

# ChinaBusiness

## IT'S A BIG DEAL

RAPID GROWTH IS PREDICTED FOR A NEW METHOD OF PURCHASING

By CHEN LIMIN and TUO YANNAN

This is a typical day for a group-buying enthusiast: she goes to work after giving herself a little refresher — a Burberry perfume that she bought a few days ago with 59 percent off. At lunch, she and several colleagues have a spicy hotpot in a nearby restaurant, 70 percent off. After work, she decides to have her car washed for Spring Festival with a coupon entitling her to 83 percent off. Midnight is the most exciting moment for her when all the group-buying websites display new offers of the day. Sometimes she cannot get to sleep until she places a couple of orders and marks the deadline of each coupon on a sticker.

Group buying, a business model borrowed from the United States-based Groupon.com, is enjoying increasing popularity in China among people like this enthusiast. The popularity, in turn, is shaping the way companies reach out to customers.

Letao.com, a Chinese online shoe retailer, said it has cooperated with group-buying websites “many” times. At least 11 group-buying activities on these websites were major ones that attracted a large number of consumers.

“It’s an easy way to grab users in a short time, and the cost is low compared with other marketing tools,” said Chen Hu, vice-president of the e-commerce website.

He added that of the 11 major group-buying sales, the biggest attracted 81,659 people.

“More than 80 percent of the users that have taken part in group buying eventually come to Letao,” he said, adding that the cost to get a new user through group buying is less than one third of traditional advertising.

Chen said Letao, which hasn’t spent anything on advertising since it started selling shoes in May 2009, will continue with the group-buying strategy as a way to publicize itself to potential customers.

The number of Chinese group-buying websites, which have been springing up since last March, quickly rose to 1,880 by the end of last year, driven by the country’s e-commerce boom, according to China e-Business Research Center.

Large Chinese Internet companies, such as Sina Corp, Tencent Holdings Ltd, and Alibaba Group, all opened their own group-buying websites to cash in.

The country’s group-buying users hit 18.75 million, accounting for 4.1 percent of China’s 457 million Internet users, said a recent report by China Internet Network Information Center. The craze is spreading from first-tier cities to second- and third-tier cities, and “there will be rapid growth in 2011”, the report said.

“I think China’s group-buying market may surpass that of the US by the end of this year,” said Wu Bo, chief executive of the major group-buying website, lashou.com.

He said that although Chinese group-buying prices are lower than those in the



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US, Chinese users tend to buy more, which makes it possible for the total group-buying transaction volume to exceed that of the US.

He estimated that group-buying users might account for up to half of China’s online shoppers by the end of this year from the current 11.7 percent.

It’s not just domestic websites that are pinning their hopes on this business. Groupon, the group-buying pioneer, has also decided to enter the Chinese market.

“China is such an important market ... you’ll likely see us there,” Rob Solomon, president and chief operating officer of Groupon, said in an earlier interview with China Daily.

Groupon is going to partner the Chinese Internet giant Tencent to offer its services in the country, a well-placed source told China Daily.

The source said their group-buying website will employ 1,000 people within three months.

As more and more players enter the fray, group-buying websites will have to differentiate themselves to stand out from the increasingly fierce competition.

“The group-buying websites may develop in different ways in the future: some may focus on user data analysis, some may gradually develop into more of an advertising platform, and others may stick on as an e-commerce website with improved functions,” said Feng Xiaohai, chief executive officer of another popular group-buying website, manzuo.com.

Lashou.com has introduced a social networking feature onto its website, which enables strangers to interact with each other

and go to the same group-buying activity, such as a movie or a lunch.

Wu, from Lashou, said the function is not meant to generate revenue, but to make the website more interesting. He added that a local-based function will soon come online, which will allow users to “check in” in different places and gain coupons from local service providers.

But both group-buying websites and analysts said the industry will undergo an overhaul in the coming years, during which a large number of small players will fade as they find it increasingly difficult to compete with big players, whether in terms of financing, marketing, or user service.

“A time for fast expansion is over in some cities, for example, Beijing, and the market has begun to adjust among different players,” said a research note by domestic research company Analysys International.

### Problems facing the market

Behind the boom, problems are also arising with the fast-growing group-buying market, such as user experience and after-sale service. Users sometimes find what they order from the group-buying websites are not what they actually get at local shops, and some consumers said they were not happy with their experience.

Zheng Xin, a 27-year-old in Wuhan, Hubei province, bought a BBQ meal coupon from group-buying website nuomi.com on Jan 7. More than 18,000 consumers bought the same deal. But after she paid the website

announced that the deal had been canceled. Like most of the buyers, Zheng felt she was let down by the website.

“If they could not make the BBQ real, why do they list it as a group-buying activity? I paid already,” she said.

According to Nuomi.com, it was the BBQ restaurant that canceled the deal, while the restaurant said what Nuomi posted on its website contradicted their contract.

Regardless of who was responsible, according to Hover Xiao, a senior analyst at the market research firm International Data Corporation, such occurrences are inevitable in a fast-growing market.

Most of the stores that are willing to participate in group buying are small- and medium-size stores or companies, as group buying helps them to widen their sales channels and promote their brand effectively, he said. “But most of the group-buying websites in China are small ones so quality problems easily occur,” he said.

Even though the number of group-buying websites will increase over the next two years, only the bigger companies will survive in the long run, he said. Group-buying categories in the future will not be restricted to local shops and services, and more and more online merchandise will dominate the industry, he added.

To regulate the group-buying industry, he said that government involvement is necessary, and regulation should be established by legislation.

Wayne Chou contributed to this story.