

# Surviving in Group Buying Markets

## The Competitive Solutions



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Authors:

Tomas Pagirys, 40203

Ekaterina Ignatyeva, 40192

Advisor:

Per Andersson

## Abstract

This study investigates a new retailing and e-commerce phenomenon – group buying. Similar to the case of the *.com bubble*, it attracted many players with almost identical business model that led to consecutive competitive pressures, threatening the existence of many group buying companies. Thus, the purpose of this thesis is to analyse group buying firms and provide them with competitive solutions, enabling survival on the marketplace. The research investigates three countries: Sweden, Russia and Lithuania, and employs strategic management, business model, entrepreneurship and other theoretical approaches. It considers the whole value chain by having 11 case studies of group buying companies and 3 cases of their suppliers as well as a quantitative customer survey. The analysis of theory and research findings leads to identifying the key success factors, strategic groups and forecasts of their future. Finally, 8 dimensions as areas to look for competitive solutions are identified and 12 final solutions are developed.

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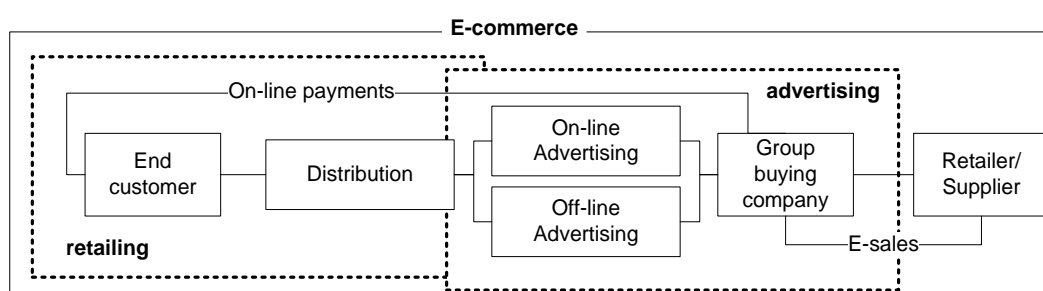
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# 1 Introduction

## 1.1 A new phenomenon – Group Buying

In 2008 the world experienced the emergence of a new retailing and e-commerce phenomenon – group buying (GB). It is a concept, where buyers unite on the internet platform in order to gain significant scale, aggregate the bargaining power and gain favourable trading condition or great deals. An individual buyer is rewarded by sound discounts and deals, which were not available to him before. At the same time, the vendor gains huge volumes of sales, exposure to advertisement and a new distribution channel. At least from the first glance, it is designed to be a win-win solution. The emergence of web 2.0 and, especially social networks, allows GB to occur every day on a regular basis. GB can be seen as a particular area of e-commerce (see Appendix J). It also belongs to e-retailing and advertising industries (interviewees), combining the functions of distribution and communication. The value chain of GB and its relation to other industries is presented on Figure 1 below, while the differences and similarities of group buying companies (GBCs) and other e-commerce players – in Appendix H.



**Figure 1 Value chain of Group Buying Companies and relation to other industries**

At the moment the most common and successful model of GB is presented by the Groupon and many of its followers. It is characterized by the supply driven model, when a company arranges deals with suppliers, posts them online and sells the coupons in advance. If a predetermined number of buyers purchase the vouchers, the deal becomes valid and customers can use their coupons (see picture of Groupon business model in Appendix I).

GB could be paralleled with the .com bubble – since barriers of entry into the Web market were low, “tens of thousands of small e-tail shops have sprung up on the Web” (Laudon, Traver, 2010), thus creating highly competitive market with difficulties to become profitable for every small player especially without experience.

## 1.2 Research problem

*The problem of the study is lack of differences among GBCs, the same business model utilized and the consecutive competitive pressures, threatening the existence of GBCs.*

The fast growth of the GB (Businessinsider.com, 2011), especially of the dominating business Groupon, attracted a great number of players into the group buying industry (GBI). I.e. according to authors' analysis, the number GBC in Russia grew during the work on this thesis from 50 up to 100 companies. Many of the actors were fascinated by the potential of the new type of business. As the entry barriers were minimal a lot of companies rushed into the market. Some of them had precise business plans and visions. However, many of others, similarly to companies during the .com bubble, simply believed the business to be highly profitable. Due to these reasons the competition was increasing in the market and turned out to become fierce (Gruppi, 2011). Scale leads to the snow-ball effect – the strongest player gets traffic and customers due to having an increased bargaining power and better deals, which in the end turn into more customers, bargaining power and better deals. The vicious circle is created – the dominant players step-by-step capture the market. The other actors are forced to look for competitive solutions in order to survive. Even though there are several ways of arranging GB, at the moment a majority of actors are following the same Groupon business model. It contributes to the significance of the problem and the need for the solutions. There are several traits of the problem worth considering (Brown, 2010):

- The magnitude. The current competitive situation threatens the whole existence of the company – the survival on the group buying market (GBM). As suggested by the majority of interviewees from the research, many of companies might simply disappear.
- The scope. In customer survey conducted in this research conducted 60,2% of respondents claimed that GBC differ from each other to a very limited extent.
- The tendency. Even though the differences among the GBC gradually occur, the majority of them are using the same business model and due to the strengthening positions of the leaders the threat of existence on the market is actually increasing. Butkus D., CEO of *CityLife*, comments that “80% of the companies will disappear”.

The points mentioned emphasize the severity, wide spread and the increasing tendency of the problem that combined with the novelty of the phenomenon makes this area of a great interest to research. Moreover, the majority of discussions in the press are around Groupon, leaving other players of this newly emerged market without attention. What could the GBCs do to stay on the market? The pursuit of the competitive solutions, derived from different perspectives is of a particular interest here. We decided to choose the term *competitive solution* over options

like *solutions, leading to competitive advantage or positioning, differentiation solutions*, because we believe a broader term suits better to address the core problem of the research. The term should encompass many options for a company, while enabling the firm to survive in the marketplace. So a *competitive solution* in this study is a positioning or any other major decision, based on generic strategies, leading to competitive advantage or parity. We believe such type of research might also be applied practically by the leaders of GBCs.

### 1.3 Research purpose and contribution

The purpose of the research is to investigate the GB phenomenon, analyse it under different theoretical and empirical perspectives (i.e. buyer, supplier, GBC), and provide with potential answers to the problem of the research – the competitive solutions on GBM. Another purpose of the research is to contribute to the knowledge base of the academic community by:

- Studying a new retailing and e-commerce phenomenon. GB is very young, innovative and rather unresearched sub industry combining several areas;
- Utilizing the concept of competitive solution as a combination of decisions leading to competitive advantage or competitive parity, which in turn enable survival in the market;
- Balancing analytical approaches of the strategic management with concepts of entrepreneurship in order to derive competitive solutions.

Additionally, we believe that the paper will contribute to the whole GBI by providing with meaningful insights, relevant guidelines for further development and, most importantly, practically applicable competitive solutions.

### 1.4 Delimitations

The delimitations of the research are expressed in the Table 1 below.

Industry	Geography	Company-wise	Theory
GB only	Sweden  Lithuania  Russia 	<ul style="list-style-type: none"> <li>• Strategic groups</li> <li>• The most vulnerable strategic group</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic management</li> <li>• Entrepreneurship</li> <li>• Business models</li> </ul>

**Table 1 Delimitations of the research**

Though GBM can be considered as a part of the e-commerce, this paper focuses only on GB. Geographically, the research deals with three countries – Sweden, Russia and Lithuania. On the one hand, the number of GBC in these countries provides enough material to understand the phenomenon and to draw credible conclusions. On the other hand, this research could not be

generalized to other markets world-wide only to some extent. There is a big number of GBCs and in order to delimit the research the actors will be split into several strategic groups. Furthermore, in order to get more depth, the research will be delimited by selecting the most vulnerable strategic group (MVSG). It would be difficult to generate competitive solutions for all types of companies as their business situations differ, MVSG possess the greatest need for these types of answers as survival of these companies might be seriously threatened.

Theoretically-wise, the research is limited to using strategic management approach, which includes generic strategies and external analysis, leading to key success factors (KSF) of the industry, as well as the Resource-based view (RBV). Another theoretical perspective is the entrepreneurship and the new product development. Finally, the concept of business model is utilized.

