1-1-2010

Retailer Acceptance of Consumer Led Group Buying from A Stakeholder Influence Strategy Perspective

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RETAILER ACCEPTANCE OF CONSUMER LED GROUP BUYING FROM A STAKEHOLDER INFLUENCE STRATEGY PERSPECTIVE

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Abstract

The Internet has brought a new way of collaboration among consumers to the door steps of retailers. Existing studies have assumed that retailers play an active role and focused on discussing how retailers can make good use of Web 2.0 to develop new business models, however little has been done to address what retailers should do if being forced to cope with changes. This paper, based on a stakeholder influence strategy perspective, studies how the structural relationship factors have influenced retailers' strategic decisions on whether or not to accommodate a consumer led group buying behaviour in China, Tuangou. Tuangou refers to the phenomenon that a group of web users are organized using the Internet and physically approach the retailers together to negotiate for a discount for a particular product or service by using their collective bargaining power. This paper provides a useful initial roadmap to understanding how the pressures from different stakeholders might influence a retailer's decision-making at the Web2.0 age. It also develops propositions to conceptualise the relationship between structural factors and decision outcomes. This paper offers an explanation of why retailers make different decisions to cope with Tuangou activities and concludes with a plan for future studies.

Keywords: group buying, business strategy, retail industry, Web 2.0.

1 INTRODUCTION

The rapid growth of Web 2.0 has put pressures on the companies to change the way it is operating. Web 2.0 applications allow individual web users to create own contents, interact and exchange information with one another in online communities. Recent research has found that around the world, an increasing number of people of all ages, both male and female, are using Web 2.0 for online networking and collaboration (Boozallen, 2007). With the disintermediation of the relationship between retailers and customers, it is predicted that the Web 2.0 phenomenon will bring “the biggest shift” for retailers (Razorfish, 2007). However, little academic research has addressed how retailers should cope with the changes initiated by consumers in the era of Web 2.0. As the importance of stakeholder management has been highlighted in the new online environment of the social web, this study aims to develop a structured model based on stakeholder dependency theory to guide retail businesses to make strategic decisions (Jones et al., 2009).

Tuangou, an emerging consumer practice in China, is at the centre of our study. We define Tuangou as a buying event participated by a group of consumers who may not know one another and were organised using some electronic means, such as the Internet, in order to approach a retailer together to get discounts for a particular product or service by using their collective bargaining power.

Customer number / Medias	Individual		Together with a Group of People	
	End user	Representative	Attendants know one another	Attendants may not know one another (via Internet)
Shop visits	Normal Shopping	Group buying	Group buying	Tuangou
Internet	Online purchase; online auction	Purchasing agents	N/A	Online group buying/Online group buying auction
TV	TV shopping; TV auction	N/A	N/A	N/A
Mail	Direct mail	N/A	N/A	N/A
Phone	Tele-sales	N/A	N/A	N/A
Fax	Direct marketing	N/A	N/A	N/A

Table 1. Compare Tuangou with other business models.

Table 1 shows the difference between Tuangou and other business models. Similar to a group buying model, Tuangou allows a group of customers to use collective power to make a purchase at a discounted price. Tuangou is a special group buying model. Unlike the existing online group buying businesses, Tuangou is organized by customers rather than sellers. Using online communities to organize Tuangou events has attracted a significantly larger number of customers to attend, customers who do not even need to know one another before. Shop visit becomes unique in Tuangou, as customers need to reach the chosen shop at an agreed time and make the purchase together on site.

In the literature, group buying has long been a topic for discussion. In the more traditional group buying literature, the buying centre of corporate customers is often the focus, such as its decision-making structure (Marshall et al., 2007). More recent literature has focused on different aspects of the Internet-based group buying business models, including bidding process (Kauffman and Wang, 2001), pricing mechanisms (Anand and Aron, 2003), incentive mechanisms (Ho et al., 2010), buyer group formation (Li et al., 2010) and bidding strategies (Chen et al., 2002). Moreover, the literature on Tuangou is very limited. Most describe what Tuangou is (Areddy, 2006; The Economist, 2006). Tang

(2008) was the first to explore why Tuangou can survive and become popular in China but most online group buying businesses have failed in the West.

