

Association for Information Systems

AIS Electronic Library (AISeL)

ICEB 2009 Proceedings

International Conference on Electronic Business
(ICEB)

Winter 12-4-2009

Tug of War between the Retailers and Consumers: The Phenomenon of Group Purchase in China

Benjamin Yen

Minyi Huang

Follow this and additional works at: <https://aisel.aisnet.org/iceb2009>

This material is brought to you by the International Conference on Electronic Business (ICEB) at AIS Electronic Library (AISeL). It has been accepted for inclusion in ICEB 2009 Proceedings by an authorized administrator of AIS Electronic Library (AISeL). For more information, please contact elibrary@aisnet.org.

TUG OF WAR BETWEEN THE RETAILERS AND CONSUMERS: THE PHENOMENON OF GROUP PURCHASE IN CHINA

Benjamin Yen¹, and Minyi Huang²

¹School of Business, The University of Hong Kong, Hong Kong

²Asia Case Research Centre, The University of Hong Kong, Hong Kong

¹benyen@business.hku.hk; ²minyihuang@acrc.org.hk

Abstract

Retailing shops are the contact points between customers and supply chain. On one hand, the retailers need to satisfy the customers by providing the right and enough products to ensure the service level; on the other hand, the retailers also need to minimize the costs while satisfying the customers. This paper uses a case study of GOME is to illustrate *Tuangou*, a relatively new phenomenon that has spread rapidly in China, and to show how the company responded to the group purchasing shoppers. The case presents a tug of war happening between the retailers and consumers. The implications of *Tuangou* to the stakeholders in group purchase are also discussed.

Keywords: Electronic Commerce, Group Purchase, Supply Chain, Consumer Behavior

Introduction

One main task for retailers is to satisfy the customers by fulfilling their needs. In other words, the retailers need to maintain the service level that customers expected. At the same time, the retailers also need to try all the efforts to minimize the cost (or maximize the profits). How to keep a good balance the cost minimization and service maximization becomes the most critical and challenging work for the retailers. From the customers' point of view their decisions are on location, time, type, variety, quantity, price, and among others. The retailers need to take into account these issues for retailing, shelf, and inventory management. The retailers may do regular basis or event driven promotion on certain products to attract the customers by decreasing product price. The retailers may increase the customers' satisfaction by offering wide variety or high inventory. The retailer may also give customer more flexibility on ordering, shipment, or pickup. There are always pros and cons for each option that retailers try to implement.

The concerns for major stakeholders can be discussed from the following three aspects: customers' choice toward retailers and product, interaction between customers and retailers, and relationships between the retailers and its upstream partners in the supply chain.

- *Customers' choice toward retailers and product.* The customers could purchase certain product at the specific shop. The customer may also purchase through other channels and means to order or to pick up, e.g. ordering on Internet shop, post mail for catalog shopping, telephone ordering for TV advertisement. The main concerns focus on ordering online and purchasing at shop.
- *Interaction between customers and retailers.* Since the retailers need to keep a good balance between the cost control and service requirement, normally they would be very vigilant on demand variability which is critical in inventory cost. Normally promotion will result in higher demand in a short period as a spike that reflects the higher demand variability. On the contrary, Wal-Mart adopts "everyday low price" strategy to have a better control in order to stabilize the demand.
- *Relationships between the retailers and its upstream partners in the supply chain.* The retailers need to work closely with upstream partners (e.g. distributors and manufacturers) to ensure timely and satisfactory supply. The demand variability is transferred, propagated, and amplified to the upstream partners and consequently it forms the bullwhip effect. The upstream partners can alleviate the bullwhip by information sharing or strategic partnerships (e.g. vendor management inventory, VMI).

The Chinese term *Tuangou* could be translated as "team buying" or "group purchase". It referred to a consumer buying practice in China that unknown consumers joined together via the Internet and leveraged their collective bargaining power with retailers to get discounts that individuals could not. Typically, the group would gather at an agreed time and location, and would show up unannounced at a retail store. The practice had its original in on-line chat rooms but had spawned numerous websites, such as 51tuangou.com, SHtuangou.com, or 020tgw.com, specializing in organizing *Tuangou* sessions. This form of new buying behavior had quickly spread

throughout China. Consumers were organizing themselves via various *Tuangou* websites to go *Tuangou* for all sorts of goods and services, ranging from home appliances to automobiles, and from wedding packages to building/renovation materials for new homes.