### **1.5 Pre-study and the research questions**

In order to prove the problem of the research, validate its purpose and ensure a focused and effective research a pre-study was arranged. Pre-study provided a better understanding of the market before deciding what method to choose for further research as well as helped to define research questions. Thus, it was reasonable to set up the first research question (RQ) as:

***RQ1: What competitive situation is emerging among group buying companies at current stage of the market? (“How does it look now?”)***

As suggested by strategic management literature (Grant, 2008), the development of competitive or strategic decisions might get started by analysing the existing business environment. Therefore, the first research question aims to present the current situation within the GBI and could be answered by analysing the findings, generated in the pre-study. Furthermore, additional inputs to answer this question will be done by further research and empirical findings. A separate section of the upcoming case studies will be dedicated to evaluation of the current state of the GBI and the level of competition.

## **2 Pre-study**

### **2.1 Pre-study process**

The pre-study is focused on analysing web-pages of GBCs in respective countries and presenting main findings, differences and similarities as well as questions for the further research. On the first stage of the pre-study the list of the variables or areas of focus was identified. Secondly, the GBCs in the three countries were listed. To continue, the analysis of their web-pages was executed based on a common framework, which is presented later. The general insights, assumptions and conclusions were derived. Finally, a rough evaluation of the performance was conducted, aimed at assessing average sales figures, positions in the market and as a consequence the level of success.

In order to evaluate the companies objectively a common framework was generated. We decide to utilize two concepts. At the top there is the concept of the business model, consisting of customer value proposition (CVP), profit formula, key resources and key processes (Johnson & Christensen, 2008). In addition to that we use a reconceptualised version (Lautenborn, 1990; Kolter et al, 1999) of the traditional and time-tested marketing mix – the 4C, which considers the elements of the marketing from the buyer’s perspective. It includes: customer value proposition, costs to the consumer (price), communication (promotion) as well as convenience (place). The two concepts form the basis of analysis.

### **2.2 Pre-study findings**

On the first stage of the pre-study the list of the variables or areas of focus were identified. On the second stage the GBC companies in the three countries were listed. To continue, the analysis of their web-pages was executed based on the areas of focus stated above. The general insights, assumptions and conclusions were derived. Finally, the evaluation of the performance took place, aimed at assessing their approximate sales figures, position in the market and as a consequence the level of success. The further pre-study revealed that it is possible to get a big amount of data without contacting the companies themselves. Its general findings are presented further.

#### **2.2.1 The group buying market in Lithuania**

##### **General outlook**

The Lithuanian GBM was established in April 2009 – about one year and a half after the icon of the industry Groupon. The Lithuanian population is just around 3 million inhabitants, which

instantly restricts the market potential. Yet, there are more than 40 GBCs in this market. A surprisingly high number, if we compare it to just less than ten actors in Sweden which possesses a way higher purchasing power and demand. The market itself grew from the scratch to over 600.000 EUR in sales in May, 2011. One of the leading projects *Beta* was nominated as the third best e-commerce projects in Lithuania, in the highly recognized web-IT industry conference LOG-IN in 2011 (Verslo Zinios, 2011). Another successful GBC *Grupinis.lt* claims, that from the establishment of the company in October, 2010 till the end of the year, which is three months only, it have sold over 14000 coupons and generated turnover of more than 60.000 EUR (Verslo Zinios, 2011). That reveals the growth tendency for newly established businesses in this market. The trend was confirmed by the Director of Commerce at *Beta* Alvyde Palaimaite, who stated that the industry is growing rapidly in the majority of positions within the value chain – partners/suppliers, intermediaries or GBC as well as the final customers (Verslo Zinios, 2011).

### **Competitive landscape**

The GBM in Lithuania has increased dramatically. So did the competition. As mentioned before, the number of GBCs exploded from just several to more than 40 in just half a year. It is difficult to track all of them, as even aggregators still do not manage listing the whole spectrum of GBCs. In addition to that, the number of deals offered by a company generally increased from the philosophy of “One deal – one day” to placing several and even more at once.

Despite the high number of actors in the field, the market concentration looks totally different. According to the figures of coupons sold, presented at the websites of the companies, the majority of GBCs sell relatively minimal quantities of deals. The majority of sales are generated by the leading companies *Beta* and *Grupinis*, followed by actors like *Kiauletaupykle*, *Kartu* and *Deal24*. However, indicative figures at the companies’ websites can be misleading, due to the fact that they may try to fake performance in order to enhance the image, attract more customers and partners. There was noticeable merger (exchange of shares) of several strongest GBCs in the Baltic States – *Beta*, *Grupinis* and Cherry media, controlling *Cherry.lv* as well as *Cherry.ee*. The official announcement claims the joint organization to obtain more than 50% of the whole market within the Baltic States (Verslo Zinios, 2011). Even higher market concentration is present in Lithuania – 70%, according to *Grupinis.lt* (Grupinis, 2011). Its manager Deimante Pociute expressed great belief in the potential of the market as well as the market consolidation and the survival of several strongest players only (Verslo Zinios, 2011).

### **Similarities and differences among GBCs in Lithuania**

The generalized view of the similarities and differences among GBCs in Lithuania based on the

business model approach and the marketing mix is expressed in the Table 2:

	Similarities	Differences
<b>Product and CVP</b>	<b>The same</b> categories of products (restaurants, health & beauty, entertainment and etc.) based on a significant (50% or more) discount;	<b>Limited number</b> of rather focused projects on specific categories and a couple of aggregators. Leading companies offer more quality deals;
<b>Revenue model</b>	<b>The same</b> commission-based revenue model.	<b>Several</b> GBCs add deal/position-based revenue model;
<b>Key processes (the buying process)</b>	<b>Exactly the same</b> traffic/customer's funnel and process;	<b>A couple</b> of aggregators offer all deals in one place and redirect the traffic;
<b>Key resources</b>	Low financial, partnerships-based, IT and HR resources for the majority of small actors;	Potentially moderate differences of resources within different GBCs;
<b>Costs to the consumer (price)</b>	<b>The same</b> price and discount range – from 5 to 100 EUR and 30% – 70%;	The weaker players sometimes come up with artificial and fake discounts;
<b>Convenience (distribution)</b>	All companies use <b>the same</b> web and mobile channels to distribute coupons;	In <b>rare occasions</b> the products are distributed by couriers;
<b>Communication</b>	Subscribers' database, web-advertisement (many players in <i>delfi.lt</i> ) and facebook.	Some companies do not advertise at all.

**Table 2 Similarities and differences among GBCs in Lithuania**

The general message from the analysis of the Lithuania GBM is that it possesses potential and is vastly growing. However, the growth of competition is even more robust. An enormous number actors suggests intensive competition. Yet, the majority of the market chunk is possessed by several dominant players. Moreover, the companies have almost identical business models and approach the marketing mix activities similarly. It seems that many small actors might encounter difficulties in the near future.

### 2.2.2 The group buying market in Russia

#### General outlook

The Russian Federation with a population of 143 million people provides big market potential and the GBM is rapidly developing in the country. The first GBCs appeared in 2010, suggesting it to be a very young market. Since then the number of GBCs has reached almost 100. According to estimations of some experts (Technpitch, 2011), the value of the GB services will be around \$100 Mio by the end of 2011. However, current size of GBM is estimated by CEOs of some players already to be between \$100 Mio and \$200 Mio (Shostak and Li, 2011). It is noticeable that GBM is often referred in Russian media as coupon business or collective discount services (i.e. by Vesti and Kommersant). The close competitors, so called “shopping clubs”, appeared before GBC, but their growth is rather slow (Ruformator, 2011).

Generally, the majority of Russian GBCs utilized the Groupon model with main principle “one deal a day”. Yet, due to Russian national peculiarities the exact replication of the USA model did not work. The end-customers were risk adverse, impatient and did not want to wait for the required minimum number of people to get the deal. Nevertheless, many companies still use the

Groupon model. Some of them even copied the design of the web-page completely. Many of the start-ups were developed with a clear purpose of exiting the business by a sale. It became the reality for one of the first GBCs in Russia *Darberry.ru*. Based on financial performance, Groupon chose it as an acquisition target in autumn 2010.

### Competitive landscape

The GBM in Russia is very unequal. More than 73% of the players are working in the Central Russia. The North-West region is ranked as the second one. According to a survey, conducted by RBC (*Russian Business Consulting*), over 55% of the respondents were buying coupons on the *Groupon* site. That is the leading player in the Russian market (appr. 40% market share). The second strongest player is *Biglion* (appr. 30% market share).

