

Shopping with the crowd



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Chinese shoppers are teaming up for bargains online – but will they always have the patience?

By **Jeremy Goldkorn** and **Maya Alexandri**

A term that has been gaining popularity with China's online shoppers is *tuangou*, which means "group buy".

Tuangou online sites bring together people in the same city who want discounted prices on the same products. Two of the sites that have the greatest name recognition are Liba.com and Teambuy.com.cn. Such websites organise these consumers online, setting a date and time for the group to meet at a designated store. *Tuangou* groups have ranged from as few as 15 people to as many as 1,000.

Some sites liaise with stores in advance, ensuring that groups meet a receptive sales staff, prepared to offer discounts and promotional giveaways. Others unleash their groups on surprised merchants, occasionally leading to confrontations that last for hours. *Tuangou* groups have reportedly obtained discounts ranging from 4-30 percent on targeted products.

The success of group buying in China stands in interesting contrast to the situation in the United States. Two prominent American ventures, Mercata.com and Mobshop.com, both failed earlier this decade. Both bought goods in advance and resold them to consumers at rates that declined as the number of willing purchasers increased.

But this business model had at least two serious flaws. First, the prices were rarely the lowest available. Discount retailers in the US, like Wal-Mart and Costco, already obtain goods at a bulk rate, and whatever the size of the group Mercata or Mobshop could assemble, the purchase size inevitably would be smaller than that of a behemoth like Wal-Mart.

Second, American consumers were unwilling to wait for the group being amassed on Mercata or Mobshop to grow sufficiently for the price to drop. Instant gratification trumped the possibility of greater cost-savings over time.

Good to go

The *tuangou* sites avoid both of these weaknesses. First, the sites assemble group participants in advance of purchasing the goods, so even if the negotiated price isn't the lowest one possible, the *tuangou* site, at least, hasn't lost money.

In addition, more Chinese shoppers are willing to wait out the process in the hope of getting a better deal. Chinese consumers – to a greater extent than their Western counterparts – are used to group activities and accept haggling as a fact of existence (if not an honoured tradition). Some consumers have also expressed the conviction that the

seller is less likely to cheat a *tuangou* group.

Still, group purchasing in China will probably morph from its current form – if it continues at all – as whatever price advantage *tuangou* offers will likely be short-lived. The first problem relates to the goods currently purchased via *tuangou* buying. White goods (like refrigerators and washing machines), furniture, consumer electronics (like mobile phones and cameras), interior design products and wedding services and products dominate the categories of goods on Liba, Teambuy and a third *tuangou* site called Wang Zhong.

Most of these goods are now sold, or are increasingly sold, in fixed-price circumstances, and fixed-price vendors may not be as receptive to haggling over the long term. Significant sales at variable discounts will likely wreak havoc with the attempts of large retailers – like Gome, Dazhong and Carrefour, whose margins are already relatively thin – to set company-wide prices.

Beyond price clubs

The second problem involves the time and schedule flexibility necessary for *tuangou* purchasing. Currently, Chinese urbanites with disposable income may be tempted to try *tuangou* buying as a way of purchasing consumer goods at the best rates and with the greatest assurance of quality, but as this group becomes an overworked middle class, they will likely begin to view shopping-time expenditures in terms similar to their American counterparts.

If *tuangou* buying loses its price advantage, it may still survive as a social practice, particularly with respect to more experiential consumption choices. That shift is already apparent in the Beijing-based website Ruzuo.com. Ruzuo, whose name means “take your seats,” allows users to vote on movies they’d like to see. When enough people

have voted for a film, the site’s owners – who work in the film industry – obtain a print of the film and screen it privately in Beijing at a discounted price.

At RMB38 (€3.50), the Ruzuo ticket price is considerably lower than the Beijing market price for a theatrical release film (which is typically around RMB80), but if moviegoers are primarily concerned about price, they could simply buy a pirated DVD of the film for much less (usually in the neighbourhood of RMB7-10).

A shared experience

Ruzuo’s appeal is social as well as economic. The site enables Chinese film-goers to enjoy a movie in a private screening, which has status value for some, and further facilitates social engagement among the site’s users. When someone votes for a film, he or she becomes part of the audience “block” for that film. The block members can read each other’s profiles and leave comments in a way familiar to users of social networking sites. Moreover, on each block member’s profile page, the site recommends other members’ profiles.

Ruzuo offers Chinese consumers a way to enjoy entertainment products they want in an exclusive environment while meeting like-minded people. Its approach seems promising and may also have potential to dovetail with existing sites, like Douban.com, that enable people with similar interests and tastes in books, movies, music and other media to meet each other online. Douban currently generates revenues only through affiliate program click-throughs to online retailers such as booksellers Dangdang.com and Amazon-owned Joyo.com. Augmenting Douban’s offering with services like those Ruzuo offers just might realise that elusive ambition of the Chinese online new media world: a profitable business model.

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