The underlying assumption in the existing studies is that retailers play an active role in product promotion and sales, but this is challenged by the Tuangou phenomenon as retailers are approached by consumers and are forced to make decisions. Online social networking has allowed consumers to organise themselves into groups to approach the retailers together using their collective bargaining power. Therefore, the key issue facing retailers is whether they should accommodate Tuangou or not, rather than how to derive strategies to persuade more consumers to buy. In this study, we try to understand the rationale behind retailers' decisions. We will develop a structured model based on stakeholder dependency theory to guide retail businesses to make strategic decisions. Since customers are better connected, informed and organised through online social networking, inevitably more retailers have to respond passively to empowered customers at the Web2.0 age. The Tuangou phenomenon has provided an opportunity to improve our understanding of the rationale behind retailers' decisions.

2 RESEARCH FRAMEWORK

The theoretical foundation of this study is the stakeholder influence strategy theory developed by Frooman (1999), which is originated from stakeholder theory and resource dependence theory. The assumptions we have made when choosing this theory are: stakeholder management is important to business success (e.g. Clarkson, 1998), especially in the era of Web 2.0 (Jones et al., 2009); and a firm's decision-making is influenced by its resource relationship with its stakeholders. In stakeholder theory, a firm is seen as a "nexus of contracts between resource holders (stakeholders)" (Hill and Jones, 1992). A firm's relationship with the stakeholders is a key determinant of corporate success (Clarkson, 1998). The firm should use the resources available to create value to all the stakeholders, without exposing them or others to involuntary harm or loss. When stakeholders consider the firm is acting unethically, they are unlikely to support the firm (Tschirhart, 1996). Resource dependence theory suggests that the survival and success of an organization is in close relationship with external organizations (Pfeffer and Salancik, 1978). An organization is constrained by a network of interdependencies with other organizations. So, to make a strategic move, an organization has to manage its relationship other organizations to cope with the uncertainties arising from the interdependence with other organizations and the actions taken by other organizations.

Stakeholder influence strategy theory predicts the actions stakeholders may take to influence the focal firm (Frooman, 1999). There are four types of resource relationships, stakeholder power, firm power, high interdependence, and low interdependence. The resource relationship depends on whether a firm depends on its stakeholder or not and whether its stakeholder depends on the firm or not. The relationship between the focal organization and its stakeholders together with stakeholder attributes can help managers anticipate the behavior of their stakeholders (Frooman and Murrell, 2005).

As shown in Figure 1, stakeholder behaviour is influenced by stakeholder attributes (such as size, location and interests) and the relationship with the focal firm. The relationship is determined by the level of dependence of the stakeholder on the firm, the centrality of the focal organization within a network of stakeholders, and/or the degree of information asymmetry between the focal organization and a stakeholder (Frooman and Murrell, 2005). The level of firm dependence indicates the relationship between the two organizations which determines whether stakeholders will choose to influence the focal firm (Frooman, 1999). For example, if the retailer has a low level of dependence on the supplier, the influence of the supplier on the retailer's decision is limited. Centrality refers to the position of the firm within the stakeholder networks. In retailing, customers and suppliers will come to a retailer with a high degree of centrality to purchase or sell a product. Betweeness centrality is also important, which is the extent to which the firm plays a broker role of bringing together disconnected stakeholders of the network (Prell et al, 2009). So a supplier may rely on a retailer with high betweeness centrality to market and sell its products to customers. Finally, the information asymmetry problem comes up when the information and the quality of the information a retailer has differ from its suppliers and customers, and information asymmetry can creates an imbalance of power in transactions.

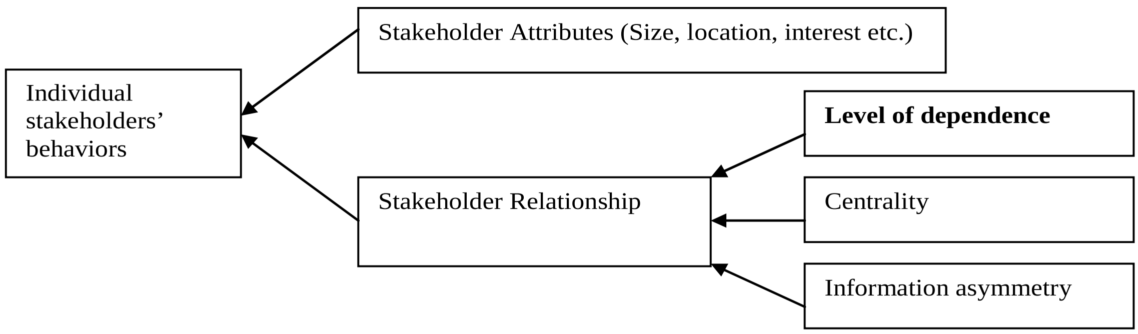

Figure 1. Anticipation of individual stakeholders' behavior.