The monthly revenue of the leading GB businesses in Russia is estimated at 5,5 mln. EUR (in March 2011), while the profits made was around 2 mln. EUR. Totally they sold 583 thousand coupons, 305 thousand of which were sold in the Moscow region. According to the estimations of some journalists (Techpich, 2011) the average price of a coupon is 16 EUR and the discount size - 68%. *Groupon.ru* carried 2,5 mln. subscribers, while *Biglion.ru* had 5 mln. of them. There are other four noticeable players: *KupiKupon.ru*, *WeClever.Ru*, *Vigoda.ru*, *Kupibonus.ru* with market shares between 5 and 10% (based on estimations provided on the web-sites of respective GBC and Kommersant, 2011). In addition to these leading companies, the number of other GBCs varies at different periods of time between 30-40 and 150 (authors own estimations). The market leaders are mainly first movers. The major challenges for smaller players companies include – rather late market entry, partly closed the window of opportunity and lack of financial resources for aggressive marketing campaigns.

It seems that none of the market followers can compete with the market leaders. Yet, smaller GBCs may combine their resources in order to get greater profits and find new ways to expand. For example, *Vigoda.ru* initiated monthly meetings of the GBCs to discuss the realities of the GBM. Some experts claim that by using an innovative approach even new players may enter the market, though it looks like highly competitive (Ruformator, 2011).

### Similarities and differences among GBCs in Russia

The majority of GBCs were established in 2010 in pursuit of the fast growth opportunity. The analysis of the information presented on the web-pages of the 30 GBCs in Russia reveals the similarities and differences of Russian GBCs. The first one is found to be evident.

	Similarities	Differences
<b>Product and CVP</b>	<ul style="list-style-type: none"> <li>Offering to the end-customer - <b>similar deals</b> using <b>the same</b> types of categories;</li> <li><b>The same</b> offering to partner/supplier -</li> </ul>	<ul style="list-style-type: none"> <li><b>Limited number</b> of companies provide with a ability to sort and filter different deals.</li> <li>There are companies, which provid with free</li> </ul>

	Guaranteed amount of sales for campaign; high exposure to advertisement.	coupons for deals.
<b>Revenue model</b>	<b>The same</b> commission-based revenue model. The partner/supplier is being charged.	<b>Some</b> companies charge the transaction fees for selling discount coupons.
<b>Key processes (buying process)</b>	<b>Exactly the same</b> traffic/customer's funnel and process;	<b>Some</b> aggregators offer all deals in one place and redirect the traffic;
<b>Key resources</b>	Advertising channels, network of suppliers, IT systems, website design.	Quantities of <b>the same</b> type of resources differ.
<b>Costs to the consumer</b>	Generally <b>the same</b> average discount size - 68% with average price of coupon 16 EUR.	The price for a coupon for the discount varies between 1-3 EUR.
<b>Convenience</b>	The majority of coupons retrieved via email;	Apps for Iphone and Android
<b>Communication</b>	Very similar design of the web-page, user's interface; representational video; links to social networks; affiliate marketing model for businesses; "Invite a friend and get paid"	Forum for customer's feedback; Few companies have contact details, usually just general contact form.

**Table 3 Similarities and differences among GBCs in Russia**

The table illustrates that the core aspects of the business model as well as the marketing mix are pretty similar among the Russian GBCs. The difference might lay in their execution or quantity.

### 2.2.3 The group buying market in Sweden

#### General outlook

The era of GB in Sweden emerged by the end of 2009. The Swedish GBM differs from the ones in Lithuania and Russia. Sweden is very advanced in technology adaptation and usage. E-payments, credit cards, mobile applications became part of everyday routines, thus the e-literacy level is rather high.

#### Competitive landscape

According to authors' estimations, there are about 10 GBC in Sweden. Groupon is the clear leader here. In general, the Swedish e-commerce is showing steady growth. In 2009, 63% of the Swedes purchased goods or services online – a 20% growth from compared to the previous year. 82% of the Swedes of age between 25 and 34 made online purchases in 2009. The annual Swedish e-commerce was estimated up to approx. \$717 Mio in 2009, with travel offers, event tickets, and clothes or sporting goods as the top three categories (E-handelstrender, 2011).

#### Similarities and differences between GBCs in Sweden

As in Russia and Lithuania, only marginal differences were revealed among GBCs in Sweden, where the number of many similarities was solid.

	Similarities	Differences
<b>Product and value proposition</b>	Groupon-based model – <b>same type</b> of deals, website's interface, the same buying process, communication; Receiving credit for recommendation site to friends when they buy deals;	The number of simultaneous deals might slightly differ.
<b>Revenue model</b>	<b>The same</b> commission-based model.	-
<b>Key processes (the buying process)</b>	<b>Exactly the same</b> traffic/customer's funnel and process;	-

	Similarities	Differences
<b>Key resources</b>	HR, financial and IT resources;	Business portfolio or strong partnerships, enabling cheap advertisement and traffic;
<b>Costs to the consumer (price)</b>	Discounts between 50% and 70%, prices per deal vary based on the offering;	Sometimes GBC offer really expensive deals of exclusive goods or services;
<b>Convenience (distribution)</b>	Mainly web and mobile channels to distribute coupons	-
<b>Communication</b>	Subscribers database, web-advertisement and social media.	The difference is the extent and advertisement intensity.

**Table 4 Similarities and differences among GBCs in Sweden**

To conclude, GBCs in Sweden follow the Groupon’s model. Thus, the majority of them carry a similar business models as well as only slight variations of the marketing mix are present.

### 2.3 Conclusions of the pre-study and defining the research questions

*The GBCs are very similar and need competitive solutions. The latter calls for in-depth analysis and understanding of the internal and external environments of a GBC.*

The pre-study confirmed the assumptions and the core problem of the paper – the GBCs are relatively similar and might need competitive solutions in order to remain competitive. Most of the GBCs offer the same categories of deals (restaurants, beauty, entertainment), revenue model (commission-based), GB process (Groupon’s type), communications (web ads, facebook), distribution (coupons via e-mail) and other parameters analysed.

Several areas of missing information about the GBCs were identified. First of all, the real performance metrics of the companies were missing. This information would allow determining the positions of the companies in the market and their success. To continue, the internal environments of the organizations could not be revealed, which is important for understanding the competitiveness of the GBCs. Additionally, the expertise and knowledge about the market, possessed by the actors could not be extracted. Considering that, three additional research questions are being raised:

- ✚ **RQ2: What could be the key success factors in group buying markets?**
- ✚ **RQ3: What could be strategic groups in GBM and their future development?**
- ✚ **RQ4: What could be the competitive solutions in the industry?**

#### 2.3.1 RQ2: What could be the key success factors in group buying markets?

Grant (2008) suggests that the prerequisites for effective business strategy are the understanding of what motivates the customers and how the competition is organized. The latter is directly related to the decisions regarding surviving the competition. The combination of this knowledge allows revealing the KSFs of the industry. This understanding encompasses both –

the external environment by focusing on customers and competition as well as partly the internal one by asking the question how to survive the competition. By utilizing this concept, we believe to avoid the lengthy process of the traditional analyses using frameworks like PEST or Porter’s five-forces and come closer to understanding of the competitive solutions in GBMs.

### 2.3.2 RQ3: What could be strategic groups in GBM and their future development?

The third research question tries to predict the future of the industry, focusing on specific strategic groups. The thorough understanding of the existing situation as well as the KSFs of the industry should be solid bases for that. It is a smooth transition of the research, leading to the evaluation of the most promising groups of companies as well as the most vulnerable ones. This RQ will assist in identifying the type of companies, which possess the biggest need for competitive solutions. The focus on the MVSG delimits the study.

### 2.3.3 RQ4: What could be the competitive solutions in the industry?

The fourth research question hits the core purpose of the thesis – development of the competitive solutions in the GBI. It is derived by analysing the existing situation (RQ1), KSF (RQ2), strategic groups and the predictions of their future development (RQ3). We believe, at this point the research should possess enough data and insights to competently reveal the existing and novel solutions to deal with the competition, again focusing on the MVSG.

