

# A Qualitative Research of *Tuangou*: Modes, Characteristics and Roles of the New E-Business Model

Hao Li, Ping Zhao, Yan Wang  
School of Economics and Management  
Tsinghua University  
Beijing, China  
[lih2.05@sem.tsinghua.edu.cn](mailto:lih2.05@sem.tsinghua.edu.cn),  
[zhaop@sem.tsinghua.edu.cn](mailto:zhaop@sem.tsinghua.edu.cn),  
[wangy5.04@sem.tsinghua.edu.cn](mailto:wangy5.04@sem.tsinghua.edu.cn)

Gao Wang  
Department of Marketing  
China Europe International Business School  
Shanghai, China  
[Andy\\_wang66@yahoo.com](mailto:Andy_wang66@yahoo.com)

**Abstract**—Group buying faces difficulty in the US while *tuangou*, a similar E-business model, is developing fast in China. The authors classify the active *tuangou* modes and analyze their characteristics and influences on the marketing channel. We find that an active internet platform is the base of the success of *tuangou*. In addition, *tuangou* has a high ability to attract eye balls as well as to share valuable information among consumers. Now *tuangou* sites have become challengers to the traditional retailers in some industries.

**Keywords**—group buying; *tuangou*; traditional retailer; marketing channel

## I. INTRODUCTION

Group buying was originated in the US in the end of 1990s, but the websites that supply group buying business had been facing difficulty. Mercata.com and LetsBuyIt.com, the oldest group buying websites, were closed in 2001. Mobshop, the early successful website, cuts most consumer services recently though it still sells software through group buying. In contrast, *tuangou*, a similar E-business model, is developing fast in China. In 2006, about 5 years after *tuangou* emerged in China, the estimated sales through *tuangou* in Shanghai and Beijing reached billions RMB Yuan, millions consumers participated in *tuangou*, and the sales of some *tuangou* sites, such as Liba and Qeeka, had increased by 100% a year during 2005-2007. According to the opinions of Tang, besides the Chinese culture, *tuangou* websites takes advantage to the group buying websites for the confirmable product price, more income sources (e.g. ads and technological service), lower customer attracting cost, more product categories and lower inventories [1]. Tang's argument supplies an angle for us to explain why *tuangou* is successful in China. But we believe that there are some other factors that make *tuangou* develop fast because most success driving factors in Tang's explanation can be applied by the US group buying websites either. If *tuangou* keeps the present increasing speed for three years more, it will be an important retailing model in the marketing channel. The value of channel is great for the manufacturers, so, we try to figure out the other driving factors of the success of *tuangou* by classifying its modes and analyzing the characteristics and influences on the marketing channel members of different *tuangou* modes. Our

analyses are valuable for the channel decision of manufacturers and the development of *tuangou* sites.

## II. LITERATURE REVIEW

### A. Modes of *Tuangou*

Qian classified the formats of *tuangou* on the different initiators and Song classified them on the number of initiators [2][3]. But they had not analyzed the characteristics of each *tuangou* format and the mechanism of *tuangou*. In addition, some formats in their classification are not active in the real business world.

### B. Reseaches of Group Buying

Because *tuangou* is similar to group buying, we review the mechanism of group buying. Kauffman and Wang showed that the larger members of a buying group, the higher the participation rate, in addition, group buying often generates strong WOM effect [4][5]. Anand and Aron demonstrated that group buying could be applied as a price discovery mechanism for a seller with uncertain aggregate demand [6]. Chen et al. proved that cooperation under group buying may benefit both buyers and sellers [7]. Tan et al. analyzed the factors that influenced the consumer participation for Group Buying [8]. Jing and Xie revealed the mechanism of the group buying [9].

We contributes to the studies of the new business model by classifying the active *tuangou* modes, analyzing their characteristics then comparing them to Group buying, and demonstrating their roles in marketing channel.

## III. METHODOLOGY

As *tuangou* is a new E-Business model, our analyses are based on qualitative research data, which are from a ten-case in-depth interview and a two-group focus group discussion.

