DEVELOPMENT OF GROUP BUYING IN POLAND

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ABSTRACT

Group buying can be defined as buying with the aim of receiving quantity discount. The grouping phenomenon was launched in 2008 by the American website Groupon.com, which marked the beginning of group buying development. Group buying is offered by a group buying website which acts as an intermediary between seller and buyers. Group buying websites and the producers agree on the offer of products and/or services, the amount of the discount, and on the minimum number of buyers needed for the offer to become valid. The group buying website publishes the offer on its website, and if enough people are interested in buying the product and/or service, they all receive high discounts on the advertised items (usually 50% up to 90%). The offer is valid for a limited time. The buyers get a coupon via email or on their user account, which enables them to claim their discount at the retailer. In order to accelerate dissemination of information, group buying websites offer daily deals and send them via email to the registered buyers, advertise on social networks (Facebook, Twitter) and through SMS messages. In Poland, group buying websites emerged in 2010. Over the years, the group buying market has become extremely attractive, which prove around 66 currently active group buying websites and 29 websites aggregators. The paper gives an overview of the development of the group buying market in Poland. The group buying websites and the specific qualities of doing business in the observed market will be presented.

KEY WORDS: group buying, group buying websites, social networks, Poland.

1. INTRODUCTION

The Internet has brought many benefits for consumers: simplified search for information about products and services, fast and easy comparison of products’ characteristics and prices, and easy exchange of experiences among consumers which can all result in big savings of time and money for consumers. With the global recession the consumers have faced a decreasing purchasing power and they have been encouraged to exploit the advantages of the Internet, to group together, and to strengthen their position against the retailers in order to receive quantity discounts. The phenomenon of online grouping was launched in 2008 by the American website Groupon.com, even though the concept of group buying can be noticed even earlier among Eastern collectivistic cultures. That is the reason why group buying is also known as collective buying. Online group buying is part of an innovative wave of online market-based mechanisms along with auctions, reverse auctions, and 'name your own price' schemes (Anand and Aron, 2003). However, online group buying websites are different from traditional auction services and Internet shops in many respects. Specific characteristics of the assortment are an essential element that at the same time determines the success of those websites. This is because group buying most often includes services. Therefore, they are particularly profitable for service providers. And so the costs and very high discounts which yield large savings are the most important quality that characterizes group
Group buying can be defined as buying in group in order to achieve quantity discounts. High discounts and attractive bargains are the essence of group buying (Kauffman and Wang, 2001). The concept of online group buying is also that simple, the only difference being that a group buying website comes as an intermediary between sellers (producers, local retailers and service providers) on one side and buyers (customers) on the other (Stulec and Petljak, 2010). Group buying websites cooperate with sellers in order to agree on the products and services that will be offered at discount and on the amount of discount granted, and on the minimum number of customers needed for an offer to become valid. Those being agreed upon, the group buying website publishes the offer on the Internet. If enough people sign up for buying a particular product or service, the offer becomes valid and people that signed up for buying receive a large discount. The sellers typically grant a discount of 50% to 90%, and a minimum number of interested customers is usually determined so as to cover cost-effectiveness threshold. For some products and services, it takes only 5 to 10 interested people for an offer to become valid. The sellers, in agreement with the website, can also determine the maximum number of people who can apply for a specific offer.
After becoming valid, every offer has a specified lifespan. In most of the group buying websites the time frame per deal is one day to one week. It is a common practice that group buying websites offer a new product or a new service every day (which is called ‘the deal of the day’) and given that some offers can last for several days, it is possible to have multiple deals at the same time. A customer that has purchased a deal of the day receives on his/her e-mail address or customer account a coupon that allows him/her to get a discount. All the customer has to do is to print the coupon and show it to the seller when purchasing the product or service. The distinctness of FastDeal.pl is its distribution of discount vouchers. This website has an original method of distribution of vouchers because they do not have to be printed but are sent via text message (Bilinska-Reformat and Reformat, 2011). Many group buying websites, in order to attract as many customers as possible, besides publishing the offers online, also offer the possibility of informing customers about the deal of the day via e-mail, popular social networks and SMS messages. Some have gone even further in their effort to attract customers by providing rewards for the existing customers if they bring in new ones. The rewards are often in the form of credit points that can be used in future purchases.