## 2.4 Disposition or the structure of the research

The pre-study and the RQs developed enable us to determine the disposition of the thesis. It is presented in the following structural view:

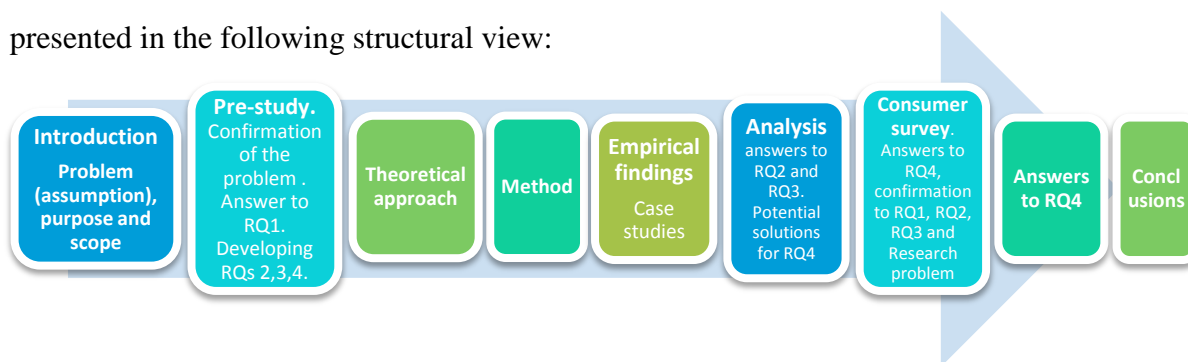


Figure 2 Structure of the research

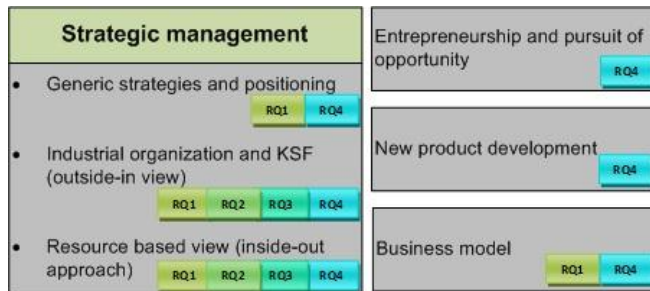
The Figure 2 reveals the smooth transition of the study and the step-by-step approach to tackle the core purpose of the thesis.

### 3 Theoretical framework

#### 3.1 Theoretical approach

##### 3.1.1 Summary of theoretical approaches and their relation to research questions

The core problem of the research is tackled using various theories, many of which address several RQs at the same time, complementing each other and strengthening the support. The Figure 3 represents the summarized theoretical approach of the paper. It begins by presenting



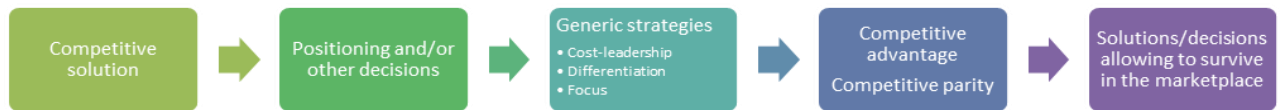
theories related to generic market strategies and positioning. This literature assists in getting broad overview of market analysis and provides with guidelines on which areas to place the focus on. The second area of focus is industrial organization and particularly the KSFs of

**Figure 3 Summary of theoretical approaches**

the industry. It provides with the *outside-in* view. RBV is chosen as another important theory in the research. It tackles the inside-out view and together with the KSFs encompasses the whole scope of strategic analyses. To continue, the concept of the business model is introduced. As the pre-study revealed, it can be very useful framework to analyse and understand the business itself. Moreover, it might be considered as a source for deriving the competitive solutions. As further research reveals business model innovation is a good way to enhance the competitive position fundamentally. Building on the notion of innovations, the entrepreneurial theoretical approach will be introduced. Finally, new product development as part of the entrepreneurial framework is being considered. It is a systematic knowledge of companies how to develop new products or services, which definitely strengthen the competitive positions of the companies and can be regarded as answers to RQ4. We believe that combination of the analytical approach, offered by strategic management, combined with the novelty aspects, creativity and pursuit of opportunities, fostered by entrepreneurship, create a perfect blend, provide with valuable insights and variety of perspectives and assist in developing the competitive solutions.

##### 3.1.2 Competitive solution as central theoretical notion

The term competitive solution is not widely spread among the strategic management academia, thus, might need some explanation and prove. As suggested in McAfee R.P. book “*Competitive Solutions: The Strategist's Toolkit*”, it could be considered as successful business methods and a set of intellectual tools and insights needed to confront many marketplace problems.



**Figure 4 Scope of the term competitive solution**

Consequently, we can infer that the competitive solution can be a wider concept than solutions leading to competitive advantage or differentiation, being built on the general sequential approach to strategy – analysis of external environment, RBV, product life cycle and others. Our interpretation of the term competitive solution is presented in Figure 4.

## 3.2 Strategic management

### 3.2.1 Generic strategies and positioning

Competitive solutions might be closely related to positioning decisions, competitive advantage or parity themes. Moreover, strategy is regarded as set of actions to overcome or survive the competition and strategic competition is a process of perceiving new positions (Porter, 1996). Porter (1985) describes competitive advantage as producing a superior product or bringing the product to the market at a lower price than most or all competitors. According to him, “a company can outperform rivals only if it can establish a difference that it can preserve” (Porter, 1996). The primary determinant of firm’s profitability is the attractiveness of the industry, yet, the second one is position within it. Bearing this in mind, the Porter suggests the following general strategies or positioning solutions: cost advantage and differentiation. These approaches can be considered under narrower (market-wide) and broader (industry-wide) perspectives as three generic strategies: cost leadership, differentiation and focus. The decision to choose one of the strategies can be regarded as the key one. Hill (2007) agrees with that and adds other two: localization strategy, based on local adaptation and responsiveness, and globalization or standardization strategy, where the focus is on integrating and co-ordinating the processes to achieve cost advantages.

It is important noticing that Porter (1996) suggests focusing on one generic strategy and not to lose focus by pursuing several at once. The same idea can be applied while talking about market positioning decisions. The author claims that a sustainable strategic position requires trade-offs, which are essential to strategy and create the need for choice and provide with meaningful limitations (Porter, 1996). Collis and Rukstad (2008) elaborate on this theme by saying that the trade-offs of companies are exactly what distinguish them strategically from competition. The consequence of approaching several strategies at once can lead to being stuck-

in-the-middle and poor performance. On the contrary, there are some academics and practitioners stating that the reconciliation of strategies is not only possible, but also might be beneficial. Customers may need a variety of values like quality, style, convenience and price simultaneously. Moreover, Grant (2000), Wheelwright (1981), Murray (1988) and Ghemawat (1999) believe that differentiation, especially based on innovations, can also reduce the cost.

Additionally, Porter (1996) suggests three origins of strategic positioning: customers' needs, their accessibility as well as variety of a company's products or services. The latter addresses the range of the products the company chooses to offer. This approach makes sense when companies can utilize their distinctive sets of activities and best produce particular products. The needs' based positioning focuses on finding a distinctive position in the market by addressing particular needs of the target audience. Accessibility based positioning considers the best way to reach the customers. In many cases it is related to the geographical decisions or it might include the choices regarding distribution channels.

### 3.2.2 Strategy and market timing

There are different strategies available depending on the phase of the market development (Lasserre, 2007). One of the common ways to illustrate the phase of the market is the product

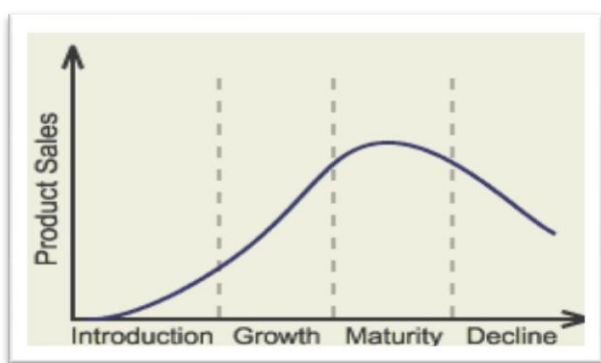


Figure 5 Industry life cycle (Grant, 2008)

life-cycle model (see Figure 5). It is a traditional model, claiming that the sales of a new product take-off slowly, start growing fast in the growth's phase, reach the maturity level and start declining afterwards. Lasserre (2007) suggests a similar categorization of different stages of the market development. Moreover, he offers particular strategies for each of them as presented in Table 5 below.

