

## Research on Online Group Buying' Business Model Based on Industry Chain

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### **Abstract**

*With the aid of network media, online group buying enables consumers to form a group of bulk purchasing power. Thus, they can enhance their bargaining power and achieve the price preferential benefit and quality services. At present, online group buying in China is still in a relatively prosperous phase. Nowadays online group buying industry presents the hundred schools of thought contend. Combined with industry chain structure, this paper analyzes the different business models of online group buying and attempts to introduce the development strategies of online group buying in each business model.*

**Keywords:** *business model, industry value chain, online group buying*

### **1. Introduction**

Online group buying is a certain number of users groups through the Internet channel to lower the discount purchase of a commodity business [1]. From this explanation, we can see that by its very nature, online group buying is to use Internet as a channel, and then has the people with the same needs to buy cheaper goods. It makes the most vulnerable consumers' bargaining power to be greatly improved in the Boston "five forces model". Consumers can buy goods at lower prices, website operators can get operating profits, and manufacturers can also use the small profits to sell more principle to get more in return, so as to achieve the optimal allocation of a resource [2].

Online group buying is a new business model proposed by Groupon in November 2008, which was introduced to China around 2010. Six months later, the number of online group buying sites exceeded to 400. And the number of online group buying companies reached 2612 at the end of 2010 [3]. With the rapid development in 2011 and industry reshuffle in 2012, there is only 1548 online group buying companies [5].

Starting from consumer behavior theory, Sheth believes that the quality of various specifications of the product have clear requirement before consumers determine to buy the product of online group buying [6]. Qian Dake analyzes the online group buying business model. He divides it into four main business models, spontaneous group buying model, business group buying model, the network marketing group buying model and bank group buying model [7]. Contrasting online group buying 2.0 with online group buying 1.0, Yao Dan analyzes the characteristics of online group products proved that they are mainly belonging to experience products. She puts forward that the competitive advantage of online group buying lies in the consumers buying high cost-effective products, reducing the transaction cost, shortening the search time. Through the online group buying distribution model, the merchant can improve the brand cognition and lead to economies of scale. Online

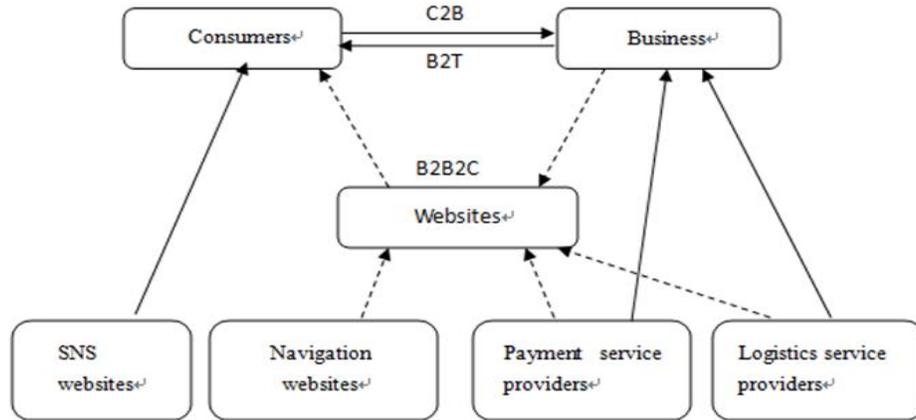
group buying websites can get rapid development in the process [8]. Xiao Hong proposes some problems of the development of online group buying, such as products and services are relatively single, localization characteristics limit the platform to expand, online group buying competition is fierce and chaotic and cheap products is difficult to guarantee the high quality service. She puts forward the development trend of online group buying is that products and services will come to rich. Localization features will become more and more obvious. Market segmentation will be more features [9]. Taiwan scholars Chen Jingyi analyzes advantages and disadvantages of online group buying of macro environment, and puts forward the development countermeasure from two aspects of online group buying companies and government regulation. She thinks online group buying companies should be more communication, depth excavation sales channels. In order to standardize market, government departments should improve the relevant laws and regulations as soon as possible [10]. Wang Meng's study points out the shortages of current online group buying model that consumers' is limited in the scope of the choice of goods and can only passive to accept price put forward by the merchants. It lost the consumers to participate in the initiative. So he put forward a new online group buying model, through coordinating the relationship among consumers, online group buying websites, and companies to solve the problem of the diversity of consumer choice, strengthen the direct exchanges that consumers and companies [11]. Wu Zesong build the theoretical model of factors influencing the consumer online group buying based on entertainment theory and technology acceptance model. The results of the study concluded that perceived entertainments, subjective norms, perceived favorable are main factors influencing consumer online group buying participation willingness [12].

