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

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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. Researches 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
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**

<table>
<thead>
<tr>
<th>Website</th>
<th>Products (Some cases)</th>
<th>Initiators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liba.com</td>
<td>Decoration materials, Real estate</td>
<td>Tuangou site</td>
</tr>
<tr>
<td>Soufun.com</td>
<td>Wedding supplies</td>
<td>Media site</td>
</tr>
<tr>
<td>Communities</td>
<td>Decoration materials, Real estate</td>
<td>Consumers</td>
</tr>
<tr>
<td>Soufun and focus</td>
<td>Decoration materials, Real estate</td>
<td>Consumers</td>
</tr>
<tr>
<td>Qeeka.com</td>
<td>Household appliances</td>
<td>Tuangou site</td>
</tr>
<tr>
<td>Wzebd.com</td>
<td>Decoration materials</td>
<td>Tuangou site</td>
</tr>
<tr>
<td>Taobao.com</td>
<td>Massager, Bamboo mat</td>
<td>Self-employed</td>
</tr>
<tr>
<td>Newsmtth.net</td>
<td>New favor moon cake, New condiment</td>
<td>Self-employed</td>
</tr>
</tbody>
</table>

**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 that the other tuangou modes do.

Though consumer-initiating tuangou is not a regular business of the initiators and the sales of tuangou is limit, 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.cn, offer the online space for such tuangou activities to attract visitors then generate income from advertisement. The websites make the consumer interact online easy 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**

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Self-employed</th>
<th>Consumer</th>
<th>Tuangou site</th>
<th>Media site</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Lifecycle</td>
<td>Introduction or growth</td>
<td>Growth or mature</td>
<td>Mainly in Growth</td>
<td>Growth or mature</td>
</tr>
<tr>
<td>Demand</td>
<td>Niche</td>
<td>Mass</td>
<td>Mass</td>
<td>Ad client of the web</td>
</tr>
<tr>
<td>Brand</td>
<td>New</td>
<td>Higher recognition</td>
<td>Higher recognition</td>
<td>Ad client of the web</td>
</tr>
<tr>
<td>Information</td>
<td>Product, price, WOM</td>
<td>Product and WOM</td>
<td>Product, price, WOM, observational evaluation</td>
<td>Product, price, WOM, observational evaluation</td>
</tr>
<tr>
<td>Pricing</td>
<td>Confirmable</td>
<td>Negotiate</td>
<td>Confirmable</td>
<td>Confirmable</td>
</tr>
<tr>
<td>Discount</td>
<td>30%</td>
<td>15%</td>
<td>15%</td>
<td>1-2%</td>
</tr>
</tbody>
</table>

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 TUANGUAN MODES ON MARKETING CHANNEL**

<table>
<thead>
<tr>
<th>Influences</th>
<th>Modes</th>
<th>Self-employed</th>
<th>Consumers</th>
<th>Tuangou site</th>
<th>Media site</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of Manufacturer</td>
<td>Expand market</td>
<td>Little influence</td>
<td>Increase demand</td>
<td>Increase demand</td>
<td></td>
</tr>
<tr>
<td>Manufacturer’s Price system</td>
<td>Little</td>
<td>Little</td>
<td>Influence</td>
<td>Little</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>Little</td>
<td>Little</td>
<td>Positive influence</td>
<td>Positive influence</td>
<td></td>
</tr>
<tr>
<td>Traditional big retailer’s sale</td>
<td>Little</td>
<td>Positive</td>
<td></td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td>Traditional small retailer’s sale</td>
<td>Little</td>
<td>Little</td>
<td>Negative</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td>Roles</td>
<td>market mender</td>
<td>Direct salesman</td>
<td>market mender or challenger</td>
<td>Informati on spread</td>
<td></td>
</tr>
<tr>
<td>Key driver to succeed</td>
<td>Initiators’ credit; Attractive products</td>
<td>Initiators’ leadership; Active community</td>
<td>Scale and CTR; Multiple products and brand</td>
<td>CTR</td>
<td></td>
</tr>
</tbody>
</table>

*Note: 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.

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REFERENCES