Phase	Characteristics	Potential strategies
Premature	Absence of demand	Investment into a) representative offices b) listening posts c) distribution agreements
Window of opportunity	Take-off of the market with relatively less competition	a) First mover b) Follower
Competitive growth	High market growth, but competitors have received first-mover advantages	a) Hazardous entry, but with massive resources or a highly differentiated strategy b) Acquisition or joint venture arrangement
Maturity	Well-established market	a) Acquisition b) Direct investment with an innovative product

Table 5 Strategies of entering different phases of the market (Lasserre, 2007)

Lasserre (2007) suggests entering the market as soon as possible if the window of opportunity

is still open. In case the market is in the phase of the competitive growth, it is advisable for a company to enter it via a highly differentiated strategy or massive resources. All the other cases suggest the acquisition strategy and innovation or coming up with something new.

### **3.2.3 Industrial Organization and Key Success Factors**

The latest and most recognized approaches to strategy formulation suggest focusing on two dimensions for analyses: the external and internal environments (Medvedev, 2011). The external environment can be divided into two parts: the country level and the industry. It can lead to understanding the following areas – cost structure, market trends, key success factors and risks (Aaker, 2005) as well as opportunities and threats. Grant (2008) confirms this stating that one of the key objectives of the industry analysis is to identify the “Key Success Factors”. There are conventional models like Porter’s five forces or PESTLE to analyse the external environment, yet due to the limitations of the study and aligned with Grant (2008), we will focus on the KSFs and consider them as incorporating the most relevant insights from the external environment.

Ellegard and Grunert (1993) define KSF as a characteristic or a resource that a company can invest in, which could account for a solid part of the differences in perceived value and relative costs. Hofer and Schendel (1978) emphasize the importance of the KSF by stating that the critical success factors concept could be used in analysing competitive positioning solutions of a company within the industry. Rockart (1979) explains critical success factors or KSF in other words as the core areas, which under great performance would lead to successful competitive position. Grant (2008) suggests looking at KSF as the pre-requisites for success. According to him, in order to understand those two areas have to be analysed. Firstly, it is essential to find out who the customers are and what they want. Secondly, KSF include understanding of competition. Its size, dimensions, intensity as well as solutions leading to competitive advantage should be analysed. Lynch (2003) agrees with these dimensions of KSF, but adds another one – corporation or organization, which asks about the resources and capabilities, compared to those of the competitors.

In a broader sense the academic community suggests deriving KSF from three major areas: environment, industry and organization itself. There are various ways to achieve it, including, but not limiting to environment, industry and competitor analysis, investigation of the dominant firm of the industry, interviews with experts. The list could be enriched by other approaches like comprehensive company analysis, determining intuitive factors and utilizing the academic resources.

The analysis of the industrial environment involves researching the competition, customers and

suppliers (Grant, 2008). Aaker (2005) removes suppliers and adds the market and the environment to this list. The concept of the strategic group is important area of competitor analysis. It is a group of firms that over time pursues similar competitive strategies, possess similar characteristics as well as holds on similar assets and competences. Thus, competitive solutions can be tailored to the specific needs of different groups and should remain similar within the companies inside those groups. Aaker (2005) stresses the importance of identifying these groups as a serious step in forecasting different moves of competitors, scenarios and potential strategies to outcompete them. The following competitor actions should be considered – size, growth and profitability as well as image and positioning, objectives and commitments as well as current and past strategies. It is also important to pay attention to organization and culture, cost structure, exit barriers, strengths and weaknesses of different actors. Reducing the set of competitors to a small number of strategic groups makes the competitor analysis compact, feasible and more usable.

### **3.2.4 Resource-based view of strategic management**

#### ***3.2.4.1 Resource-based view concept***

RBV is a strategic management concept tightly related to sustainable competitive advantage notion (Fahy and Smithee, 1999). On the contrast to the positioning paradigm mainly developed by Porter (1980), according to RBV, firm can find strategic success through the acquisition, development and deployment over time of scarce resources and skills (Conner, 1991).

Resources of the company sometimes are seen as three sub-groups – tangible assets, intangible assets and capabilities. There are various frameworks for analysis of resources and for identification desirable set of resources and capabilities (R&C). Grant (1991) suggests using of sustainability, durability, transparency, transferability, replicability and appropriability in order to relate R&C to strategy and understand “rent-earning” potential. Barney (1991) proposes VRIO (value, rareness, inimitability, organization – or ability to exploit resource) model. In relation of the RBV to competitive advantage, creating and identifying barriers for resource duplication is key emphasis in majority of works. According to Fahy and Smithee (1999), resources are likely to be inimitable by competitors when relationship between resource and competitive advantage is difficult to understand. Reed and DeFillippi (1990) argue that activities crucial for the company are based on specific skills that could be acquired by doing and accumulated through experience (tacit knowledge), therefore, competitors might be unable to identify them. Additionally, imitation of resources might be restricted by big investments done (Fahy and Smithee, 1999). Finally, if consider managerial task as the effective deployment

of resources in the market place, development of match between the firms resources and the success factors in the industry can determine actual value of the strategy (Barney, 1986).

#### ***3.2.4.2 Resource based view, e-business and managerial capability***

In relation to e-business, very little work has been done to identify Internet resources and e-business capabilities. In this context RBV can be used for explanation of e-business nature and how it could increase organizational performance and CVP (Soto-Acosta et al., 2011).

Speaking about e-business, many authors refer more often to the term capability rather than resource. Day (1994) describes capabilities as complex bundles of accumulated knowledge, exercised through organizational processes, which enable firms to coordinate activities and make use of their assets. Soto-Acosta et al. (2011) identify three important characteristics of capabilities: they are rooted in processes and business routines; they are firm specific; their primary purpose is to increase productivity of other resources of the firm. Further, authors define e-business capability as ability to mobilize and deploy Internet resources which could be firm-specific or interfirm-specific. In a more detailed approach to e-business, Kaplan (2002) suggests 5 static capabilities that are important to achieve commercial success in e-commerce: addressability – proper identification of counterpart in a business exchange; interactivity – ability to engage electronically in a dialogue; customization – adjusting product or service to the demands of customer; personalization – altering the customer experience to his/her demand; postponement – ability to postpone the production as long as possible.

The RBV can also be considered as an approach to assess managerial capability within firm. Management can be considered as a strategic asset driving the adaptability of firms and their ability to recognize market opportunities (Collis, 1994). Conner (1991) identifies here the ideas of causal ambiguity and path dependency, which refer to the preventing managers of other firms from understanding the link between resources and performance within company. Some authors (Alvarez and Barney, 2001) suggest including such management attributes as agility, creativity and fast decision making into inimitable strategic assets to enhance RBV. Management can be either source of growth or stagnation; therefore, its strategic value is in ability to adopt different styles at different stages of firm growth. Additionally, synergistic effects are important point considering strategic assets of a company (Black and Boal 1994).

#### ***3.2.4.3 RBV, first mover advantage (FMA) and small companies (SME)***

Lieberman and Montgomery (1998) see a strong potential to synergy between RBV and FMA concepts. The FMA helps to build connection between entry timing of firm to the market and its resources.

RBV could be considered as a natural starting point in considering small firm growth and profitability. Since in population of SMEs each firm has very limited market power, RBV provides in this context reason why some firms show above-average profitability – as some authors also note, RBV may be more applicable for SMEs than for large organizations, since it focuses on within-industry differences among firms (Davidsson et al., 2009). Managers in smaller business that are not industry leaders mainly focus on operations and costs, reaction on customer needs and short term results. In these circumstances the stimulus for management decision making is usually provided by external pressure (Conner, 1991).

### **3.3 Business models**

Business model is a crucial element of an established company (Magretta, 2002) and is tightly related to concepts of strategic management or entrepreneurship. Moreover, it is a determining factor in the success of a young business and can even be a source for innovation. A common definition states that “a business model describes the rationale of how an organization creates, delivers and captures value” (Osterwalder and Pigneur, 2009). As mentioned in the pre-study, according to Johnson & Christensen (2008), business model of the company consists of the following parts: customer value proposition, profit formula, key resources as well as processes and capabilities.

Yet, there are also other approaches to the business model. In their practitioners-based handbook for the business model generation Osterwalder and Pigneur (2009) offer nine elements of business model. Customer segments, value proposition, distribution channels and customer relations are the first ones. Then follow the revenue model, the cost structure as well as key resources, activities and partnerships. The elements presented provide with dimensions or variables to play around in order to derive a viable business model, sustain competitive advantage and as a consequence gain above average returns.

We have chosen Johnson & Christensen’s approach as suitable for analysing established companies and Osterwalder and Pigneur’s model as enabling business model innovations and suitable for young resource-limited start-ups. The latter approach to business model is recognized in the entrepreneurship academia.