In empirical research, Xu Lian integrates the new variables based on the original TAM model and builds consumer participation online group buying model, and then puts forward hypothesis. Taking drum campus of Nanjing University students as an example for empirical analysis, the research shows that consumer perception online group buying usefulness directly positively affects the online group buying intention, consumer perception online group buying usability directly positively affects the online group buying intention, and consumer perception online group buying usability directly positively affects consumer perception online group buying usefulness. But, online group buying purchase intention is not significantly influenced by popularity of online group buying websites [13]. Taking consumers of 58 online groups buying in Beijing as example, Gao Xiufeng explores the various factors of online group buying through empirical research methods. The herd behavior of regression model of online group buying consumers proves that there is a significant impact on online group buying [14]. Based on the study of the technology acceptance model, Zhu Jie constructs the influencing factors model around the characteristics of the online group buying and perceived risk selection variables. Results show that perceived risk does not directly impact on consumers' usage intention. While Internet Word of Mouth and discount do impact on consumers' usage intention by perceived usefulness and subjective norms [15].

## **2. Structure of Online Group Buying Industry Chain**

Industry chain is a chain-type association pattern formed by various industrial sectors, which is based on the technical, economic relevance, the specific logic relationship and layout [16]. Core business is the main chain of the industry chain. In the competition of the industry chain enterprises, the core enterprise bears the functions of the organizer and the coordinator of the industry chain. From the view of value, the industry chain is a value-added chain. Merchandise from the merchant to the customer is a value-added process. SNS websites, navigation websites, payment service providers and logistics service providers constitute a

complete value chain delivery support system. SNS websites and navigation websites provide the support of information flow to create value; payment service providers provide the support of cash flow to create value and logistics service providers provide the support of logistics to create value. This is the value-added process completed by the industry chain enterprises and interdependent enterprises of the chain.



**Figure 1. Online Group Buying Industry Chain**

**Online group buying website:** Online group buying website has many professional marketing staff to develop group shopping businesses and to release the group shopping information. Through navigate websites, social networking, micro-blogging, search engines, the online group buying websites spread information of the group shopping goods to aggregate the scattered buyers of the same demand [17]. Currently, the representative online group buying websites are meituan.com, lashou.com and Ftuan.com.

**Consumers:** Consumers are the participants of online group buying. From the consumer point of view, the most important function of online group buying website is to provide various, bigger discount group shopping goods [18].

**Business:** Manufacturers is in the upstream of the industry chain. They provide products and services with lower prices, aiming at enhancing their popularity.

**SNS website:** SNS websites have the accurate powerful spread force, which traditional media cannot match. Therefore, SNS websites attract more and more attention of online group buying companies.

**Navigation websites:** Navigation websites are similar to Guinness. The full assembly effect, through an open API (Application Programming Interface), brings the newest and the most information of online group buying together. It is committed to providing consumers with a convenient one-stop experience of the online group buying.

**Payment service provider:** Payment service providers are the third-party independent agencies which have signed with some major banks in the country or abroad. They provide the third-party transaction payment platform for online group buying.

**Logistics service provider:** Third-party logistics service providers are generally from the traditional functional logistics providers by expanding the business scope and increasing the content and form of logistics service companies. They provide the support of delivery of goods for online group buying.

### 3. Business Model of Online Group Buying

According to the relationship between online group buying websites and merchants, online group buying websites can be divided into C2B business model of spontaneous online group buying, B2T business model of merchants running the online group buying website and B2B2C business model of an independent commercial online group buying website [7]. Three different business models have their different characteristics, advantages and disadvantages. They are all the product of online group buying at a certain stage of development. The following we will focus on these three business model of online group buying and analyze them one by one specifically.