A customer who wants to participate in group buying has to open an account with the respective group buying website. The account allows the group buying website to access customers’ identity data and track their activity, whereas the customers gain easy access to previous purchases and are allowed to print the coupons and edit their account settings. Customers who signed up for buying a particular deal cannot withdraw their intent of purchase. By expressing their buying intention, the customers give consent to charge their credit cards in case the offer becomes valid. Customers’ credit cards are charged only if the offer becomes valid, i.e. if a minimum number of customers express their buying intention. If a particular offer does not reach the specified minimum number of customer requests, credit cards of customers who have already signed up for purchase are not charged. Lately, many group buying websites also allow payment via the Internet banking and slip payment.

Group buying websites do not charge sellers for presentation of their products and services by publishing the deals of the day on the Internet. Websites are compensated for their services only after the offer becomes valid - when a minimum number of customers sign up for purchase the website charges the seller a certain percentage of each deal sold. If not enough customers sign up for the purchase, the sellers have no financial obligation to the website.

2.1. History of group buying

The phenomenon of group buying, in the form that has become popular among shoppers worldwide, was launched by the American website Groupon.com in the year 2008. However, the concept of group buying can be noticed even earlier in Eastern collectivistic cultures. Levy and Weitz (2009) argue that shoppers from collectivistic cultures are more inclined to buy in groups than shoppers from individualistic cultures. As collectivistic cultures authors list cultures of Eastern countries, while individualistic cultures are considered those of Western countries. Price sensitivity and prudence are values that are traditionally being appreciated in collectivistic cultures (Ackerman and Tellis, 2001) and such cultural characteristics have contributed to the acceptance of bargaining as a common form of trading (Fang, 1999). For example, Jacobs et al. (1991) report that more than 50% of stores in Hong Kong, Taiwan and Singapore allow bargaining. In Western cultures, by contrast, bargaining is acceptable mainly in market places.
Chinese shoppers were the first shoppers who organized themselves in large groups in order to gain lower prices from retailers on wanted merchandise. This practice, known under the original term tuangou, started on Internet forums and chat rooms where shoppers grouped themselves around similar needs and elaborated plans for the collective purchase of furniture, appliances, food, and even cars (Areddy, 2006). After having formed a sufficiently large group, the members of the group would agree the time and place of physical meeting and would visit a retailer, without former notice, requesting a discount. In the western hemisphere, the idea spread in a slightly modified form, including the group buying websites as mediators in the whole story. In a very short time, the concept of group buying has gained fans around the world. Today in North America alone there are about a hundred group buying websites. Over the years the concept of group buying has spread to Europe, South America, Africa and Australia and has returned to China and other Asian countries in a somewhat modified and simplified form.

2.2. Benefits for sellers and buyers

Group buying provides various benefits for both sellers and buyers. Moreover, given that group buying websites are paid based on a percentage of each successful deal, it can be said that the group buying concept provides a win-win outcome. The online group buying act is characterized by the dual value creation philosophy of marketing (Kotler and Armstrong, 2009) that both sellers and buyers benefit through it (Anand and Aron, 2003). Below are listed benefits of group buying for buyers and sellers.

Benefits for buyers are more than obvious. The major benefit of group buying is that customers gain great discounts (Stulec and Petljak, 2010). Furthermore, the concept of group buying allows customers to discover their city and enjoy the things that before they were not even aware of or were not able to afford. The assortment of group buying websites is diverse and includes health services, beauty services, dinners at restaurants, tickets for concerts and theatrical performances, subscriptions to magazines, gym memberships, photo services, dance courses, foreign language learning, cleaning services, etc. Merchandise is far less present in websites’ offers than services and, if present, it is most commonly of low monetary value.

