sites, it is important to make sure that you select the best website for your local area and promotion. Though Groupon.com is the most popular today, this does not mean that other websites cannot provide you with the same upside. So let it be your homework.

3. Remember that Group-Buying is a social shopping. Anything social on the web now can become extremely dangerous. Before you buy anything study information about the company. Visit their website, look through other clients' reviews, call a firm and get added evidence that the discount is for real.

4. So as now you know all the terms and conditions of the deal you need to understand all of the restrictions and stipulations of it to make sure it's worth the payment. Not every business has the same policy and those changes may be reflected in the offer details.

5. Verify the refund policy. Before making a purchase, consumers should know the stipulations for receiving a refund. Is it limited to unforeseen circumstances such as a company going out of business, or can a deal be refunded because the discount was less than expected?

6. Don't hurry to pay for the complex services that are meant for a long period of time, for example: like a course of medical treatment. Otherwise you risk finding out that expiration date of your coupon is just about to run out.

7. Learn market cost of the product chosen to make sure you're not going to overpay.

The main thing here is not to catch "a discount disease" when you start buying discounts for the sake of discounts. It happens when you grab a huge amount of goods and services which you actually don't need. That's how your "economy" may result in overexpenditure.

Because it's a bright label «SALE! on a show-window that gets the real psychological attack over potential clients started. Is there a possibility that the word "discount" will stop tempting us one day? Probably it will happen when even the tiniest shop develops the system of discounts and the consumer simply gets used to a "sale" as to any other public inscriptions. Apparently this day is not far off.