To develop our conceptual framework, we first use the following criteria to identify stakeholders:

- A stakeholder can be an individual, an organization, or a group of people sharing similar interests and attributes, but the involvement of stakeholders is ethical and legitimate.
- Their actions are intentional. They may affect, or be affected by, the outcomes of Tuangou.
- Retailers have incurred moral obligations of fairness to them.

The stakeholders we have identified in any Tuangou activities include customers, suppliers, government, Tuangou organizer, retailer's employees and retailer's business owner (financer). Citation format in the text follows authors' names and year of publication in parentheses. Though competitors can definitely affect retailers, we do not include competitors as legitimate stakeholders because retailers do not have moral obligation to attend to their well-being (Philips, 2004). For the purpose of our study, we have decided to focus on the two stakeholders, customers and suppliers. We have not included the Government, because so far we have found no evidence of government intervention. We do not include Tuangou organizers either, because they only play a role only after a retailer has made Tuangou decisions. As to a retailer's employees and business owner, we can reasonably assume that their interests align with the retailer for the purpose of our study.

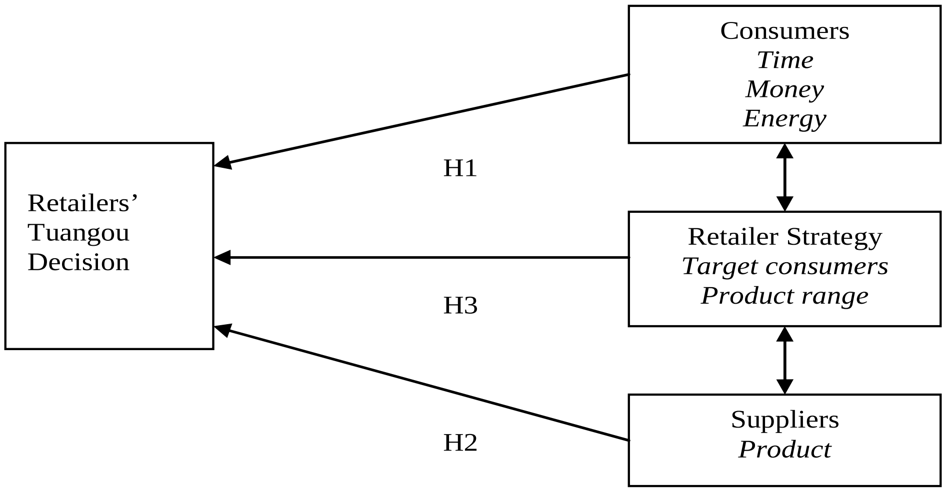

Figure 2. Conceptual framework.

In our conceptual framework (Figure 2), consumers' resources include time, money and energy. Kotler et al. (1999) suggest that customers want to maximise "customer delivered value", the value they get from buying a product/service, and the costs incurring in the purchase process from customers' perspective include "monetary price", "time cost", "energy cost" and "psychic cost". We do not include "psychic cost", because it is irrelevant to the retailer's Tuangou decisions. However, once a retailer has decided to accommodate Tuangou, the retailer need to use its customer-relationship management strategies to create a satisfying feeling among all the customers, including those existing/loyal customers who do not participate in Tuangou events. In terms of its supplier relationship, the existing literature suggests that the relationship is decided by the relative market power that exists between retailers and suppliers (e.g. Mottner and Smith, 2009). Finally, retailers' resource relationships with customers and suppliers are closely related to retailers' market positioning strategies. Table 2 shows how a retailer's product range and target consumers are related to its profit margin and sales volume. In the case of Tuangou, group purchase implies potentially high volume of products to be sold and price discount means lower profit margin. Therefore, we have included retailers' strategies to reflect how the relationships with suppliers and customers are related to each other (see Figure 2). Moreover, it shows that the level of interdependence between the retailer and its stakeholders (retailers and suppliers in this case) is determined by the retailer's market positioning strategies. "Target consumers" includes both existing consumers and potential consumers. "Product range" refers to the range of products offered by the retailer.

