

# THE IMPACT OF GLOBAL FACTORS ON DEVELOPMENT OF GROUP – BUYING MODEL

## Introduction

Progress in the field of the so-called new technologies that include microelectronics, information and communication technology, nanotechnology, biotechnology and genetic engineering is of a great importance in development of economy globalisation. Applying new technologies in enterprises brought crucial technical and economic changes described as a paradigm change that consists in the transition from the so-called model of mass production to the model of flexible network-based specialisation and to development of knowledge-based economy<sup>1</sup>. E-commerce development is the result of progress in the sphere of new technologies and is also manifested in the emergence of new business models.

Afuah and Tucci define business model as *a method of enhancement and use of resources adopted by the company for the purpose of providing the customers with the offer of products and services the value of which is better than offer of competitors but that ensures profitability for the company at the same time*<sup>2</sup>. Appropriately selected business model in the network is at present one of the most important determinants of the company success. Types of business models applied in the Internet are presented in Table 1.

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<sup>1</sup> A. Zorska: *Korporacje transnarodowe. Przemiany, oddziaływania, wyzwania*. PWE, Warsaw 2007; J. Parysek: *Globalizacja współczesnego świata widziana z polskiej perspektywy*. In: *Przestrzeń w polityce gospodarczej*. Red. by J. Tarajkowski, L. Wojtasiewicz. PTPN, Poznań 2008, pp. 637-660; Z. Chojnicki, T.L. Czyż: *Aspekty regionalne gospodarki opartej na wiedzy w Polsce*. Bogucki, Poznań 2006.

<sup>2</sup> A. Afuah, C. L. Tucci: *Biznes internetowy. Strategie i modele*. Oficyna Ekonomiczna, Cracow 2003, p. 20.

Table 1

## Types of business models applied in the Internet

Specification	Characteristics
“Brokerage model”	companies arrange a virtual meeting of the seller and the purchaser and earn on brokerage on executed transactions
“Advertising model”	companies offer the users free services that are financed by advertisements that the user watches while using the service Thus, companies earn from fees collected from advertisers
“Infomediary model”	consists in collecting information about consumers or companies and delivering them (data sale), in analysed form, to companies
“Merchant model”	companies earn from online sale of products and services (online trade). This can be realised in combination with traditional commercial activity or only on the Internet
“Manufacturer model”	is a classical model with the use of Internet as the channel of distribution for the purpose of reaching the largest possible number of customers with no agents involved
“Affiliate model”	consists in creation of networks of partners who are to place, on their webpages, the links to partnership pages that offer products on the Internet. Payments are obtained from commissions that are collected from these entities if the consumer purchased a product reaching the merchant thanks to the partner’s link
“Community model”	company earns thanks to strong loyalty of users towards virtual community. Income may come from the sale of services (for example „Flickr”), free contributions (for example „Wikipedia”) or advertisements (a combination with advertising model)
“Subscription model”	the company earns on collection of payments for access to information displayed on internet pages. The users pay periodical (monthly or annual) fee for the use of service offer, for example newspaper archives („Rzeczpospolita”)
„Usage model”	the company calculates payments for actual use of internet services (for example music selling services)
„Content provider”	the company earns on creating the content and selling it to other portals or services, for example „Gastronauci”

Source: <http://antyweb.pl/modele-biznesowe-w-sieci/> (25.03.2012).

In literature we can also find Four Types of Dynamic Pricing Models for Internet Marketplaces<sup>3</sup>:

1. Traditional auctions apply long-standing concepts associated with real world auctions. These include: the single-item open-outcry ascending-price English auction; the single-item open-outcry descending-price Dutch auctions;

<sup>3</sup> R. J. Kauffman, B. Wang: *Bid Together, Buy Together: On the Efficacy of group-buying Business Models In Internet-based Selling*, The (R)evolution Goes Mobile. 5th Annual University of Minnesota Electronic Commerce Conference, March 27-28, Carlson School of Management, University of Minnesota, Minneapolis 2001, p. 3.

the single -item first-price sealed-bid auction; the single item second-price sealed-bid Vickrey auction the multiple-item, open-outcry call market; and the open- and closed-bid, double auctions, in which both buyers and sellers simultaneously update their bids and offers.