### **3.4 Entrepreneurship, new product development**

#### **3.4.1 Entrepreneurship**

Entrepreneurship is another theoretical field, complimenting strategic management, which might be relevant for understanding the competitive situations, especially for SMEs. There are

many definitions and descriptions of entrepreneurship. An approach stated by Drucker (1985) describes it as “an act of innovation that involves endowing existing resources with new wealth producing capacity”. The notion is confirmed by Shane and Venkataraman (2000), suggesting that entrepreneurship includes the discovery, evaluation, and exploitation of an opportunity to offer something new to the market. One of the most popular definitions, expressed by Stevenson (2000) at HBS, calls entrepreneurship “the pursuit of opportunity beyond the resources you currently control”. That is aligned with the view of Stevenson and Jarillo (1990), stating that entrepreneurship is “a process by which individuals pursue opportunities without regard to the resource they currently control”. Moris (1998) adds the team factor to the variety of definitions. He describes entrepreneurship as “The process through which individuals and teams create value by bringing together unique packages of resource inputs to exploit opportunities in the environment”. It is possible to recognize the common patterns among definitions. Most of them emphasize developing and pursuing an opportunity, characterized by a novelty factor, with limited resources. The novelty in many cases is expressed as innovation and the main resource as people, while development of new products, based on innovations, is considered as important determinant of competitiveness.

Entrepreneurial opportunity, sometimes simplified as a well-developed business idea, is one of the main concepts in entrepreneurship (Hansen et al, 2011). Venkataraman (1997) describes it as a set of ideas, beliefs and actions that enable the creation of future goods and services in the absence of current markets for them. Hansen et al (2011), present another definition: “An opportunity is the possibility of introducing a new product to the market at a profit”. According to Brown (2010), the opportunity prototyping is a process of developing a plain entrepreneurial idea into a full business opportunity. He suggests five steps for that: the idea kernel (creating ideas), customer space (analysing consumer insights), the business model, market space (market analysis) as well as integrating the parts mentioned. Brown (2010) argues that it is the business model innovation, which may lay foundations for a sustainable competitive advantage.

### 3.4.2 New product development

Aligned with the entrepreneurship and innovation is the concept of new product development. To summarize the existing best practises, key phases, activities and competences have been conceptualized, structured and put into specific frameworks. Di Benedetto (2010) presents a five step approach for the process of developing new products:

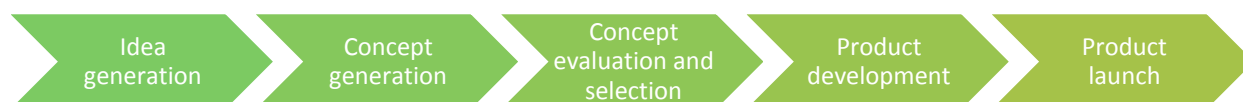


Figure 6 Process of new product development (Di Benedetto, 2010)

The idea generation phase can be roughly divided into two parts: grabbing the existing ideas and generating new ones. The first group can be spotted by examining the external environment and stakeholders. In rare cases, the existing ideas, concepts or solutions could be acquired from the internal environment, in most cases from the employees. Another route is generating new ideas, mainly expressed in the problem-based ideation method. In this case, ideas are generated by trying to identify the existing problems or pains and then developing the solutions. Various methods can be utilized to gather and analyse the problems – observations, focus groups as well as studies of complaints and company logs (Di Benedetto, 2010). After the problems are gathered and prioritized the solutions are being developed. Table 6 represents various phases, methods and tools of this approach.

Phase	Methods	Tools	Result	Next step
Identifying the problems. Problem analysis.	Stakeholder contacts	Interviews	Pool of problems	Selecting the problems
	Scenario analysis	Focus Groups		
	Marketing and Engineering staff experience	Other: role playing, observation.		
	Search of service records, sales calls, idea files			
Problem solving	Technology based solutions	Brainstorming	The concept	Evaluation
	The problem solving team	Disciplines panels		
	End-user based solutions			

**Table 6 Problem-based ideation (Di Benedetto, 2010)**

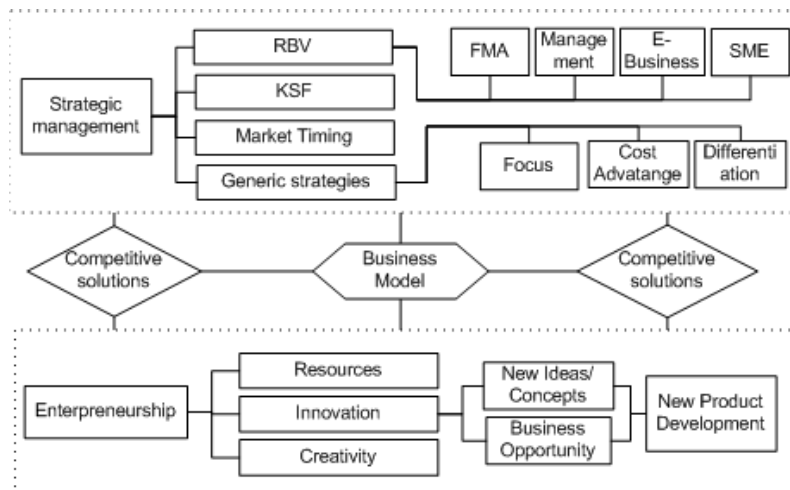
The final result is an established concept, a more developed idea. There are three general dimensions of a new solution – the problem/need, the technology and the form. Once the developer of the new product determines the two of the three, a concept is being established. When all the elements are determined – a new product is being developed. As presented in the table, a concept can be developed using the existing technology for solutions, asking the consumers for their potential salvations as well as using the teams to systematically solve the problem. They can utilize various tools like brainstorming or discipline panels.

### **3.5 Relevance of the theoretical approaches to GBC investigation**

All theoretical concepts described above are tightly related to each other and could be applied for analysis of GBCs. Detailed relations of theoretical concepts are summarized on Figure 7.

The RBV model assists in analysing GBCs in several ways. Firstly, success of particular firms may be explained by differences in their resources and more importantly capabilities. Competences of the GBCs should be analysed more carefully, because in case of capabilities-based competition the key building blocks of business strategy are not products and markets, but competences in business processes (Aaker, 2005). Secondly, relation of RBV concept to FMA and market timing may explain why some firms are more successful in the GBM.

Additionally, e-commerce capabilities suggested by Kaplan (2002) could be specifically applied to understanding of success on GBM. Considering synergy effects from RBV perspective would be also beneficial in analysis of GBCs. Finally, in order to understand the future development of GBCs it might be useful to understand which R&C could be the key determinants of the future performance and positions in the market.



R&C may represent a KSF for some industries. This clearly relates the whole Industrial Organization approach to the RBV theories. The alternatives of market entry based on timing could be applied to GBM and close relation to differentiation strategies or innovation is suggested here.

**Figure 7 Relations between theoretical concepts**

Two out of three generic strategies proposed by Porter – differentiation and differentiation-based-focus offer a wide range of solutions, which could exclude the company from its competitors, therefore, particularly this area deserve more attention in relation to GBC. According to Porter (1996) finding new or existing strategic positions is not often obvious and requires creativity and insight. It can be related to the entrepreneurial themes of identifying and pursuing new opportunities overlooked by others.

Entrepreneurship relies a lot on possession of particular resources and capabilities, corresponding to RBV. Further, there is close relation between innovativeness and entrepreneurship, which can be crucial in looking for competitive solutions for young GBC. Many of GBCs are SMEs, which requires looking at them from the entrepreneurial perspective. Additionally, new products or services can be competitive solutions for GBC. Thus, emphasis is also placed on ideation and concept generation within new product development framework.

In the end, business model concepts naturally continue entrepreneurship notions of creativity and innovativeness and link them to strategic concepts. Especially in regard to GBCs, experimentation with business models seems to be the easiest way to find competitive solution.

## 4 Methodology

### 4.1 The Overview and the design of the research

The research design is based on multiple case study, where qualitative interviews with representatives of GBCs and partners/suppliers are used. Additionally, the core problem of the research is confirmed by a qualitative pre-study, which acted as a guide for the further research. Finally, in order to test the potential competitive solutions and acquire additional inputs to understand the market from the perspective of a customer, a quantitative survey is conducted in the late stage of the research.