Some suggested that *Tuangou* was a natural extension of the bargaining culture of China, where shoppers typically treated sticker prices as the starting point for negotiations [1]. This, perhaps, explained in part why regular on-line shopping had not taken off in China, which had more than 110 million Internet users. Many on-line shoppers in China still preferred cash-on-delivery or checks to on-line payment systems or payment by credit cards. According to Ouyang Jixing, deputy director of www.020tgw.com, "On-line shopping has been around for a few years, and Chinese people realize that it's quick and easy, but there's a crisis of trust and honesty. How do you know whether to trust the seller?" Chinese web surfers were also very skeptical about the goods that they would get from on-line shopping. *Tuangou* offered consumers an alternate means to leverage the Internet and killed two birds in one stone – it allowed consumers to get better prices by combining their bargaining power, and, as opposed to on-line shopping, it provided consumers a form of protection against getting faulty items or knock-offs.

By 2005, *Tuangou* was a way of life of the Chinese web surfers. Regular trips to retailers selling all sorts of products and services were organized through these websites. One such example was a group of Nanjing citizens, who organized regular shopping trips to the IKEA in Shanghai via the Nanjing 51tuangou.com [2]. To get on the trip, one could simply sign up on-line and pay a small fee for the transportation by coach. Apparently, these *Tuangou* sessions had lived up to their reputation. One participant in Shanghai saved RMB500 on a Plasma TV over the GOME price on a *Tuangou* trip with Shtuangou.com [3]. Others bought a Kodak digital camera (and an SD card) with a street price of RMB6,500 for less RMB4,000 with other freebies as more memory cards and camera pouches [4]. By end of 2005, the largest *Tuangou* website, 51tuangou.com, had hundreds of thousands of members. Regional websites, such as Shtuangou.com or 020tgw.com, were also catching up quickly with tens of thousands of members and growing. And by one estimate, the volume of transactions completed during *Tuangou* sessions nationwide was in the millions per day [5].

Group purchase was not unique to China [6]. For decades in western countries, neighbors organized themselves into groups to get discounts

for all sorts of goods. One person would be responsible for negotiating the volume discount, grouping and passing on the order, organizing the deliveries, and performing the treasury function. During the early part of the second half of 1990s, group shopping was one of the hot opportunities sought after by dot.coms. Websites were set up to group consumers together that were interested in buying a certain item, and to negotiate volume discounts on the consumers' behalf with manufacturers and wholesalers. Effectively, these companies were acting as an intermediary. This was what set them apart from the Chinese *Tuangou*. These companies, as "online brokers", asked people to sign up online stating an interest to buy a certain product if it hit a certain discounted price; the more people signed up, the more the price would drop, so at the end everyone was guaranteed to get the product for the price they had signed up for, or for less. As an intermediary, these companies took payments from the consumers, got the goods delivered to the consumers, and earned a commission in the process. Whilst *Tuangou* in China was organized through websites and that consumers agreed the gathering location, time and date, no intermediary was involved in the negotiation and in the transaction. Consumers were physically present at the retailers, bargained for discounts with their volume presence, paid the retailers directly, and walked out with the goods they wanted.

As *Tuangou* caught on quickly and spread like wild fire in China, it became a phenomenon that retailers could not ignore. Different retailers took different stands [7]. Luxury goods retailers, such as LVMH, adopted a fixed price policy that stopped *Tuangou* at the door. Others treated *Tuangou* shoppers with trepidation as they feared the aggressiveness of such groups, and hoped the increased sales volume would make up for the lost margin. Some tried to manage it by working with *Tuangou* websites to pre-arrange *Tuangou* sessions. These retailers would not entertain "surprised" *Tuangou*, and might close their doors to regular customers so that they could focus on dealing with *Tuangou* shoppers.

