

Good group buying invests in vendors

Group buying is an increasing business judging by US results. In 2010, there were about 63000 deals through group buying sites and in the first quarter of 2011, there have been an estimated 40000. The success of the largest of these companies, Groupon, named by Forbes recently as the fastest growing internet company in history, as well as the simplicity of the business model, has meant that it is easily copied. In 2010 there were already over 500 group buying companies worldwide, a number which is growing at an exponential rate.



It is understandable; group buying is social marketing at its finest and a model that generally benefits everyone.

Buyers have an incentive to spread the word - they want the deal to go through, therefore they want as many of their friends to commit as possible. It creates viral marketing by utilising the power of group buying along with other innovative marketing techniques such as social media and display marketing to drive huge brand awareness.

Retailers gain new customers, and the group-buying companies perform their mediating function (In order to ensure that vendors hold to the contracts as well as comply with the credit act, group buyers only pay the retailers once the customers redeem the vouchers, allowing the group buyer to facilitate between vendors and customers).

As a way to compete, many of these smaller group buying companies are offering a cheaper alternative to the established group buyers. Some take 10% from the deal as opposed to the larger percentage that the established group buyers generally require.

Vendor investment is key

Joint-CEO of Groupon SA, Daniel Guasco, commented on the lower pricing, saying, "What many seem to forget is the huge amount we invest in our vendors. Of the 50% commission we take, the majority is put straight back into advertising the deals to ensure they reach more customers, as well as towards other considerations, such as increasing our staff capacity to assist the vendors. Groupon is currently the 22nd biggest site in South Africa, after only being in the country for six months.

"The commission ultimately enables us to invest a huge amount back into marketing our vendors deals and giving our vendors and customers as much assistance as possible. For many copycat companies, their 10% goes straight into their pockets with no consideration for their vendors."

The copycat businesses argue that having a smaller consumer base (most of them have much smaller customer database than Groupon) benefits the retailer, because they will deliver smaller amounts of customers, which can be better serviced by the merchant. However, Guasco counters that the benefit to retailers of participating in group buying is precisely because it has the potential to deliver significant numbers of new customers.

"People often don't consider that; even without the deals themselves - quite possibly the best thing that we do is in fact give retailers access to our extensive database. The company accelerates the growth of the businesses who partake in our offerings," said joint CEO of Groupon SA, Wayne Gosling.

Vendor examples

Sandwich Baron is a case in point. "Groupon explained the impact the campaign would have far better than their competitors, who also approached us. Generating new traffic into our stores was very appealing to us and this has been the result. There has also been a dramatic increase in hits on our website because of the deal," said Sandwich Baron franchisor Sally J  rlette-Joy.

"You have these smaller group buying companies telling retailers that it's better to gain a few customers and not 'flood the market', which is really odd, when one thinks about it. It is a marketing activity and, compared to traditional media, it is the most cost effective and risk-free form of marketing available. It gets 'feet in the door'- not the promise of customers, as many other forms of marketing do. We offer measurability," adds Guasco.

"In the end it is up to you as the merchant whether or not you can handle the service. We put you in the limelight in front of a large amount of new customers. One of the most powerful things about it is this database of ours is completely organic - all our customers are opt in's - what this means is you get exposed to our entire database but only pay commission on the actual customers we acquire for you. Once they walk in the door, it is up to the vendor to provide a service and experience that keeps them coming back for more.

Retailers certainly seem happy with the wider service. Groupon SA has had positive feedback from retailers such as WantItAll, Look & Listen and others. Look & Listen were selling one music track every 15 seconds through an offering by Groupon.

Look & Listen CEO Darren Levy, when questioned on a recent Groupon/Look & Listen group deal stated, "There's no question that the results were very beneficial for us immediately after the coupon broke and we've seen a growth in our business as a consequence."

The experience has been nothing but positive, added Shahista Osmal, owner of Senses Day Spa, "It's an excellent business; consumers gain awareness of retailers they didn't know existed and they think more about retailers that they're already familiar with."