The summarized view of the design of the research is presented in Figure 8 below. The design of the research is aligned with the disposition of the thesis.



Figure 8 Research design

The method used can be considered, on the one hand, as abductive, which aims at the development of theory rather than theory generation or confirmation (Dubois & Gadde 2002) and, on the other hand, as a mixed research method, where quantitative research helps to test findings of the qualitative one. Abductive approach is closer to induction, which is iterative process with constantly going back and forth between theory and empirical findings (Bryman & Bell, 2007). This thesis is characterized by modification of the research topic as well as mutual influence of empirical findings and theory, therefore following an abductive research approach (see Table 7 for more details).

Research task	Method	Tools	Phase
The problem statement	Qualitative	Secondary sources – web-sites of GBCs, mass media outputs	Pre-study
Insights for the design of the research	Qualitative	Secondary sources – web-sites of GBCs	Pre-study
Interviews with GBCs and suppliers – case studies	Qualitative	Semi-structured qualitative interviews	Empirical findings

Research task	Method	Tools	Phase
Customer survey	Quantitative	Self-completion questionnaire on-line	Empirical findings
Analysis of empirical findings and answers to RQs	Qualitative/quantitative	Multiple cases analysis; abduction, moving back and forth between findings and theory	Analysis

**Table 7 Research approach**

In the qualitative research, aiming at understanding the phenomenon of GB, qualitative semi-structured in-depth interviews were chosen for the main body of the research. The number of investigated companies was not pre-determined before the study, but continuing until the material gathered was considered sufficient.

Hammersley (1996) cited in Bryman and Bell (2007) suggests three approaches to the mixed research: triangulation, facilitation and complementarity. This thesis uses the triangulation, where observation findings of pre-study are added to the in-depth qualitative interviews with GBCs and suppliers. These empirical findings are in turn verified and complemented by the quantitative customer survey.

According to Morgan (1998) cited in Bryman and Bell (2007), the mixed methods approach to the research can be based on two criteria: the priority decision (*which one qualitative or quantitative method is the principal data-gathering tool?*) and the sequence decision (*which method precedes which?*). In this thesis qualitative approach is main tool and quantitative one is added on the latest stages as complementary instrument in order to increase the validity of the results. As Bryman and Bell (2007) mention, sometimes researchers want to gather two types of data – qualitative data that will allow to gain access to the perspectives of people they are studying (processual aspects), and quantitative data that will help to explore specific issues in which they are interested (static aspect). In this study we believe that quantitative data not only contributed to understanding the phenomenon of GB as a static notion, but also fills the gaps of the qualitative empirical findings and provides with additional inputs to answer the RQs.

#### **4.1.1 Qualitative interviews with group buying companies and their suppliers**

The core research is based on qualitative semi-structured interviews with the founders, CEOs or marketing managers of GBCs. All in all, more than 30 companies in Russia, 12 in Lithuania and 8 in Sweden were approached with a request to have an interview. As a result, 11 interviews with GBCs were conducted – 4 in Russia, 4 in Lithuania and 3 in Sweden, as well as 3 with their suppliers (see Appendix F).

To develop the interview guide for GBCs main recommendations of Bryman and Bell (2007) as well as Jonson & Christensen (2008) frameworks were utilized. The interview guide included the background information about the company, the evaluation of the market, company's

performance, KSFs and the future predictions. To continue, it encompassed the R&C of the company as well as its business model. Finally, the interview guide addressed the key RQ – potential competitive solutions in the GBM. Similarly to the semi-structured interview with GBCs, the partners/suppliers were interviewed. The content of preliminary interview guides for GBCs and suppliers are presented in Appendix C.

Interviews were conducted personally and sometimes by Skype (3 times) and phone (1 time), when it was difficult to have a face-to-face meeting. Before the actual interview all interviewees were informed about the aim of the interview, background of the research and received preliminary questions in advance.

#### **4.1.2 Customer survey**

As the last step of the research a quantitative customer survey was conducted. The survey was distributed among internet users of different age in the three research countries (the amount of people contacted appr. 1500, where 325 answers were received). Additionally, a Lithuanian GBC *Kartu* assisted in distributions of the survey by placing a link on its web-site. The survey also included answers from respondents of some other countries. Yet, this does not influence the country specific results of the survey as they were assessed separately. On the opposite, an additional sample enhances the survey applicability to other regions. The self-completion on-line questionnaire is presented in the Appendix E.

### **4.2 Research quality**

Lincoln and Guba (1994), cited in Bryman and Bell (2007), propose alternative way to evaluate qualitative research instead of widely used reliability and validity parameters. Since qualitative research is the base of this study we evaluate the *trustworthiness* and *authenticity*. Trustworthiness is made up of four criteria: *credibility*, *transferability*, *dependability* and *confirmability*. The research quality aspects are presented further.

#### **4.2.1 Credibility and transferability**

*Credibility* means ensuring that research is conducted according to the canons of good practice and that research findings were checked by those who were studied in order to confirm that researcher has correctly understood the data (Bryman and Bell, 2007). Two techniques are suggested to be used here – respondent validation and triangulation. After conducting qualitative interviews the transcript of conversation was always provided to interviewee with request to confirm the right interpretation of the main issues discussed. Additionally, triangulation technique was also applied in order to check some contradictory facts or

arguments provided by interviewees by comparing them with the findings of the pre-study and the quantitative survey results.

*Transferability* refers to the possibility to apply the findings done by studying in depth a particular group within social world to other milieu (Bryman and Bell, 2007). GBCs might represent a subcategory of e-commerce. It can be considered as subset of web-based start-ups development. The similarities among the subsets of e-commerce allow us to assume that the research findings and conclusions could be transferred to other fields of this industry. The generalizability aspect will be discussed in the Limitations section and in the end of the thesis.

#### **4.2.2 Dependability and confirmability**

*Dependability* is associated with auditing of the main phases of the research, where keeping all records of these phases is required (Guba and Lincoln, 1994). However, Bryman and Bell (2007) note that auditing might be very demanding due to very large data sets generated by the qualitative research. Therefore, this criterion of trustworthiness was approached similarly to reliability (see 4.2.3).

*Confirmability* is concerned with the fact that researcher should not allow personal values or theoretical tendencies to influence the research and its findings. In that sense it was beneficial to have two researchers working on the same topic. Additionally, tutor's help was very viable to ensure that observation and research flow is as objective as possible, though of course "complete objectivity is impossible in business research" (Bryman and Bell, 2007).

#### **4.2.3 Reliability**

*Reliability* means that a measurement gives the same result if repeated. According to Lincoln and Guba (1985), reliability is also the precondition for validity, since an unreliable measure cannot be valid. Instead of the traditional meaning of reliability, some authors require the results to be consistent, which can be ensured by the several techniques (LeCompte and Goetz, 1982). Firstly, the researcher should clarify the assumptions and theories the research is based on and their position to the studied group. That is why special attention is placed on choosing the theories and their relation to the GB. Secondly, using several methods for the collection of the data and analysis tend to increase reliability. Thirdly, detailed description of how the data was collected is needed in order to help the independent reader to follow the process. Therefore, along with the usage of multiple case study design, several sources of data and methods of their collection the explanation of each step of the research is provided (see Paragraphs 2.4 and 4.1). Reliability-wise, it is important noticing that the responses of the participants might change over time due to high dynamics of the GBI. Furthermore, since as a subjective judgment is

involved in recording the interview data and observations and due to the fact that two researchers were collecting the data, it was made sure that both researchers have common understanding of the variables the respondents had been asked about. These factors refer to internal reliability and inter-observer consistency requirements of Bryman and Bell (2007).

#### **4.2.4 Authenticity**

*Authenticity* includes fairness, ontological, educative, catalytic authenticity and tactical one. Due to the fact that qualitative interviews with the representatives of GBCs were done with experts with different nationalities, backgrounds, occupations as well as entrepreneurial and/or corporate perspectives, it might be concluded that the fairness criteria is met. Further, as one of the objectives of the thesis was to facilitate better understanding of the competitive situation among GBCs, the criteria of the ontological authenticity is also met. Also, we believe that the research will help GBCs to understand two types of their customers – partners/suppliers and end-customers better. Furthermore, the catalytic authenticity should be achieved as well, due to the practical applicability of the research findings and their relevance for the MVSG of GBC. Finally, a provision of the particular examples of competitive solution should help this group to take necessary steps to engage in action, which is considered as tactical authenticity.