GOME, founded by Wong Kwongyu, had grown from merely a 100-square-metre store in Beijing in 1987 to being the industry leader in electrical and home appliances retail in China with 259 traditional stores and four digital stores by the end of 2005. Its success stemmed from its low margin, high volume strategy, which was complemented by its quest for service quality and innovation. In 2005, GOME, alongside with many retailers in China, faced a new challenge – *Tuangou* or group purchase. In order to amass bargaining power to demand for discounts from retailers,

consumers with similar needs in China were united by Internet chat rooms and would show up en masse at retailers at pre-agreed time and date. The crowd put relentless pressure on retailers and pressed for greater discounts. This emerging consumer behavior had spread like wild fire. From home appliances to automobiles, and from furniture to wedding packages, consumers leveraged retailers with their collective bargaining power. Retailers had reacted differently. Some yielded to the pressure and offered greater discounts, some only entertained *Tuangou* that had been pre-arranged and/or pre-registered, and others refused to give in with a fixed price policy. GOME took a proactive stand and welcomed *Tuangou* shoppers with a series of *Tuangou* events organized both locally and nationally.

Case Study: GOME and Group Purchase [8-10]

GOME, an electrical appliances shop in Beijing, was started by Mr. Wong with a loan of RMB30,000 back to the beginning of 1987. The late 1980s was the time when demand for imported home electrical appliance was growing rapidly, and GOME benefited from the high demand for and high margin of imported products. In 1990, as the market and competition grew, Wong realized the need to establish a competitive edge, and he decided to adopt a low price policy. To do so, he had to by-pass the intermediaries and started to deal directly with manufacturers. Bolstered by strong market demand, GOME was able to instigate a low margin, high volume strategy. In 1996, when indigenous home appliance manufacturers, led by Sichuan Changhong Electrical, were gaining consumer acceptance, GOME shifted from purely selling import products to including products from indigenous and joint-venture brands. Since 1998, the company has been expanding into Tianjin, Shanghai and among other cities. As GOME expanded and its turnover rose, GOME was soon among the top retailers in China. July 2004, GOME reached another milestone – it successfully obtained a listing on the Hong Kong Stock Exchange by way of a backdoor listing. GOME's turnover for the nine-month period ending December 31st, 2004 reached RMB9.7 billion (~US\$1.21 billion).

GOME's mission was to serve its customers the best it could. The company was committed to providing its customers with competitive prices, wide product selection, convenient locations and professional customer service. To do that, GOME adopted a two-pronged approach. It first set out to build customer goodwill and loyalty by providing them good shopping experience. And since

competitive pricing was the pinnacle of GOME's business model, it sought to maintain its position by enhancing its purchasing power with an expanding retail network and by driving improvements internally. Building on its mission and guiding principle, GOME attempted to establish its own corporate culture on the following five pillars: (1) Be a pioneer and contribute to the society, (2) Keep promises and be credible, (3) Uphold integrity and develop people, (4) Hire for capability and hire locally, and (5) Establish a strong brand and emphasize image.

GOME's Strategy

Low price and low cost was the cornerstone of GOME's competitive strategy. Products available at GOME were typically priced 10-15 % less than those at conventional department stores. While this tactic cut into GOME's margin, it created significant attraction to consumers and generated sales volume. This worked like a continuous downward spiral – as low price brought greater sales volume, volume enabled GOME to buy at even lower prices from manufacturers, which in turn allowed GOME to sell at even lower price and generate even greater volume, which further strengthen GOME's bargaining and buying power.

Another tactic employed by GOME to secure low price and high sales volume was exclusive selling right. GOME would obtain exclusive selling right of certain products from a manufacturer in exchange for a large volume purchase to ensure competitiveness over its competitors and to help improve attractiveness to consumers. To further strengthen this tactic, GOME, armed with market information, would work with manufacturers and order customized products that provided functionality, appearance and price that better match consumer needs.