The participants included consumers, self-employed *tuangou* initiators, managers from the media site, supervisors of a popular online community, managers from the household appliances traditional retailers, and senior managers from the manufacturer of decoration materials and household appliances who applied *tuangou* to sell products recently. According to the

This paper is supported by the National Natural Science Foundation of China (Grant No. 70632003, 70572008).

qualitative research data, the active *tuangou* sites, the initiators, and the products of *tuangou* are listed in table 1.

TABLE I. LIST AND ATTRIBUTES OF TUANGOU SITES

Website	Products (Some cases)	Initiators
Liba.com	Decoration materials Wedding supplies	<i>Tuangou</i> site
soufun.com	Real estate	Media site
communities of Soufun and focus	Decoration materials Household appliances	Consumers
Qeeka.com	Decoration materials Wedding supplies	<i>Tuangou</i> site
Wzcbd.com	Decoration materials Household appliances	<i>Tuangou</i> site
teambuy.com.cn	Decoration materials Wedding supplies Household appliances Car and driving training	<i>Tuangou</i> site
Taobao.com	Massager, Bamboo mat	Self-employed
newsmth.net	New favor moon cake New condiment	Self-employed

#### IV. ANALYSES AND RESULTS

##### A. Modes of Tuangou

There are four types of active *tuangou* initiated by different initiators, which are consumers, self-employed individuals, *tuangou* site, and media site (See table 1).

##### B. Characteristics of Tuangou

We summarize the characteristics of the four types of *tuangou* by value, life-cycle, demand and brand of the products which are available in *tuangou*, promotion media and information of the *tuangou* activities and initiators, pricing strategies and discounts of *tuangou* products and income of the initiators in table 2.

Besides the potential customers can get discount and the valuable information from the consumer interaction through *tuangou*, the common characteristics of the four types are that they all based on popular forum or websites which bring the initiators plenty of potential customers. In addition, different *tuangou* modes supply consumers more choices. Further more, the *tuangou* initiators (except the consumer initiator) can earn commission from the sales of *tuangou*. The group buying does not have the above attributes of *tuangou*. Especially, the initiators of a specific group buying do not earn commission [9]. With the above specific attributes, *tuangou* have more potential clients and be more attractive to consumers and initiators. It may explain why it is developing so fast in China.

The products of the *tuangou* initiated by self-employed initiators are usually with higher margin, lower value and new brand as well as have niche demand, while the products of *tuangou* initiated by *tuangou* sites are often with lower margin, higher value, and high recognition brand as well as have mass demand. Most products available in self-employed and *tuangou* site-initiating *tuangou* have a higher margin than the average level of the ordinary products and are in the introduction or growth period of the product life cycle. The value, lifecycle, demand and lifecycle of the products of different *tuangou*

modes make the self-employed-initiating *tuangou* to offer consumers a higher discount than the other *tuangou* modes do.

Though consumer-initiating *tuangou* is not a regular business of the initiators and the sales of *tuangou* is limited, the initiators need a website to disseminate the *tuangou* information. The self-employed initiators need that online space either for their limited resource. Some websites, such as *soufun.com* and *liba.com*, offer the online space for such *tuangou* activities to attract visitors then generate income from advertisement. The websites make the consumer interact online easily and the words of mouth of *tuangou* products available, and supply observational evaluation for some popular products.

TABLE II. CHARACTERISTICS OF THE FOUR TUANGOU MODES

Attributes	Self-employed	Consumer	<i>Tuangou</i> site	Media Web
Value	Low	Medium	Medium	High
Lifecycle	Introduction or growth	Growth or mature	Mainly in Growth	Growth or mature
Demand	Niche	Mass	Mass	Mass
Brand	New	Higher recognition	Higher recognition	Ad client of the web
Spread media	Active forum	Community forum	Website	Website
Information	Product, price, WOM	Product and WOM	Product, price, WOM, observational evaluation	Product, price, WOM, observational evaluation
Pricing	Confirmable	Negotiate	Confirmable	confirmable
Discount	30%	15%	15%	1-2%
Income	Commission	Purchase discount	Commission and ads.	Ads.