	Value Added	
Breadth of product line	**Broad product assortment and high value added** They pay close attention to store design, product quality, service, and image. Their profit margin is high, and if they are fortunate enough to have high volume, they will be very profitable.	**A broad product line and low value added** They focus on keeping prices low so that they have an image of being a place for good buys. They make up for their low margin by achieving a high volume.
	A narrow product assortment and high value added They cultivate an exclusive image and tend to operate on a high margin and low volume.	**A narrow line and low value added** They are often specialty mass merchandisers who appear to price-conscious consumers. They keep their costs and prices low through designing similar stores and centralising buying, merchandising, advertising, and distribution.

Table 2. Retailers' positioning strategies. (Adopted from Kotler et al. 1999)

3 DISCUSSION AND PROPOSITIONS

When approached by Tuangou consumers, a retailer has two strategic options: they either refuse to accommodate and support Tuangou events, or develop their own strategies to accommodate Tuangou. The following discussion is focused on how a retailer's resource relationship with its stakeholders (suppliers and customers in this case) influences its Tuangou decisions.

3.1 Retailer and Customer Resource Relationship

If assuming that the product and service a customer can get through Tuangou are the same as they buy through other channels, then the only difference is the time, energy and money spent by the customer. Since customers have to search online first and then attend the Tuangou event in person, it is reasonable to assume that the time and energy costs are higher and the expected monetary price is lower than making the purchase through other channels, from a Tuangou customer's perspective. Therefore, we can assume that, when making Tuangou strategies, a retailer will assess the importance of the purchase price to its customers' purchase decisions. When customers decide to purchase the product from Tuangou, it is reasonable to assume that they consider the saving in monetary price is more important than the higher costs of energy and time. Therefore, when retailers believe that their target customers place more importance on purchase price than on energy and time costs, retailers are more likely to accommodate Tuangou activities. On the contrary, if its target consumers are not price conscious, then the retailer is less willing to accommodate Tuangou activities because the profit margin will be narrowed. Also, the retailer may not want to accommodate if it believes that its customers are not willing to spend too much time and energy in order to get price discounts.

H1.1 *The more importance its target customers place on purchase price than on energy and time, the more likely the retailer accommodates Tuangou activities. The more importance its target customers place on energy and time than on purchase price, the less likely the retailer accommodates Tuangou activities.*

There are several reasons why customers may consider a low purchase price may be more important than spending more time and energy. First, consumers want to spend more time and energy when buying a complex or expensive product. According to Peter and James (2003), customers have four types of purchase decision-making, including extensive decision making (which requires most time and effort as the purchase involves complex or expensive items), limited decision making (which requires moderate level of efforts in searching and comparing alternatives), routine decision making (which usually involve simple, inexpensive and packaged goods or their familiar, favorite branded goods), and impulse buying (which is not planned). So, tuangou is more likely to be the extensive decision-making type. Second, target consumers' personal factors have determined that they are more sensitive to the purchase price than other factors. Existing studies have suggested that a buyer's decisions are influenced by personal characteristics, occupation, economic circumstances, lifestyle, personality and self-concept (Kotler et al., 1999). For example, Tuangou may be more interested to those customers who are bargain hunters, always demanding the deepest discount and the highest service. Moreover, competition is playing a critical role in the resource dependence relationship between a retailer and its customers. In the case of tuangou, local competition is critical because location is an important factor to any Tuangou activities. The fact that tuangou is a regional activity has two implications. First, both supply and demand are normally based on the local market. The products or services that Tuangou customers want are regional. For example, they want the after-sale services from a regional supplier. Alternatively, like properties, the supply can only be local. Second, though the Internet is far reaching and Internet users may know the Tuangou, Tuangou customers are normally living in the targeted region. Tuangou requires customers to go to the shop in person to negotiate a deal with the retailers at a specific time.