Whilst low price and low cost was success formula, GOME sought to complement it with high quality service. In November 2001, GOME rolled out a large-scale quality service campaign "GOME Service Project" with a series of new services that were firsts of their kinds in China, such as "money back guarantee", "complaint award", "Mysterious shoppers", and "shopping from afar". Leveraging GOME's extensive retail network, this service allowed customers to order and pay for a product in one GOME store and have it delivered in another GOME store in the network. In the following years, GOME continued to introduce such new services as "lowest price guarantee" and "household appliances hospital". In October 2005, it launched a nationwide "membership system". Depending on the spending pattern, patrons would be invited to join as rainbow, silver, gold or platinum card members, and enjoy a series of benefits including

enhanced interest free installment plan, bonus points, trade-in, on-site support, members-only shopping, and so on.

GOME intended to continue to expand in 2006, and planned to open about 120 to 150 traditional stores and three mega stores. With the establishment of a management centre for second tier market, special attention would also be given to strategic opportunities in second tier cities and to enhancing the quality of store operations in these cities. New service categories, products would be introduced to widen the product range and to more effectively utilize space and resources.

GOME and Group Purchase

As the largest retail chain in China, GOME could not shun away from *Tuangou* shoppers. Indeed, GOME was featured in one of the most highly quoted news article about *Tuangou* in the western world. According to the news story, some 500 shoppers gathered outside the GOME superstore in Guangzhou on a Friday afternoon. Hours later, they emerged from the store with boxes of cameras, DVD players and flat-screen televisions, all bought with 10-30% discount.

When it came to dealing with *Tuangou*, GOME chose not to be a sitting duck. In early 2006, GOME launched the "GOME *Tuangou* Day Project". To kick off this initiative, GOME designated April 2006 as the *Tuangou* month, and on a selected day in April 2006, selected GOME stores would be closed for *Tuangou* shoppers only. Shoppers could sign up on-line, by phone or in person at the GOME store, providing personal details and details of the desired products, and would receive 5-40 % discount. Furthermore, each *Tuangou* shopper would also enjoy following privileges.

- A *Tuangou* VIP card and a minimum of two per cent discount on any products (except for selected items) in the store ;
- A complimentary gift from GOME; and
- Regardless of the amount patronized, be eligible to enter into a luck draw.

As part of the *GOME Tuangou* Day Project, GOME also set aside a selected day of each month as *Tuangou* day. GOME would roll out the "*Tuangou* Banquet", which was touted to be the largest *Tuangou* event of the year. Individual GOME stores could also cooperate with local *Tuangou* websites to advertise and organize *Tuangou* trips. Furthermore, GOME would work with corporations and residential areas to arrange special VIP "close store" shopping events, providing shoppers with bargains and a great shopping experience.

While GOME had its own bold expansion

plan in 2006 and proactive tactics to deal with *Tuangou* shoppers, the number of *Tuangou* websites continued to increase and their membership continued to grow. It was still too early to tell if *Tuangou* posed more a threat or an opportunity to GOME. GOME needed to determine if it really had its head around this rapidly spreading phenomenon and whether it was compromising other customers with its proactive tactics towards *Tuangou*.

Impact of Group Purchase

In this section, the discussion will focus on the implications of *Tuangou* to consumer behavior and purchasing process, the response from GOME, and other alternative strategies the retailers may consider.

The decision making process of *Tuangou* shopper

To understand the *Tuangou* behaviour, we can start by looking at the type of consumer decision making it represents. A consumer decision making can vary by how complex and expensive the product is and by how involved a consumer is in the buying process. The complexity, level of spends, and consumer involvements are all ranked high [11] as follows.