2. Non-traditional auctions apply variations on the auction approaches mentioned above. Examples include: reverse auctions, in which buyers either state an interest in purchasing a sale item or a bundle of items and sellers indicate their offers; 3-D auctions, in which price-quantity is supplemented by utility reflecting willingness-to-trade; among others.
3. Price-reduction models enables buyers to obtain lower prices, but only based on a preannounced time schedule for price drops from a higher starting price. It operates without consideration given to the number of participants in the marketplace. It is similar to Dutch auction.
4. Group-buying models enable buyers to obtain lower prices, as more people indicate a willingness to buy from the Internet-based seller's Web site. There are two varieties, involving group-buying with a fixed time period to completion of an auction, and group-buying with a fixed price that is achieved only when enough buyers participate.

It ought to be added that customers, who make purchases in a different way, also change. Young people for whom the Internet is the element of everyday life become active customers. They affect more and more the way in which changes in business models of enterprises are shaped. In contemporary economies we can distinguish three types of customers who make purchases. They are traditional customers (who do not make a purchase on the Internet), cyber-consumers (who most often make a purchase on the internet) and mixed consumers (hybrid customers who make purchases both on the Internet and in traditional shops).

Poland belongs to the group of European countries of the largest number of Internet users. Therefore, Internet channel of distribution offers opportunities to enterprises that can reach customers and sell their products directly to them. Internet in Poland is still the most popular among young people - the network is used by as much as 87% of people at 16 to 24 years of age. On the other hand, the group of people at 55 years of age and more is represented by the smallest number<sup>4</sup>.

Without any doubts, economic crisis is another very important global factor influencing innovative business models. On 15th September 2008 the American bank Lehman Brothers announced a spectacular bankruptcy. This event is consid-

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<sup>4</sup> <https://gemius.com/files/Raport%20e-commerce.pdf>.

ered the beginning of the world financial crisis that has been still observed. It significantly affected consumers' behaviours all over the world<sup>5</sup>. Typical behaviours of consumers in the period of economic crisis were identified in the works of Paul Flatters and Michael Willmott<sup>6</sup>. Compare Table 2.

Table 2

## Consumers' behaviours in crisis situation

Specification	Characteristics
A demand for simplicity	during recession consumers are used to limited offers and they tend to simplify their demand, so it is expected that after the crisis consumers will continue to buy simpler offerings with greatest value
Discretionary thrift	even rich people are economizing, although they do not have to. They revealed their dissatisfaction with excess consumption. They started to recycle, buy used goods and teach their children simple and traditional values
Mercurial consumption	Today's consumers are "agile" they act fast in response to price change, and have the ability to switch brands looking for the lowest price sacrificing the quality and loyalty
Green consumerism	this trend has slowed down during the recession because people are not willing to pay more for products that have close substitutes for cheaper price. The demand for green, environment friendly products has declined but it is anticipated to recover after the recession
Ethical consumerism	people are less donating for charity, animal welfare etc., because they are focusing on their families' welfare. This trend is expected to recover slowly after the recession

In the face of global "belt-tightening", the idea of "smart shopping", that is clever and reasonable purchasing that also includes the use of discount vouchers, is growing in popularity. In Poland involvement and aware, the so-called prosumer attitude to purchasing is becoming more and more popular. Polish people, especially in the face of financial crisis also notice the potential hidden in group buying that lets them buy easily and quickly products of daily use as well as products and services that they could not normally afford without the discount.

<sup>5</sup> P. Dobrzański: *Transmisja kryzysu amerykańskiego na gospodarki europejskie*. [www.bibliotekacyfrowa.pl/Content/35547/009.pdf](http://www.bibliotekacyfrowa.pl/Content/35547/009.pdf).

<sup>6</sup> P. Flatters, M. Willmott: *Understanding the Post-recession Consumer*. „Harvard Business Review” 2009, No. 7(8), pp. 106-112.

## 1. Group buying as a new business model within e-commerce

“Group buying” or “social buying” is a business model characterised by large popularity all over the world. Services that function within the framework of group buying are different from traditional auction services or online shops in many ways. Group buying is targeted towards consumers with low individual bargaining power allowing them to aggregate, or pool, their purchase volume together and drive quantity discounts from the merchants<sup>7</sup>. The operators of group-buying websites tried to aggregate disparate buyers via the Web by providing them with price-based incentives for volume purchases, through this transaction mode, so both customers and sellers were better off<sup>8</sup>.