Benefits for sellers are harder to define unambiguously because they are not exclusively of a financial nature. First, it is important to mention that the group buying websites are an excellent way of promotion (Stulec and Petljak, 2010). For an offer to become valid, a minimum number of interested customers must sign up for buying. In this way, interested customers are self-motivated to inform their friends, family and acquaintances of an interesting offer. In other words, customers themselves serve as an effective channel of promotion of products, manufacturers and retailers as well as services and service providers. Furthermore, this form of promotion allows companies to reach new customer segments that are more likely to notice an advertisement on a computer screen than in printed form because of their lifestyle (Stulec and Petljak, 2010). Group buying websites’ customers are computer literate persons, mostly younger aged who do not have an aversion towards electronic commerce and are mostly members of social networks (Stulec, Petljak and Vouk, 2011). Because of the social networks the reach of information dissemination is almost unlimited. If a particular social network user decides to keep track of daily deals through the social network, the deal of the day will not be visible to him/her only but to all his/her friends (people to whom the user
has allowed access to his/her profile) as well. Businesses like the group buying because they get a short-term boost that can lead to new, long-term customers.

Since group buying websites publish offers free of charge, group buying can be considered a form of free promotion. Unlike traditional forms of promotion, which require payment regardless of achieved results, group buying websites take compensation only if minimal specified results are achieved. It must be kept in mind, however, that when the offer becomes valid sellers suffer profit loss because products and services are often being sold on the verge of profitability. Benefits are especially great for small businesses that cannot afford advertising through mass media, so group buying websites can be seen as an excellent way of familiarising potential customers with products and services of small businesses (Stulec and Petljak, 2010). Understanding group buying as an innovative market niche, small and medium enterprises (SMEs) make an attempt to cooperate with particular buying services looking for their sources of competitive advantage in this way (Bilinska-Reformat and Reformat, 2011). On the other hand, the question remains what are the motives of well-known enterprises to participate in this form of commerce. Their well-known and credible name enables them to charge full price for their products and services, but if they decide not to follow the market trends it is possible to lose some of the customers. Moreover, as it was already mentioned, a new channel of promotion can allow them to access new market segments. So it is possible to see well-known companies, even market leaders, to offer their products and services at large discounts.

3. POLISH GROUP BUYING MARKET

The high dynamics of Internet economy development and as a consequence e-commerce boom are strengthened by a quick development of group buying websites. According to the research results of Gemius Company (Klepka, 2012) in three selected countries: Poland, Russia and Latvia, this way of purchasing has experienced a significant growth in 2011 and this trend is expected to continue (Baranowska, 2012). According to Marta Krauze from Citeam.pl, the region of central and eastern Europe (CEE) is very attractive to group buying websites because of the high price-sensitiveness of the customers and the fact that CEE customers are getting used to online purchasing and e-payments.

As far as the three countries analysed are concerned one can say that the phenomenon of group buying development has different characteristics. In Russia this e-commerce segment is dominated by the domestic service – Biglion.ru, which leaves its second ranked international opponent far behind. While Biglion.ru reach (the number of Internauts\(^1\) entering group buying services web page) in August 2011 was almost 14%, it increased to 32% in December 2011. As Gemius indicates its popularity goes hand in hand with the engagement of users – potential users tend to spend more time on this website than on other similar services available on the Russian market. In the same time the international group buying website – Groupon.ru has increased its reach by 6% (from 10% in August 2011 to 16% in December 2011.

The other analysed market – Latvia is a very competitive market as far as the number of group buying websites is concerned. Currently, on Latvian Internet market operate about 40 group buying websites, which is an impressive number considering the small size of this market. The main

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\(^1\) Internauts – people who use Internet.
market players are: perkamkopa.lv (9.4% of reach), CityLife.lv (8.9% of reach) and cherry.lv (7.8% of reach).