##### C. The Roles of Tuangou in Marketing Channel

The roles of the four types of *tuangou* in marketing channel are different. In the four initiators, *Tuangou* site plays a more and more important role. The analyses are as following and the summaries are listed in table 3.

TABLE III. INFLUENCES AND ROLES OF THE FOUR TUANGOU MODES ON MARKETING CHANNEL

Modes Influences	Self-employed	Consumers	<i>Tuangou</i> site	Media Web
Sale of Manufacturer	Expand market	Little influence	Increase demand	Increase demand
Manufacturer's Price system	Little	Little	influence	Little
Promotion	Little	Little	Positive influence	Positive influence
Traditional big retailer's sale	Little	Positive	Negative	N.A.
Traditional small retailer's sale	Little	Little	Negative	N.A.
Roles	market mender	Direct salesman	market mender or challenger	Information spread
Key driver to succeed	Initiators' credit; Attractive products	Initiators' leadership; Active community	Scale and CTR <sup>a</sup> ; Multiple products and brand	CTR

a. CTR: Click-through Rate

### 1) Self-employed individual-initiating Tuangou

The initiators bring information of new products to consumers, but they can not make their *tuangou* business well known by the consumers and supply enough quality guarantees to their customers because of their limited resources. Most big manufacturers will not cooperate with them for their small sale capability. But if the initiator has high recognition and a good reputation, a few small or new manufacturers may need them to introduce new product with low costs. So, this type of *tuangou* plays a role as market mender in the marketing channel. Because the initiators have limited power and resource, such kind of *tuangou* has little influence on the traditional retailer.

### 2) Consumer-initiating Tuangou

When consumers live in a community or in a small area, they often have some similar demands and trust each other. If some of them have good leadership and enough spare time, they may become initiators of *tuangou*. The sale scale and area of such *tuangou* are limited, so the manufacturers, dealer or retailer will not offer high discount. Because the diffusion ability of such *tuangou* is limited, the discount will not influence the regular retail price of the manufacturers. This type of *tuangou* acts as a direct salesman in retail channel and provides online WOM as selling products. Such *tuangou* is positive to the traditional big retailers for it brings potential customers to the retailers.

### 3) Tuangou website-initiating Tuangou

Compared to the individual initiator, the *tuangou* sites have more funds to supply more product categories and build internet community to share the word of mouth and quantitative evaluation of consumers, so the *tuangou* sites have higher attractiveness to consumers. Consequently, some famous brands will sell their products or advertise on such sites. The sales of such sites are much less than the huge traditional retailers in some industries, for example, in 2007, the total sales of the three most popular *tuangou* sites, Liba, Qeeka and Wzcbd, was less than 2 billions RMB while the sales of Gome and Suning were 100 and 40 billions RMB [10][11]. So in the household appliance industry, *tuangou* site just plays as market mender. But in some other industries without big retailers, such as wedding supplies, *tuangou* site is challenging the traditional retailers. In addition, compared to the traditional retailers, *tuangou* catches the attention of consumers and media because it is a new E-business model and offer reasonable prices. This characteristic helps them develop fast and gain income from the advertising of manufacturers. Sales scale and click-through rate (CTR) are the key success driving factors of such websites.

### 4) Media website-initiating Tuangou

This type of *tuangou* is active in the real estate market. Accurately it should be named group visiting, because consumers usually do not purchase during the process of *tuangou*. The property developers only offer very low discount for the product value is high. The demand of real estate is high in China and the industry catches the attention of consumer. Consequently, this type of *tuangou* often has high participant rates and brings a crowded atmosphere on the sales location, and the property developers will offer free traffic service to support the media websites. Such *tuangou* plays as an

information disseminator and a high CTR is the key driver of its success.