Offers of particular companies are located on webpages of a specific group service for a definite period of time (often for several hours), during which customers purchase vouchers for the particular offer. In order to make the purchase, the customer has to log in on the service webpage and then select the „buy now” option and make the payment (on the Internet, with the use of credit card or by direct money transfer from a bank account). After the offer is finalised positively, a voucher is sent to the provided e-mail address. It ought to be printed and then the purchase ought to be realised. Internet users have the opportunity not only to get cheaper offers but also to get acquainted with companies they might have never reached if they had not known about the offer. Group – buying provides benefits not only to individual consumers. The possibility to sell an offer but also to promote a particular product or service is a chance for a lot of enterprises. This allows to acquire a regular customer who, while being pleased with the purchase, will feel related to the company and in the future will make purchases at standard prices<sup>9</sup>.

Creation of the so-called aggregates that let customers view appropriate offers available on various portals of group buying is a little different business model associated with group buying. For consumers, group buying is an opportunity to make use of an offer that is interesting from the point of view of the price,

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<sup>7</sup> K.S. Anand, R. Aron: *Group Buying on the Web: A Comparison of Price-Discovery Mechanisms*. „Management Science” 2003, No. 49(11), pp. 1546-1562.

<sup>8</sup> S.T. Yuan, Y.H. Lin: *Credit Based Group Negotiation for Aggregate Sell/Buy in E-market*. “Electronic Commerce Research and Application” 2004, No. 3(1), pp. 4-94.

<sup>9</sup> More on the subject of use of group buying in business activity of enterprises in: K. Bilińska-Reformat, B. Reformat: *Group Buying as a Source of Competitive Advantage of Polish Small and Medium-Sized Enterprises*. Proceedings of the 11<sup>th</sup> Annual Conference on Marketing and Business Strategies for Central & Eastern Europe, 2011, Vienna, Austria, Ed. P. Chadraba, DePaul University Chicago, Reiner Springer, Wirtschaftsuniversitaet Wien.

and for companies it is a marketing tool of a broad promotional use. They allow to achieve the target associated with increasing the customers' awareness in the sphere of a company existence on market.

The first group buying service, "Gruper" occurred in Poland in February 2010. A little later "Citedeal" was started. Later, it was taken over by "Groupon". With their occurrence on market, the indicated services gave rise to the whole business related to offering group buying to *customers*. "Gruper" has become the most powerful competitor for "Groupon". On the grounds of research performed by the author, we can present popularity of group services among Internet users (Table 3)<sup>10</sup>.

Table 3

Buying services of strong relationships with Internet users (N=500)

Specification	Rate of customers declaring the will of further use of the buying service (in %)
Groupon	<b>65</b>
Gruper	60
My deal	53
Citeam	<b>46</b>
Fastdeal.pl	<b>8,7</b>
Cuppon.pl	<b>7,1</b>
Okazik.pl	<b>21,6</b>
Getdealtoday	<b>3.4</b>

Similar results of research were presented in the report on group buying. The most popular services include Groupon, Gruper and Citeam<sup>11</sup>. It ought to be added that results of studies can be different because the market of group buying in Poland is rapidly changing.

Services differ with respect to commissions collected from the companies that cooperate with them. The highest, 50-per cent commission is collected by "Groupon" and "Gruper", other storefronts collect a little smaller commission ("Mydeal" – 30%, "Fastdeal" from 20% to 40%, "Citeam" – 10%)<sup>12</sup>. We can state

<sup>10</sup> The respondents were asked what buying service they would have chosen if they had had to limit themselves to only one of them. It was assumed that responses to this questions would allow to decide which services the respondents felt most related to.

<sup>11</sup> [www.ekomercyjnie.pl/najpopularniejsze-witryny-e-commerce-w-polsce-maj-2012](http://www.ekomercyjnie.pl/najpopularniejsze-witryny-e-commerce-w-polsce-maj-2012).

<sup>12</sup> <http://interaktywnie.com/biznes/artykuly/e-commerce/rynek-polskich-zakupow-grupowych-groupon-ma-najwiecej-znizek-21354>.

that understanding group buying as a business model is growing. Customers make decisions about the choice of buying service and particular companies in a more and more aware way. They compare offers of group services, which becomes a motivation to present truly competitive offers.