#### 3.1. C2B Business Model

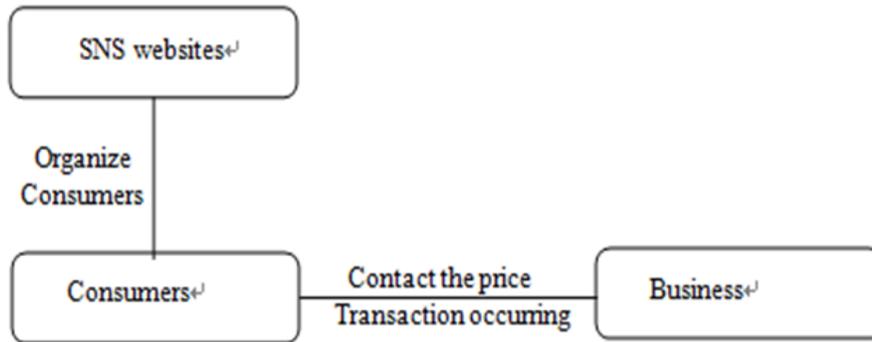


Figure 2. C2B Business Model

Spontaneous online group buying is a purchase that consumers organize themselves to buy goods in bulk, which is the initial form of online group buying. As is shown in Figure 2, the spontaneous online group buying' usual organization is consumers group or personal of the same purchase intention using the network tools such as BBS and newsgroups to establish the theme for a online group buying product. Attract more consumers to join the group, and then bargain with the product manufactures, and ultimately obtain the desired product or service at lower prices.

The sponsor is the key factor of a successful spontaneous online group buying. In general, sponsor must have a professional look for certain types of products and good reputation. The same as the buyers, sponsor enjoys the same low prices with others without additional interests. In the same interest groups, sponsor will stand together with consumers to defend common interests in a dispute with the manufacturers. However, due to the limitations of spontaneous online group buying and non-standard operations, the promoters have to rely on the context of virtual communities or forums to organize the project's purchasing group in the network environment. The operation is difficult.

Spontaneous online group buying sponsors knows other consumers more or less. Therefore, if there is a dispute occurring with product merchants, the sponsors will form an alliance with other consumer negotiate with product merchants to protect their rights. Because the product is offered to the sponsor or initiate organization, there should be someway make other consumer have faith with the sponsor and know that the sponsor have a strong resolution for the product quality. In order to solve the problem of consumers concerns over the sponsor of integrity and better form the consumers union bargaining with the merchant, Spontaneous online group buying gradually presents the characteristics of regional development.

Taking [www.51zhijia.cn](http://www.51zhijia.cn) for example, its positioning goal is to create the largest online group buying in Zheng Zhou city. Based on woven home website BBS, it allows consumers to organize online group buying activities on the BBS as a sponsor. About the integrity of the sponsor, there are detailed on BBS sponsor application and appraisal system to ensure that the sponsor has the quality to organize an online group buying activity. Woven home website BBS organizes a group of people for price verification to ensure that there is not the price fraud. Through the assessment of the sponsor, checking the price of online group buying and plus for consumers' tie in Zheng Zhou area, consumers can participate the spontaneous online group buying safely.

As the original form of the online group buying, there are some defects of spontaneous online group buying. First, it is institutional. Groups are spontaneous consumer. There are no standard operating procedures and no strict rules from the launch of a product to the final deal. Second, it is temporary. A product launched by different sponsors and consumers to participate in, there is no fixed continuous purchase group. After an online group buying of one product, the purchase group is disbanded. Because of the inherent defects, spontaneous online group buying can only develop in the regional direction, as a supplement of the online group buying to make up for the inadequacy of online group buying.

