

Groupon enters a crowded market for deals in China

May 19 2011, By Benjamin Haas

Groupon Inc. may be the undisputed king of Internet coupons in the United States.

But with its March launch in China, the Chicago company has stepped into a cutthroat market saturated with thousands of competitors - including a [copycat](#) that's already using its English name.

Rechristened in China as Gaopeng.com, which evokes a famous saying to gather honored guests, [Groupon](#) is hoping to seize a foothold in a country that's increasingly turning to the Web to buy and sell goods and services.

E-commerce in China grew 100 percent last year to \$70 billion. Led by [Internet giant](#) Taobao, a sort of Chinese answer to [eBay](#) Inc. and Amazon.com Inc., the industry is expected to grow another 60 percent to 80 percent this year, according to China Market Research Group.

Daily deal sites such as Groupon are relative newcomers, raking in \$300 million of the e-commerce pie in 2010. But China's emerging consumers are expected to boost the sector tenfold this year to \$3 billion, according to Tuan800, a website that tracks the industry in China.

"It's really taken off like it has in the U.S.," said Bill Bishop, a Beijing-based investor and independent Internet analyst. "Consumers love it. Who doesn't love a deal?"

Also known as group buying sites, operations such as Groupon generally work like this: The companies partner with local businesses to offer products and services at deep discounts, marketing the deals through emails sent to subscribers daily. Some sites require a minimum number of buyers to respond before they'll make good on the offer. Buyers typically have 24 hours to purchase the deals, which can be downloaded and printed as coupons that merchants will honor for weeks or months.

China's 450 million Internet users can find bargains on a wide variety of offerings including massages, hotpot dinners, Japanese condoms, doctor visits, infant formula and bridal photos. In September, 200 Mercedes-Benz Smart cars discounted by 33 percent to about \$20,000 sold out in three and a half hours.

Zhao Yajie is one of the millions of Chinese consumers who have bought into the trend. She obsessively scours group buying websites for the latest deals, focusing on neighborhood restaurants and Japanese lingerie. When she finds a particularly good bargain, she emails it around or sends it to people over QQ, China's most popular instant messaging service.

"And sometimes my friends send me deals too," said the 28-year-old investment manager. "Recently, a friend bought me a coupon to a lobster restaurant."

Zhao even sends deals to her boss. In a country where haggling for almost everything is the norm, this isn't considered unprofessional or embarrassing.

"If you take away the technology behind group buying, this isn't new," said Kevin Lee, chief operating officer of China Youthology, a research and consulting firm that focuses on Chinese youth trends. "The motivation has always been there, trying to get the best deal, talking

down the price, using coupons."

Officials from Groupon's China operation declined to comment on its recent launch. Analysts said the company must find a way to wade past rival sites to get on the radar of people such as Zhao - and then somehow inspire brand loyalty.

"The consumer (in China) doesn't really care who is who," said Edward Yu, chief executive of Beijing-based Analysys International. "As long as the browsing experience is good, the price is good, they don't care who is providing the service."

To tackle the Chinese market, Groupon has partnered with Tencent Holdings Ltd., China's second-largest Internet company and operator of the popular QQ messaging service. Yunfeng Capital, an investment fund started by Jack Ma, founder of Alibaba Group, which includes Taobao, is a minority owner of the new platform.

Experts point to Groupon's ability to leverage Tencent's large user base as its only chance for survival in the saturated market. Others predict Groupon will simply acquire smaller firms, a tactic it has used before when entering overseas markets. One-third of the company's revenue comes from outside the U.S.

Groupon has plenty of catching up to do in China. The company offers deals in 11 Chinese cities, while rival Lashou.com, one of the largest Chinese sites, operates in more than 500 cities. Lashou.com and Meituan.com, another big player, each launched massive advertising campaigns ahead of Groupon's Chinese debut.

That's not the only challenge. A few knockoffs have already emerged, including Groupon.cn, started by an information technology services company that abandoned that business to pursue the group buying craze.

In December, the Ministry of Commerce singled out the industry for being too chaotic and in need of tighter regulation. Recently, for example, a daily deals website based in Zhejiang province in eastern China allegedly defrauded more than 500 people by offering deeply discounted movie tickets that a local theater never agreed to honor, according to a report in the Qianjiang Evening News.

But some Chinese said the deals are so good that they're worth the risk.

Zou Shuang, 24, scored big on a large karaoke room and brought 14 family members along for hours of entertainment. The cost: about \$3.

"My parents were pretty impressed," she said.

But the deals may not last. Like their U.S. counterparts, some Chinese business owners complain that bargain hunters rarely become repeat customers.

"When we don't offer a discount, the number of people drops by 80 percent," said Ji Hongmei, a marketing manager at Stellar International Cineplex in Beijing.

Consumers such as Zhao, the investment manager, readily admit to such behavior.

"I wouldn't go back to 80 percent of the restaurants I've been to because of group buying discounts," she said. "Most of them are just so mediocre."

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Distributed by McClatchy-Tribune Information Services.

Citation: Groupon enters a crowded market for deals in China (2011, May 19) retrieved 24 April

2024 from <https://phys.org/news/2011-05-groupon-crowded-china.html>

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