It is worth mentioning that group buying is entering the phase of maturity. The beginning of business activity was in fact for a lot of services the period of formation and testing of the new market. This required creation of new solutions and establishment of teams and trainings for specialists. In the initial period of activity of buying services it was also necessary to determine standards for the business line. A totally new sphere of e-commerce that group buying was still not long ago, required formation of own tools and rules of activity.

At present buying services have experience and knowledge at their disposal which allows for making aware decisions. They also have resources that ensure stability of functioning and allow for professional service for customers and partners. Market maturity is also proved by growing interest of strategic investors and private equity funds in companies that provide services of group sale. On the other hand, involvement of funds of venture capital type is decreasing. Stable development of the business line and relative independence of possible disturbances on economic markets make group buying an attractive area for capital investment.

Entrepreneurs' interest in cooperation with group buying portals is also growing. Using group buying portals is inscribed in development strategy of companies. Group buying is more and more frequently perceived by entrepreneurs as effective promotional tool that is successful in the process of establishment of brand awareness, formation of databases of customers and acquisition of participants in loyalty programs etc. Interest of large enterprises, like for example financial, cultural and insurance institutions as well as representatives of medical business or property development business in this form of promotion is also growing<sup>13</sup>. Sale of offers by means of group buying service is often treated by these enterprises as an element of more extensive campaigns of nationwide or local scope.

Enterprises start to understand that group buying brings measurable profits and guarantees acquisition of new, loyal customers. This is confirmed by research of Foresee Results company that was performed on a group of 10 000 respondents (published in March 2012 in Great Britain). 44% users of group buying portals used services of a particular company also after the promotion had been finished<sup>14</sup>.

<sup>13</sup> There are a lot of companies that successfully applied group buying in their activity, for example "Wesołe miasteczko" in Chorzów, Dom Muzyki i Tańca in Zabrze, numerous hotels (that sell vacant rooms), etc.

<sup>14</sup> <http://www.ecommerce.edu.pl/wiadomosci/prasa/do-40-wzrostu-w-zakupach-grupowych-w-europie.html>.

## 2. Consumers' preferences as the basis for changes in business models of buying services

For the purpose of identifying the factors that influence popularity of group buying services a list of 24 features characterising a friendly buying service was used in research<sup>15</sup>. The respondents assessed them on the scale from 1 to 5 where 1 means the least important. These qualities, together with calculated average notes are presented in Table 4.

Table 4

List of 24 features of „friendly” buying services and their average notes

Symbol	Feature of “friendly” group buying service	Average note
W1	Wide offer (both services as well as material products)	4,485
W2	Easy access to service	4,605
W3	Fast settlement of a complaint	3,790
W4	Simplicity to make the on-line payment	4,189
W5	Safe purchase guarantee	4,017
W6	Clear information about the offer	3,991
W7	High level of price discounts on offers	4,157
W8	Frequent promotions	4,108
W9	Availability of brand goods	4,266
W10	Easy access to a service consultant	3,155
W11	Possibility to buy 24 hours a day	3,946
W12	No “technical” breaks	3,132
W13	Certainty of positive settlement of a complaint	4,561
W14	Possibility to „earn” on promoting the service	3,371
W15	Competent service employees	3,113
W16	Special offers (very high discounts on offer)	3,379
W17	Good opinions of other Internet users about the service	3,470
W18	No payment for joining the service	3,199
W19	Possibility to compare the offers according to selected criterion	3,418
W20	Large selection of favourite brands	4,304
W21	Purchase convenience	3,625
W22	Speed of obtaining information about the service offer	3,235
W23	No spatial limitations	3,045
W24	Benefits offered	3,195

<sup>15</sup> On the subject of research concerning the factors that shape relationships of buying services with Internet users in: K. Bilińska-Reformat, B. Reformat: *Relationship Determinants on Group-buying Markets – Polish Case* – 12th International Conference Marketing Trends Paris, January 17th-19th 2013.

The analysis of major components was applied in order to identify determinants that make the Internet users consider a particular service friendly. Kaiser-Mayer-Olkin and Bartlett's test were the following: KMO measure of sampling adequacy = 0.916, Bartlett's globosity test = 9086,075, significance  $p = 0.000$ , which, at probability very close to one, allows to reject the hypothesis about sameness of correlation matrix. Four groups of factors are distinguished there.