- *High in Complexity.* *Tuangou* shoppers in China are buying fairly complicated products such as automobiles, electronic devices, wedding packages, etc. Unlike walk-in purchase, *Tuangou* shoppers can have enough time to know the product really well. Unless they know the products they want really well, i.e., product features, options, price, etc., and they have compared and contrasted similar products, they don't know if they are getting a good deal. Thus *Tuangou* typically involves fairly complicated products.
- *High in Level of Spend.* There is little point of going *Tuangou* for everyday items (e.g. staple and toilet papers) when they are readily available, low in spend, and the amount one can save in real terms is quite minimal. Since the efforts put in *Tuangou* are normally more than walk-in purchase and online purchase, *Tuangou* shoppers tend to buy items that they only buy once in a while (e.g. wedding packages, furniture, or goods that are of a durable nature like TVs or cameras). Such goods also tend to be high in the level of spend.
- *High in Consumer Involvement.* Unlike buying everyday items (e.g. shampoo or newspaper) which are very simple transactions, *Tuangou* shoppers are very much involved, from gathering information

to determine the products that they want to buy, selecting the retailers, signing up on a *Tuangou* session, to actually showing up and bargaining with retailers.

There are three types of consumer decision making: (1) *extensive decision making* (which requires most time and effort as the purchase involves complex or expensive items), (2) *limited decision making* (which requires moderate level of efforts in searching and comparing alternatives), and (3) *routine decision making* (which usually involve packaged goods that are simple, inexpensive and familiar and that consumers may have developed their favorite brands or products) [18]. It can be concluded that a *Tuangou* purchase is one of an *extensive decision making*. A typical consumer decision making process may consist of the following stages: (1) need recognition, (2) alternative search, (3) alternative evaluation, (4) purchase decision, and (5) post-purchase evaluation [12]. In the case of a *Tuangou* purchase and walk-in purchase, the salient features at each stage are summarized in Table 1.

The response from GOME to *Tuangou* shoppers

GOME has basically declared war (in a positive sense) to *Tuangou* shoppers. It recognizes that *Tuangou* is an unstoppable force. So, rather than resisting it, GOME has chosen to go with it in a controlled manner with *Tuangou* sessions organized by its own stores. GOME first rolled out its plan with *Tuangou* month, which was April 2006. Then it set aside one day in each month as *Tuangou* day. It further announced the biggest *Tuangou* event of the year in November. With these and other incentives that GOME offers to *Tuangou* shoppers, GOME is trying to achieve the following.

- Since all *Tuangou* sessions at GOME are organized by GOME, GOME will know prior to any *Tuangou* session that how many people are coming when and what exactly they are looking to buy. Armed with this information, GOME can better plan its offers to the shoppers, and better stock its inventory to minimize disappointments. This is doable because *Tuangou* is an extensive decision making purchase and the consumer knows well in advance what they want.
- Since only a limited number of people are allowed in any given *Tuangou* sessions, GOME avoids an overly large crowd that can be difficult to control and limits its exposure to reduced margins.
- With its doors closed to the regular shoppers during a *Tuangou* session, GOME also avoids any potential conflicts and dissatisfaction arising from different prices

being offered to *Tuangou* shoppers and to regular shoppers.

- GOME could make use of these sessions to sell off soon-to-be-replaced models and free up its warehouses for new arrivals. This is probably a reasonable expectation as *Tuangou* shoppers are not likely to be after the cutting edge products. In other words, in terms of adopter categories, they are unlikely to be innovators or early adopters but are more likely to be the early majority or late majority [13]. This makes it possible to sell the more mainstream items or soon-to-be replaced models.
- GOME's bold expansion has affected other aspects of its financial performance.

In short, while its Cost of Goods Sold (COGS) has gone up nearly 43 %, its inventory value has more than doubled, thus lowering its inventory turnover from over 10 to about 6, and increasing its days inventory by over 70 %. GOME is now tied up with more inventory and its inventory is turning slower than before. If we look at GOME's financial leverage, *Tuangou* may help GOME ease its pressure on inventory turnover and get the extra cash that helps pay off its liabilities [14, 15]. Nonetheless, GOME also runs the following risks.

- It is unclear if GOME can really stop unannounced *Tuangou* shoppers. If they show up in a huge group and demand large discounts, they can be difficult to control.
- To what extent GOME compromises its sales to and healthier margins from regular shoppers by turning them away when *Tuangou* is in session?
- While GOME continues with its bold expansion plan, which will negatively affect GOME's margin, a concomitant welcome to *Tuangou* shoppers will put a bigger dent in GOME's financial performance.
- GOME has been building up its reputation as a quality service provider with all sorts of value-added services available to regular shoppers and GOME members. Offering further discounts to *Tuangou* shoppers may make regular shoppers and GOME members wonder if it is worthwhile to shop as regular shoppers or GOME members when huge savings can be gained up front from *Tuangou* sessions.