Polish group buying market has been dynamically developing. Research conducted by Polskie Badania Internetu (engl. Polish Internet Research) has indicated that both the number of visits to websites which have existed for over two years, and the number of businesses providing group buying websites have increased. The dynamic development of this form of buying is also reflected by an increasing number of offers provided by these websites. The first group buying websites, such as Gruper.pl and CityDeal.pl (shortly after the company had started it was taken over by the American service Groupon.com) appeared in Poland in April 2010. Within less than two years they attracted over 6 million users, thus becoming one of the most frequently visited e-commerce websites in Poland (Sikorska, 2012). In November 2011, 32% of Internet users visited and shopped at group buying websites.

Research run by Megapanel PBI/Gemius in 2011, has indicated that Polish Internet users have gained much greater familiarity with group buying websites. While in December 2010 one third of the respondents were familiar with group buying websites, over the following year the number of Internet users familiar with group buying websites increased to 78%. Similarly, familiarity with the names of group buying websites has changed (Sikorska, 2012). While in 2010 half of the respondents failed to recognize any listed website, in 2011 the ratio decreased to 15% (Figure 1)².

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² Cited results are taken from research by Megapanel PBI/Gemius conducted in December 2010 in a group of 502 Internet users aged 18-54 and in December 2011 in a group of 504 Internet users aged 18-54.
3.1. Polish group buying websites

*Groupon.pl*, which is recognized by 75% of the respondents (Figure 1), is the market leader among group buying websites operating in Poland in 2011. *Citeam.pl*, a part of Allegro Group, which is the e-commerce market leader in Poland, comes second, and *Gruper.pl* comes third. There is an increasing number of Internet users who are attracted by new websites, such as *HappyDay.pl*, which belongs to a leading Polish media company Agora Group. Rapid development of group buying services has been reflected by the results achieved by *Citeam.pl*, which attracted 850 users one month after it had been launched (January 2011), and had 2 million users per month the following year.

Offers are most frequently provided in cities or bigger towns; there is a relatively small number of companies which prepare offers for more than several towns. Services at bargain prices are most
frequently offered. Groupon.pl, which is the biggest group buying website in Poland, operates in over 30 towns, and is used by more than 3 million Polish Internet users. Its users are invited to participate in a partnership program, which enables them to earn money by attracting new users (PCworld.pl, 2011). Groupon.pl, like Gruper.pl, charges a 50% commission on the value of a purchased voucher, which is the highest commission charged by Polish group buying websites. Gruper.pl provides the widest range of offers. Its offers are available in more than 50 towns, including smaller ones. Gruper.pl as the first group buying website offered its users a discount coupon to buy a car. The website portfolio also includes: coupons for the purchase of real estate, a driving course, or the early pre-sale album Yugopolis 2. MyDeal.pl stands out because of the highest customer service and much larger, compared with other websites, offers targeted at men. The service is available in over 20 towns, and the commission charged is 30%.

Buzzinga.pl is a less known buying website providing offers of cultural activities and events. It cooperates with theatres, clubs and concert organizers to provide cheaper theatre or event tickets. b2bdeal.pl specializes in group buying for firms. It offers up to 80% discounts on services provided by computer graphic designers, programmers and marketing specialists. The income of group buying websites in Poland amounted to 345 million zlotys in 2011. Two thirds of this sum was earned by the Polish version of Groupon.com. The remaining websites operating in Poland earned only 120 million zlotys (Mambiznes.pl, 2012) Group buying websites are currently competing with one another, especially Groupon.pl, by decreasing their commission. b2bdeal.pl charges a 25% commission, while the commission charged by Citeam.pl may be as low as 10%. Moreover, HappyDay.pl and Okazik.pl fix their commission towards customers individually. The minimum discount offered by nearly all websites amounts to 50%. Rapid development of the group buying market motivates competitors to search for better ways of attracting customers. Recently an increasing number of websites have decided on vertical specialization, which means that they provide subpages categorized into tourism, business and cultural activities. Websites, especially smaller ones, are likely to be successful and differentiate from their competitors by focusing on providing services to one business or providing one kind of service.