The first factor is associated with the range and characteristic features of offers of a particular buying service. Therefore we can identify it with the quality of offered services, clarity of information about these services, kinds of offered brands and availability of information about profits resulting from buying an offer (for example how much we can save thanks to the offer). It is the most important determinant establishing positive relationships with a buying service. It is clear here that buying services should undertake activities aiming at expansion of their offer and at clarity, including timeliness of information presented on service web page.

The second factor is associated with security of purchase in the service. It is the factor almost equally important as the service offer. Internet users are interested in guarantee of safe purchase, ability to make possible complaints and they are guided by opinions about group services presented by other users. Therefore, the suggestion about the necessity of appropriate selection of companies that cooperate with the service might be an important conclusion here.

Purchase convenience is the third factor determining establishment of positive relationships with buying service. It includes such components as: the possibility of unlimited access to service, simplicity of entering the service web page and no technical breaks. The suggestion related to development of information technology solutions in the way that they might minimise inconveniences associated with the access to service is the conclusion for group services. For example, we can recommend placing advertisements of these services on pages visited by the target group (for example advertisements on the Facebook, Onet, etc.). This will ensure easier access to the service and in this way it will increase the comfort for the Internet user.

The factor associated with pricing conditions is the next factor. Customers of buying services pay a lot of attention to the level of offered discounts and promotional activities of services. Such factors as no payments for joining the service, obtaining additional material benefits for offer recommendation are less important. So the fact that material benefits are not the most important is the conclusion for the services.

## Conclusion

Summing up, we have to add that the subject area undertaken in this paper is only an introduction to a broader discussion on studies related to the market of group buying that has been rapidly growing in Poland. Group buying business will certainly be affected by changes in the sphere of takeover, consolidation and verification of business models. In Europe, about 600 companies operate in the sphere of group buying and new entities are occurring all the time. According to statistics prepared by DD Summit Europe organisers<sup>16</sup> only in Europe, there were over 200 group buying portals started on the turn of 2011 and 2012. Yipit.com service informs that in 2011 as many as 170 services finished their business activity. According to experts, smaller entities that are unable to reach appropriate scale of business are going to withdraw from the business. Within the next few years European group buying market may expect further growth. Representatives of the strongest group buying portals predict that the value of their business shall grow in the nearest future by several dozen per cent. Predictions of the strongest players in Europe assume even 40% growth<sup>17</sup>. Users' database, as well as the number and value of transactions executed by group buying services all over Europe has been constantly growing. The largest potential of further development is observed in markets of East-Central and Eastern Europe which is associated development potential of the countries in these regions in the sphere of e-commerce. Group buying models have also been changing. This is probably affected by the fact of entering market maturity phase, and thereby, the growth in competition and customers' demands. In business models, group buying services take into account preferences of purchasers related to commercial offer.

The paper assumes the thesis that development of group buying is brought by occurrence of global factors. The occurrence of group buying model and its dynamic development was mainly caused by the occurrence of global economic crisis that resulted in changes in customers' behaviour. At present, group buying is in maturity phase in Poland and competition between particular services is growing. Because of that, it is necessary to recognise preferences of customers of services that become the basis for changes in models in their activity.

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<sup>16</sup> Here we refer to the first European conference concerning only group buying that took place in March 2012 in London <http://lanyrd.com/2012/dd-summit-europe/dostep>.

<sup>17</sup> The statement by Esra Sertoglu, CEO Grupanya, the representative of the leading group buying service in Turkey <http://lanyrd.com/2012/dd-summit-europe/dostep>.

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## THE IMPACT OF GLOBAL FACTORS ON DEVELOPMENT OF GROUP – BUYING MODEL

### Summary

Group – buying is a relatively new form of online selling, that has been rapidly growing all over the world. In Poland the first Internet group – buying services occurred in 2010 and their popularity has still been growing. The purpose of the paper is to present global factors that stimulate development of group buying model. Customers' behaviour depends on many factors, including global factors connected with global crisis and changes in customer behaviour. These factors make customers search for attractive and cheap offers. Group - buying provides them with such a possibility. The aim of the paper is to show the dynamics of development of that e-commerce model of selling by Internet. The aim is also to show the changes that take place in the structure of group - buying market. In the paper the business model of group – buying and its development in Poland is characterised. Also, the global factors that make the group-buying services attractive for customers are presented.

Keywords: e-commerce, new business models, group buying