It is important to point out the pros and cons of other options GOME may adopt. The comparisons of several such options are summarized in Table 2.

Discussion

We take into account *Tuangou* or group purchasing and re-visit the discussion from three aspects: customers' choice toward retailers and product, interaction between customers and retailers, and relationships between the retailers and its upstream partners in the supply chain.

- *Customers' choice toward retailers and product.* Two extremes are selecting, purchasing, and pickup purely at brick-mortar shop or on the internet shop (e.g. Amazon). One hybrid model is order online but pick up at the shop near by. Group purchase combines ordering online and purchasing at shop together but differs from the hybrid model in several aspects. It is only product selection is via the Internet or email and reaming still is conducted in the shop. In addition, the price is flexible or negotiable (i.e. not determined). Further, it is for collective force to aggregate demand rather than individual power of purchasing.
- *Interaction between customers and retailers.* Marketing promotion is used to boost up the sales and the price is the demand variability causing the higher inventory cost. The control is on the retailers' side. However, group purchasing implies the promotion is, on the contrary, driven by customers and this will end up with even higher uncertainty in demand. The trials of *Tuangou* for certain time (i.e. day, week, or month), product, and location (i.e. shop) is to maneuver the extent to move the control back to the retailers.
- *Relationships between the retailers and its upstream partners in the supply chain.* The group purchasing indeed has a profound impact on the retailing side. The demand uncertainty is passed on to the upstream and worsens the bullwhip effect. In addition, it becomes more challenging to satisfy both types of customers (i.e. original customers and group purchasing customers). This triggers the partnerships with upstream players in order to be more flexible and responsive.

If the lens move back to GOME case, it has done a fair bit managing the impact of *Tuangou* while accepting its challenge. But besides those tactics designed specifically to deal with *Tuangou*, we also need to look at other areas that make GOME a strong competitor in its sector – home electrical appliances retailing. GOME's competitive advantages are built on its relationship with suppliers, its logistics network, its retail network, its quality and innovative service, and its

knowledge of market and consumer information.

Suppliers probably have a love-hate relationship with GOME. For one thing, it drives them nuts to reduce prices and margins. For another, it promises sales volume, which is very hard to ignore. GOME can leverage this relationship and help suppliers to increase sales volume for products targeted *Tuangou* shoppers. This can help lower the cost of goods sold of GOME to *Tuangou* sessions and maintain a healthier margin.

Looking at its logistics network and retail network, from empirical data, GOME can identify locations that are best suited to deal with *Tuangou* shoppers from both the demand standpoint and from the operations and logistics standpoint. GOME can then focus its attention on specific locations to deal with *Tuangou* shoppers the way that it has been and keep its doors in other stores open all year round to better serve regular customers and GOME members. This would also help GOME improve its profit margins.

Armed with market and consumer information and the ability to deliver quality and innovative service, GOME can continue to exploit the more profitable segments such as those high-end electronic appliances commanding a bigger profit margin. When we analyze the consumer decision-making process for *Tuangou* and non-*Tuangou* customers, we realize that they are quite different and need to be catered for differently. If we look further into the smaller segments, we find further differences and better ways to serve different segments. In particular, establishing GOME in the more profitable segments will ensure better margins and make it more resilient to both secular downturns and challenges from *Tuangou* shoppers.

Conclusions

Retailing shops are the contact points between customers and supply chain. On one hand, the retailers need to satisfy the customers by providing the right and enough product to ensure the service level; on the other hand, the retailers also need to minimize the cost (or maximize the profits) while satisfying the customers. In addition to the natural conflict on price between the retailer and the customer, usually they also have many other different agenda, such as spectrum of product variety and promotion/discount. Nevertheless, the retailers struggle to keep certain degree of control on retailing in order to keep a good balance between cost and service issues. The shops are like a battle field for tug of war between the retailers and consumers. As the emerging phenomenon of group purchase (a.k.a. *Tuangou* in Chinese), the war transforms into a quite different form.