### 3.2. B2T Business Model

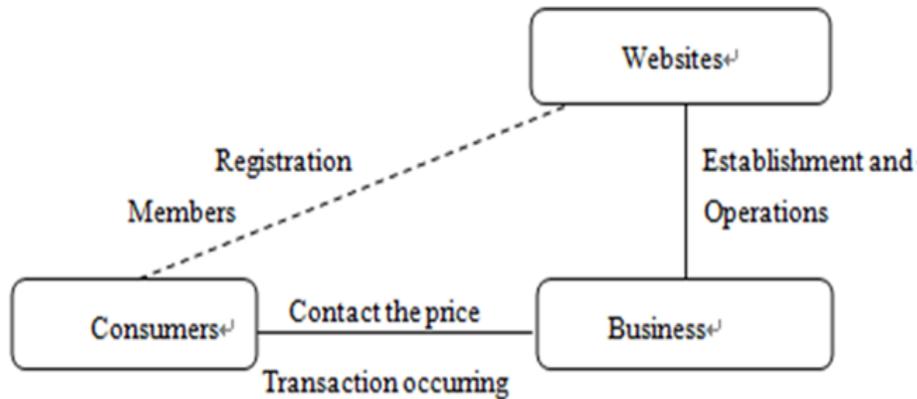


Figure 3. B2T Business Model

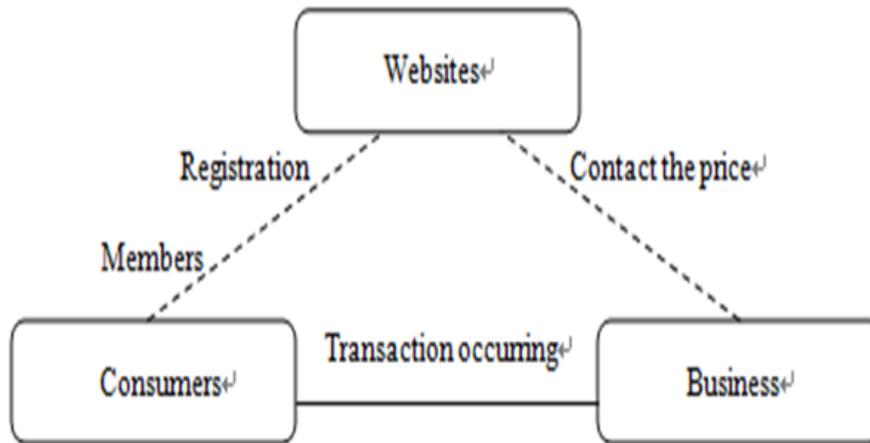
B2T business model refers to the manufacturers or distributors to build their own online group buying website platform [19]. Shown in Figure 3, the website of distributor or manufacturer starts the group shopping, then consumers contact the price with the manufacturers or distributor directly, in the end transaction occurring, complete the online group buying process.

Website, established by the manufacturer or distributor, is mostly one part of their network marketing system. For manufacturers, through B2T business model of online group buying, manufacturers can better control the price, scale, flexibility in the use of a variety of ways to balance the interests of many parties. Such as BenQ's use the "flying fox online group buying" activity to sell its desktop products. It both plays a promotional product to attract consumers to buy and has a good balance between the interests of distributors. For distributors, because of the online group buying, transaction can occur between manufactures and consumers directly. Therefore, the distributor is gone in the industry chain, making a strong hit to distributors. In the pursuing of interests, distributors begin to build and operate

their own online group buying websites, taking it as one part of their network marketing system. Using their professional sales team and accumulated goodwill, they can deal the relationship between vendors and customers well, so producers, consumers and distributors can achieve a three-way win-win situation.

Merchants organizing the online group buying by themselves, its essence are to skip the professional online group buying websites. They can contact with consumers directly and set up their own customer database by organizing online group buying. Because the merchant can let the consumer more in the B2T business model of online group buying, consumers are welcome to it. However, online group buying is not the main business of the merchant; merchants only take online group buying as a kind of marketing activity for product sales. Taking Da Lian Beijing Hyundai Hui Hang 4S store for example, it releases its online group buying information that there is a group buying activity in Da Lian Beijing Hyundai Hui Hang 4S store on December 7, 2013. Using the Beijing Hyundai have set up 10 years event, the 4S store claims that it will sell the car with the lowest price over the year to attract consumers. Its slogan is “Ten thousand people to bargain for group buying, factory price to sell the car”. For the Da Lian Beijing Hyundai 4S store, its purpose is not to make profit but to expand the influence of Beijing Hyundai.

### 3.3. B2B2C Business Model



B2B2C business model means that commercial stand-alone online group buying websites provide the third-party service platform organize the consumer group and bargain with manufactures. Shown in Figure 4, the website contacts the price with manufacture and signs the contract. Then the website sets the information of online group buying, organize the consumer of online group buying. Making the transaction occurs between consumers and manufactures.

Commercial stand-alone online group buying websites have commercial legal personality, the network operator qualifications, formal office space, negotiators and customer service personnel. Their company size and financial strength can provide safe, convenient and perfect service. Therefore, compared to other business models, this business model provide more standardized service and the project generally has good continuity. B2B2C business model has the following advantages: First, in the product selection, commercial stand-alone online group buying websites signed the contracts with the supply manufactures, which have high constraint capacities of companies; Second, commercial stand-alone online group buying

websites can buy products from multiple vendors, organize large number of orders and have a stronger bargaining power; Third, the project objectives are not limited to the decline in product prices, also reflected in the company's quality service requirements; Fourth, they can provide more quality services with a more professional look. As to the advantages above, B2B2C business model is the mainstream in online group buying market.