If the local competition is intensive, customers can choose to buy the same product from a couple of different retailers with similar business terms. In other words, customers have little dependence on the retailers. Given the demand from the customers are constant, the retailers have to find ways to attract more customers to earn a bigger market share. Similarly, if customers can easily find substitute products available in the market, the retailers are more likely to accommodate the requirements of Tuangou customers.

H1.2 *The more competitive the relevant local retail industry is, the more likely the retailer accommodates Tuangou activities.*

3.2 Retailer and Supplier Resource Relationship

According to Lindblom et al. (2009), since the number of products and the number of brands of each product is usually high, retailers have difficulty in developing close partnerships with all of their suppliers. In reality, according to Webster (2002), relationship between suppliers and retailers vary in strength and are situated along a "relationship continuum" - with purely transactional market relationships at one end of the spectrum and long-term cooperative partnerships at the other end. They tend to build close relationships with only the more influential suppliers, while maintaining so-called "transactional relationships" with other suppliers. In business-to-business relationships, the term "role" refers to the relative importance of a firm in relation to other firms, as measured by size or other correlates of power and influence (Johanson and Matsson, 1992). Suppliers have different levels of market power. Firms with highly differentiated products have almost monopoly power. The exercise of market power is also closely related to high market concentration and shares (Burt and Sparks, 2003). Tuangou is associated with lower monetary price for a particular product. Manufacturers with highly differentiated products often have the market power and enjoy high profit margins as little substitute products are available in the market. So, they may not prefer retailers to accommodate Tuangou.

H2 *The more unique features the target product has, the less likely the retailer accommodates Tuangou activities.*

Besides the product features, suppliers might also refuse to support tuangou activities because of companies strategies and production capacities. If a supplier has a fixed price strategy, then retailers may not be allowed to lower the price of the product in Tuangou events. Also, if the demand for the supplier's products already exceeds its production capacities, the supplier may not want to increase its production capacities for the sake of Tuangou.

3.3 Retailer's Positioning Strategy

A retailer has interdependence relationships with both customers and suppliers, so the retailer may consider both interests together when determining their Tuangou strategies. It is related to the market positioning strategy of the retailer. Some suppliers (such as manufacturers and brand owners) have opened their retail shops, and in this case we assume the supplier is also playing the role of retailers. Table 2 shows the four market positions a retailer may take. For those retailers who adopted high value-added strategies, they might cause confusion in their corporate image among their customers if they decide to accommodate Tuangou and offer lower price. For those retailers who have a broad product line, their acceptance of Tuangou might complicate its relationships with suppliers considering the wide range of products involved. Therefore, we can derive the following hypothesis:

H3 *If a retailer has a high value-added strategy, it is unlikely the retailer accommodates Tuangou activities; If a retailer has a broad product line and low value-added strategy, it is unlikely the retailer accommodates Tuangou activities; If a retailer has a narrow product line and low value-added strategy, it is likely the retailer accommodates Tuangou activities.*

4 CONCLUSIONS AND FUTURE STUDIES

The emerging Web 2.0 applications not only provide a platform for people to exchange information, but also help people develop capabilities (White, 2007). Tuangou is an example of how consumers are organized using online social networks to approach retailers for discounts using collective bargaining power. This paper discusses retailers' decision on whether or not to accommodate Tuangou from the perspective of its resource relationship with the stakeholders. Since Web 2.0 applications have allowed consumers to be better informed and organized, it is possible that in the future new business models initiated by consumers, like Tuangou, will emerge. If this is true, then we are facing a new set of research questions. We can no longer assume that retailers can always play an active role; instead retails have to consider how to cope with new business practice. Our analysis has suggested that not all the retailers should adopt the same strategies. For example, Tuangou may not be suitable for those retailers selling exclusive products targeting at high value-added consumers. Retailers have to consider their individual situations before making the decision, especially the resource relationship between the retailer and its stakeholders. This explains why in reality some retailers have chosen to accommodate Tuangou while the others have declined customers' Tuangou request (Yen and Huang, 2009). This paper has its limitations. We plan to carry out a survey among the decision makers in the detail industry in a major city in China to empirically test the model and the hypothesis proposed in this paper. In the future it will be interesting to study empirically how different retailers react to Tuangou events and to what extent their Tuangou strategies are influenced by their resource relationships with suppliers and customers and other factors.

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