Tuangou is a relatively new phenomenon that has spread rapidly in China. It is still a growing phenomenon and very little research has been done on it. *Tuangou* is not really a brand new phenomenon nor is it unique to China. It is found that (1) *Tuangou* is one of an extensive decision making purchase, (2) *Tuangou* shoppers have good ideas of what they want and have made up their mind about the specific products that they desire to purchase, and (3) they are likely to be among the early majority or late majority. With these understandings, a company such as GOME can determine what tactics may and may not work. In the process, the company also needs to think about its overall strategy and positioning in the market place, and makes sure it holds its right course and does not overly cater for one segment (especially one that cuts into its margin).

The main issues for the stakeholders in this business scenario (i.e. group purchase) to consider are as follows:

- *Customers - to take or not to take.* The customers need to consider the tradeoffs between time, location, price, flexibility, product selection, privilege, and among others. Though customers need to put in a lot of efforts, *tuangou* allow them to enjoy some benefits of both online and offline purchase. They can use Internet to search for information on the product and organize more people to negotiate with the retailers. Meanwhile, they can assess the retailers and the product characteristics in “a deterministic manner” in traditional offline retailing [16].
- *Retailers - to do or not to do.* The retailers may benefit from higher sales for certain popular product types in a short time; however, the retailers also need to watch out the risk of losing control on the demand and enhancement of customer loyalty.
- *Product - to offer or not to offer.* The question about what kinds of product is good candidates for group purchase does not seem trivial. The examples provided in this paper only serve as the starting point to explore the possible decision issues for right product to be offered by the retailers and to be accepted by the customers.
- *Upstream - to follow or not to follow.* Tackling the problem of group purchase is not limited to the retailer side. All the other upstream partners in the supply chain may suffer from greater demand variability and contribute to enhance the agility, adaptiveness, and alignment for better control as well [17].

References

- [1] Montlake, S. “China’s newest shopping craze: ‘team buying’”. *The Christian Science Monitor*, May 11th 2006 edition, (<http://www.csmonitor.com/2006/0511/p01s01-woap.html>, visited April 2, 2009)

- [2] Xu, F. “Worry-Free (Group) Shopping Strategies in IKEA for online friends in Nanjing”, November 30 2004, (http://nanjing.51tuangou.com/article/article_show.php?article_id=287, visited Feb 2, 2007).
- [3] Flemming, S. “Online tuangou ‘group purchase’ giving offline retailers a run for their money”, *China Word of Mouth Blog*, May 17 2006. (<http://www.samflemming.com/2006/05/online-tuangou-group-purchase-giving.html>, visited April 3, 2009)
- [4] Chen, Peijin. Team Shopping: We love it when a plan comes together. *Shanghaiist*, May 15 2006. (http://www.shanghaiist.com/archives/2006/05/15/team_shopping_w.php, visited April 2 2009)
- [5] 51tuangou. (<http://51tuangou.com/index/>, visited April 2, 2009).
- [6] Giussani, B. “Group Shopping, Tuangou Style”, *LunchoverIP*, July 28, 2006. (http://giussani.typepad.com/loip/2006/07/group_shopping.html, visited April 3, 2009)
- [7] The Economist “Shop affront”, *Economist.com*, June 29, 2006, (http://www.economist.com/printedition/PrinterFriendly.cfm?story_id=7121669, visited April 3 2009)
- [8] GOME (<http://www.gome.com.cn/aboutus/index.jsp?Cid=506>)
- [9] Zhou, Dongsheng. *GOME Home Appliance Co., Ltd*, Ivey Publishing, 905M65, The University of West Ontario.
- [10] Yen, B.P.-C. and Andrew Lee. GOME Electrical Appliances Holding Limited: The “Tuangou” Challenge. Asia Case Research Center, 06/313C, 2006. The University of Hong Kong.
- [11] Kotler, P., and Gary Armstrong. *Principles of Marketing*, 6th Edition, Prentice Hall: New Jersey, 1994.
- [12] Peter, J. Paul, and James H. Donnelly. *A Preface to Marketing Management*, 9th Edition, McGraw-Hill: New York, 2003.
- [13] Rogers, Everett M. *Diffusion of Innovations*, 4th Edition, The Free Press: New York, 1995.
- [14] GOME Electrical Appliances Holding Limited 2004 Annual Report.
- [15] GOME Electrical Appliances Holding Limited 2005 Annual Report.
- [16] Gefen, D., Karahanna, E., and Detmar W. Straub. Trust and TAM in online shopping: An integrated model, *MIS Quarterly*, 2003, 27(1), 51-90.