Now, most of online group buying is B2B2C business model and this business model has obtained the good response. The website is an intermediary connecting consumers and merchants. Specifically, on the one hand, according to their own target market positioning and business resources, it releases the specific information of online group buying, attract the consumer of purchase intention, and build consumers database by means of membership. On the other hand, using a lot of number of deals and huge customer database to bargain with the merchant, asking the merchant to offer cost-effective products. In this connection, the website finally compares a standard form of trading process and has a stable customer base. In the process of the transaction, the website both needs to investigate the quality of the merchant's products and deal with the consulting and complaints from the consumer. Finally the website can satisfy the consumer and merchant both, and make profit in the process of the transaction.

We are summarized the existing three main kinds of business models of online group buying, namely C2B business model, B2T business model and B2B2C business model. Different business models each have their own advantages and disadvantages. So far, B2B2C business model do the best. Lashou.com, Meituan.com and Nuomi.com, and so on are all belong to B2B2C business model in China.

#### **4. Development Strategy of Different Business Model**

Online group buying of C2B business model has met the need of the niche market. Because of the limitations of the sponsors, it has to rely on the context of virtual communities or forums to organize the project's purchasing group. Therefore, to ensure the sponsors have a professional look and a good reputation of certain products is one key to survival and development and to enhance the visibility of a virtual community or forum is the other one.

Online group buying of B2T business model is mainly one part of manufactures' network marketing system. Increasing their business and product brand awareness is where the main purpose of the online group buying. Therefore, online group buying of B2T business model needs to ensure a powerful combination of online and offline. Online, using the word of mouth marketing of SNS and other websites to promote the product makes it a powerful network promotion with the help of their other network marketing manners; Offline, manufactures are required to ensure high quality products and service in order to increase customer retention and customer loyalty. Through online and offline combination, manufacturers will be able to use the online group buying to enhance the corporate brand awareness and expand the influence of the product.

Commercial stand-alone online group buying websites of B2B2C business model have commercial legal personality. Compared to other business models, this business model provides more standardized service and the project generally has good continuity. They rely on network buy the commission, royalties and other profitable ways to develop their own websites to survive. Therefore, Commercial stand-alone online group buying websites of B2B2C business model should enhance their own competitiveness from the following aspects: First, enhance their core competitiveness and actively explore the second and third tier urban markets. Websites must be clearly aware of their core competence and make their market positioning clear. Currently, the second and third tier cities develop rapidly in China having a big consumption potential, which will be a new growth point of the development of online group buying market. Second, enhance the integrity of mechanism. Nowadays, the

network integrity is the biggest problem in Chinese e-commerce market. , enhancing the integrity of website is a way for long-term development. Third, improve product quality and after-sales service. Websites are fighting with product quality and after-sales service. Improving product quality and after-sales service is the key to enhance customer loyalty.

## 5. Conclusion

With the aid of network media, online group buying make consumers formed a consumer group of large purchasing power, improving their bargaining power, thus achieved the price preferential benefit and quality services, etc. At present, online group buying in China is still in a relatively prosperous phase and online business models present a wide variety of situation. But B2B2C business model occupy the mainstream position. The B2B2C business model has its own unique advantages both on negotiations with manufacturers and attracting consumers. The industry value chain of B2B2C business model is also gradually perfect, and can accomplish the transmission of information flow, logistics and cash flow process well. With the development of e-commerce in China, online group buying will occupy more and more important position in the sales market.

The rise of online group buying is not an accident. It is the inevitable outcome of the Internet e-commerce development to a certain period. But the sustainable development of online group buying need to continuously explore study of the online group buying business model. Although nowadays online group buying industry presents the hundred schools of thought contend, with the continuous development of the online group buying business model and market competition intensifies, online group buying industry will eventually go monopolistic competition stage. However, as long as the online group buying develops in the normal orbit, it takes us consumers bargaining power of ascension is not change. Therefore, the vigorous development of the online group buying is a win-win situation between manufacturers and consumers.

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