## V. CONCLUSION AND DISCUSSION

From the above analyses, we have the following opinions about *tuangou*. First, an active internet platform is the base of the success of *tuangou*. Second, *tuangou* is different to other E-business models for it has a high ability to attract eye balls. This attribute is partly due to the fact that prices of some products are much higher than costs and *tuangou* supplies an option for the consumers to save their money. This helps the *tuangou* sites to gain a large customer base and advertisement income. Third, *tuangou* supplies valuable information to consumers with online word of mouth and observational evaluation, which is similar to the findings of the previous studies about group buying. Fourth, some *tuangou* sites have become challengers to the traditional retailers in some industries without strong traditional retailers.

The factors that may limit the development of *tuangou* may include: 1) mature of the market may reduce the margin of the manufacturer and dealer then decrease the discount of *tuangou*; 2) the monopoly of traditional retailers may prevent the manufacturers to cooperate with the *tuangou* suppliers. The above factors will reduce the attractiveness of *tuangou* to consumers.

Just as the other qualitative research, the observation and conclusion of this paper need further quantitative researches to confirm in the future.

Hong Kong University developed a study case about the competition of *tuangou* and traditional retailers [12], which shows that *tuangou* gained more attention. *Tuangou* is such a new E-business model that there are many research questions need to be answered. Does *tuangou* have a bright prospect? Which kinds of product are suitable for *tuangou* or are easy to attract consumers' attention? How do the consumers interact in *tuangou*? Which characteristics of the initiators influence the success of *tuangou*? In the future, valuable studies about the issue of *tuangou* will help us answer the above questions.

## ACKNOWLEDGMENT

The authors owe their thanks to Professor Jinhong Xie for her valuable advices and opinions to this research.

## REFERENCES

- [1] Tang, Christopher S., "United We May Stand", Wall Street Journal - Eastern Edition, 5/12/2008, Vol. 251 (111), pR10, 0p, 1.
- [2] Qian, Dake, "A Research of the Web *tuangou* modes", Store Modernize, 1, 2006, pp.36-37.
- [3] Song, Yini, "A Research of the Web *tuangou* modes based on B2C Netware", Thesis of Master's Degree, Middle China Nomal University, Wuhan, 2007.
- [4] Kauffman, J. Robert, Bin Wang, "New Buyers' Arrival under Dynamic Pricing Market Structure: the Case of Group-buying Discounts on the Internet", Journal of Management Information Systems, 18(2) 2001, pp.157-188.
- [5] Kauffman, J. Robert, Bin Wang, "Bid Together, Buy Together: on the Efficiency of Group-Buying Business Models in the Internet-Based

Selling”, Handbook of Electronic Commerce in Business and Society, CRC Press, Boca Raton, FL. 2002.

- [6] Anand, S. Krishnan, Ravi Aron, “Group Buying on the Web: A Comparison of Price Discovery Mechanisms” Management Science, 49(11) 2002, pp. 1546-1562.
- [7] Chen, Jian, Xilong Chen, Robert J. Kauffman, Xiping Song. “Cooperation in Group-Buying Auctions”, Proceedings of the 39th Annual Hawaii International Conference on System Sciences (HICSS), 2006.
- [8] Tan, Chuan-Hoo Tan, Khim-Yong Goh, and Hock-Hai Teo, “An Investigation of Online Group-Buying Institution and Buyer Behavior” Proceeding of the 12th International Conference on Human-Computer Interaction (ICHCI), Beijing, China, 2007.
- [9] Jing, Xiaoqing and Jinghong Xie, “Customers as Sales Agents: Selling through Group-Buying”, Working paper, University of Florida, USA, 2007.
- [10] Gome Electrical Appliances Holding Limited, “Annual Report 2007”, Hong Kong Exchanges and Clearing Limited, Hong Kong, 2008.
- [11] Suning Appliances Co. Limited, “Annual Report 2007”, Shanghai Security Exchanges, Shanghai, 2008.
- [12] Yen, Benjamin, “GOME Electrical Appliances Holding Limited: The *tuangou* Challenge”. Asia Case Research Center, the University of Hong Kong, Hong Kong, 2006.