- [17] Lee, Hau. "The Triple-A Supply China", *Harvard Business Review*, R0410F, October 2004.

Table 1. The summary of the salient features for *Tuangou* purchase and walk-in purchase

Stages	Salient features (when, where, how, etc.) of <i>Tuangou</i> purchase	Salient features (when, where, how, etc.) of walk-in purchase
1. Need recognition	Well in advance of the purchase, not likely to satisfy an immediate need	Probably well in advance of the purchase, could be due to an immediate need, e.g., broke down of an air-conditioner in the middle of summer
2. Alternative search	Well in advance of the purchase, using various channels (on-line, store visits, asking friends, asking store sales, etc.)	Probably done during the store visit, though research in advance using various channels as described in a <i>Tuangou</i> may be done as well; more likely to be influenced by what's available in the store
3. Alternative evaluation	Well in advance of the purchase, using various channels (on-line, store visits, asking friends, asking store sales, etc.)	Probably done during the store visit, though research in advance using various channels as described in a <i>Tuangou</i> may be done as well; more likely to be influenced by the sales person
4. Purchase decision	Pretty much made when signing up on a <i>Tuangou</i> session	Probably made during the store visit, may be decided in advance
5. Post-purchase evaluation	Less likely to have cognitive dissonance	More likely to have cognitive dissonance as product research and comparisons done are probably less rigorous

Table 2. The comparison of possible options for GOME

	<i>Pros</i>	<i>Cons</i>
Do not entertain <i>Tuangou</i> at all. GOME can adopt the same policy as LVMH.	A consistent policy will stop <i>Tuangou</i> at the door and will help protect the margin of the business. Arguably, regular special sale on soon-to-be outdated items can be an effective means to get rid of them.	As GOME is positioning itself as the low-cost/price seller providing quality service, turning <i>Tuangou</i> away can be bad to the company image that GOME has worked so hard to build. It can also shut the door to a great way to sell soon-to-be outdated items fast.
Embrace <i>Tuangou</i> with your open arms. GOME can go the other extreme and welcome <i>Tuangou</i> any time	It shows that GOME doesn't fear <i>Tuangou</i> and is confident in its ability to make money with low margins. It is consistent with the price-leader image that GOME has built.	This can be very disruptive to normal sales operations, and can cause dissatisfaction with regular customers (as they may feel discriminated). Anyone can walk into a GOME store and claim to be there for <i>Tuangou</i> on any given day. Impact on margin can be significant.
Open GOME outlets and use them to get rid of outdated items GOME can choose low cost locations to do that and sell mainly outdated or soon-to-be outdated goods, and may entertain special requests (pre-agreed by	This is perhaps a good alternative to dealing with <i>Tuangou</i> shoppers in regular stores. This completely segregates <i>Tuangou</i> shoppers from regular shoppers and they have very different requirements and would need to be served differently. GOME can entertain <i>Tuangou</i> any time at	This creates a new set of questions that GOME needs to address. How many such outlets should it open and where should they be located? How do these outlets fit into the overall logistic/supplier-relationship that GOME has established? While these questions may not be "cons"

GOME) to pre-arranged <i>Tuangou</i> sessions.	these locations and whether they are pre-arranged or strictly unannounced. And GOME can still get rid of outdated goods quite easily.	per se, they do pose implications to the cost structure of GOME, may upset <i>Tuangou</i> shoppers as it may become inconvenient for them to do <i>Tuangou</i> .
--	---	--