3.2. Polish group buyer profile

It is said, that the group buying website users are mainly young people, ambitious, conscientious, who buy on impulse and are looking for bargains – so called ‘smart’ shoppers. Managers of group buying websites, based on their market observations, suggest also that the typical client of group buying websites is a young woman, single, educated and earning a middle - to - high income salary. Women are much better online customers than men. They constitute 60% of online buyers in Poland and are more loyal clients than men. Although a vast range of products and services are offered on deal-of-the-day websites Polish customers usually focus their attention on services from the health, fitness and beauty industries. Hair salons, depilation and cosmetic dentistry are especially popular in Poland. According to the research run by Groupon.pl women enter group buying websites every day (48%) or several times a week (33%). Newsletters and social media (Facebook, Twitter) are the main source of information about the offer for them. They use mainly middle and high price offers and buy from 2 to 5 offers (41%). As far as buying decisions are concerned, it must be noticed that the price is the main determiner of their behavior (87%). The willingness of fulfilling the need (74%) and the quality of the producer or service provider (54%) are also very important. Women benefit from the offer by themselves (47%) or with the closest person (44%) (Groupon.pl, 2012). Based on research run by GoDealla.pl – an independent group
buying aggregator - it is also worth noticing that group buying websites in Poland (GoDealla.pl, 2012):

- Connect people in pairs – although it may sound irrational a lot of people declared that they met their 'second half' while using the group buying coupon. The other 'half' was also using such a coupon.
- Allow children to buy presents for their parents - normally young people would not be able to buy such presents without a discount. A 50% discount gives them possibilities they did not have before.
- Allow people to discover new places – for many people group buying services create possibilities to discover new places in the city.

4. CONCLUSION

Online group buying, a new and successful trend in the Polish market, is one of the most widely commented phenomena of the last several months. The idea of group buying in just two and a half years has completely revolutionized thinking about sales on the Internet, making millions of Internet users constantly monitor group buying offers and make real purchases on the web.

Nowadays, there are around 70 group buying websites in Poland. Still, the main competition is played between two major websites, Groupon.pl and Gruper.pl which were the initiators. It is estimated that, these two market leaders control around 80% of the market. The market observation arrives at the conclusion, that the most important determiner of the quality of an offer and the ability of each website to acquire real users is the number and value of transactions generated by active users. On the other hand the most important elements determining the website’s success are systematic expansion of the portfolio of goods and services available on the website and taking care of the highest quality of the presented offers.

As far as the future of group buying services is concerned, one should say that in the coming months the development of websites in new directions and market segments will be observed. Still more and more often one can benefit from offers dealing with real estate, personal finance and culture. New websites with limited scope, dedicated to a certain industry, have also emerged lately. For example, users of Weddingdeal.pl website have the opportunity to purchase coupons for products or services needed to organize the wedding ceremony; Cuthotel.pl offers promotions for tourism and BeautyRabat.pl bonuses for hairdressing services, cosmetic services and spa.

Another trend in the group buying market in Poland relates to structural changes on the market. Market fragmentation influences the process of consolidation and acquisitions. The strongest players will strengthen their market position, smaller ones will have to search for new, stronger business partners or will have to change their strategy and focus on narrow specialization, counting on niche customers.

The new challenges, which are faced by group buying websites, are strictly connected with the changing and increasing customer demands. They expect that purchases will be easy, quick and free of too many formalities. The competitive advantage will be gained by those websites, which will ahead customers’ expectations. Some of the websites consider creating an offer more opened for customers, e.g., which is time unlimited, and implementing mobile solutions and applications. It is estimated that within a few years mobile devices will realize most of the buying transactions.
Though, group buying websites, which will be able to face this technological challenge, will manage to survive on the market and enlarge their customer base.

LITERATURE


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