### **4.3 Limitations of the research**

Limitations of the research are mainly related to the transferability of the results. First of all, the generalization of the findings of this study could be assisted by adding research of US market, which is the pioneering market in GBB, as well as studying Groupon. Yet we believe that the backgrounds of authors assisted in investigating the three chosen countries in more depth. Unfortunately, Groupon rejected all approaches for cooperation for this study. However, this problem was partly overcome by having a case study of *Beta*, leading company in Lithuania, and analysing Groupon along with other GBCs in the pre-study. Also, Groupon was mentioned by industry practitioners several times during interviews. The international scope of the research might suggest conducting country-wide comparisons of GBCs. Yet, a wide and explicit comparison was not conducted due to time and space limitations of the study and focus on the competitive solutions. Nevertheless, the international evaluation is indirectly included in the research as many comparisons among GBMs in different countries were made in order to develop the competitive solutions. Some of them are based on concepts, which are present in one country and missing in another. Finally, different languages used for interviews might lead to some misinterpretation of both questions and answers.

## 5 Research results

### 5.1 Qualitative interviews findings

The research includes 11 interviews with GBCs and 3 interviews with suppliers (Appendix E). Yet, due to the limitation of the paper 4 cases of GBCs and 1 case of a supplier is presented in full versions, while for the rest only the key take-aways are provided. We choose the most representative companies for the full cases, which together should reveal the most accurate picture of GBMs and GBCs themselves (see Table 8). Under no circumstances the authors do not underestimate the importance of other shortened cases for this study, thus the full versions are available in Appendix B.

	Lithuania		Sweden		Russia		Suppliers
<b>Beta</b>	The only market leader among interviewed GBCs	<b>Gruppi</b>	The only start-up company without corporate support among interviewed GBCs in Sweden	<b>DailySmiles</b>	Quite successful GBC from the region with several revenue models	<b>Kasvodaugas</b>	Young company using GBC to boost sales
<b>Kartu</b>	The only aggregator among all GBCs interviewed						

**Table 8 Reasons for choosing particular cases for full presentation**

Additionally, empirical findings from each country are summarized after cases. Aligned with this approach, the main results of the customer survey are presented in a form of summary table. This enables focused presentation of the empirical findings, while keeping the extensive multi-national research possible. The empirical findings of the interviews are grouped according to the following dimensions (see Table 9):

Empirical findings	Research questions tackled
Background information and performance	RQ1
GBM, KSF, strategic groups and future predictions	RQ1, RQ2, RQ3
RBV: resources and capabilities	RQ2, RQ3, RQ4
Business model, competitiveness and the solutions	RQ1, RQ4

**Table 9 Dimensions of the qualitative empirical findings**

This structure of the empirical findings representation corresponds to the natural transition of the thesis to solve the core problem of the research – survival in the GBM.

#### 5.1.1 Group buying companies in Lithuania

##### 5.1.1.1 Full case - Beta

#### Background information

*Beta* is the second officially launched GBC in Lithuania and the first one to successfully operate. It is considered as the pioneer of the market. The company was founded by an

entrepreneur Alvyde Palaimaite and investors “Make Ventures”. The company has sustained its leadership position in the market and currently offers several deals per day, encompassing various categories. *Beta* uses the general supply-driven, Groupon-type, GB model. There were marginal initial investments, yet most of the growth afterwards was fostered organically.

### **Performance**

In July 2011 *Beta* occupies around 35-40% of the market. Its monthly average turnover of coupons sold is 250.000 EUR, generating average revenues of 35.000 EUR. The daily traffic of unique visitors varies around 20.000, which places the company among top20 Lithuanian websites. *Beta* possesses one of the strongest and loyal customer databases. Its size is 35.000 subscribers. The figures allow the company to claim to be the leading one in the market.

### **Perspectives upon the industry – the current state, key success factors and predictions**

According to Ms Palaimaite, “*the market is small and overcrowded by competitors*”, where the majority of players can be described as “*trash*” or poor performance/quality projects. The most reasonable strategic grouping should be based on the market share occupied. The small players, possessing limited resources, will go into bankruptcy. They are the most fragile group. However, there is still space for a couple of “*solid and resource-rich players*”. The prediction is that there will be 3-7 GBCs in the industry. The general prospect for the market is positive.

Speaking about KSFs, Alvyde stresses the know-how and the experience. The latter involves general GBB development, while the first one encompasses deep understanding of the customers and “*being able to select great deals*”. It is exactly the quality of the deals, which is named as another KSF of the industry along with attraction of end-customers or final sales. Finally, IT is also an important KSF – “*it provided with heavy-weighted assistance for Beta – probably replaced two employees*”. Many things like “*managing contracts, advertisement, tracking of sales, customer support can be improved via IT*”. Thus, operational efficiency as well as competitive position can be enhanced.

### **Resources and capabilities**

According to Alvyde, HR, or the team, is the profound resource. It has to be “*sincerely motivated, passionate, competent, believing in what they do and committed*”. The second crucial resource is the IT. It had tremendously increased the efficiency of the processes and as a result saved time and money. To continue, existing networks and partners can “*ease the communication and traffic generation processes*” as well as make them cheaper. Another important asset is the financial investments. Also, it is vital to understand the market, “*sense its needs*” and be able “*to assess great deals*” and their portfolios. That is the key capability.

Knowledge is needed to “*understand markets*” under geographical perspective and to approach suppliers properly in order to gain the best deals. *Beta* is “*not afraid to try new things*” and shapes the market in various forms – by selecting types of products/deals to offer, choosing particular suppliers as well as advertisement channels. Additionally, constant learning and improvement is crucial to discover quickly the market and the needs of the customers. At the same time, it is important “*to guess what the customers could enjoy and to experiment*”. Part of this capability is constant improvement of operational efficiencies and updates using the IT systems. To continue, acquiring quality deals is important and starts with a capability to identify, contact, attract the partner and continues by educating it about “*the importance of satisfying the customer’s needs*”. *Beta* uses a combination of relational and transactional approaches to suppliers’ management. The most successful deals are repeated to some extent. However, no long-term partnership agreements are established as they reduce *Beta* bargaining power and ability to play the market to get even better deals. The customers need something novel; therefore, the same deals could “*get boring and disappoint them*”. Finally, Alvyde claims the skill of attracting website users and the end-customers to be an important one – “*in the end it is the final user who pays the bill*”.

### **Competitive solutions**

*Beta* uses a commission-based revenue model. The commissions vary from 5% to 30%. Its costs structure comprises of dedicating 40% to marketing, 30% to HR, 20% to administrative, 5% to IT and the rest to other expenditures.

For partners, *Beta* emphasizes communication as the core value proposition. “*Sales as a value offering*” are presented afterwards. The company uses its own deals selection policy.

As *Beta* merged with the second player of the market in terms of market share *Grupinis*, owning 30% of the market, the main competitors of the company are relatively smaller players like *Imktarka*, *Kaiuletaupykle* or *Kartu*. *Beta* has always had a longer-time perspective and cared about their image (brand). “*The consistency regarding the deals policy*” as well as with communication strategies is another differentiator of this company against the competitors.

Ms. Palaimaite bases approach to future growth on four strategies. The first one is “*market consolidation*” or *M&As*, especially in the whole Baltic States region. Another one is “*increasing the number of customers*” (traffic first of all) and is based on marketing and communications. The third source of growth is increasing the number of deals presented on the website or “*increasing the range of the offers*”. The final source of growth is “*processes optimization*”, especially, using IT and automating the procedures.

According to Alvyde, one alternative strategy in GBM could be the “*market penetration*”

*strategy based on low commissions*” (costs for the partner). It was used by *Grupinis.lt*. Yet the company must possess enough resources to sustain itself as “*low margins do not provide with enough income*”. Therefore, for a great majority of actors in the Lithuanian market finding their difference or specialization is of utmost importance. As stated by Ms. Palaimaite “*It is suicidal to imitate the market leaders without having the same kind of resources. You’ve got to find your difference!*” Specialization in narrower categories could be a solution. Yet, the size of the niche market can make business troublesome.

### **5.1.1.2 Full case - *Kartu***

#### **Background information**

*Kartu* is the company to launch the first official GB deal in Lithuania in April 2010. It is an entrepreneurial start-up founded by three students. The limited amount of resources and experience determined a moderate growth pace. In the beginning it was a Groupon-type company, but the competitive pressures and limited resources pushed it to look for differentiation – becoming an *aggregator*. In July 2011, *Kartu* used a dual approach – offering own deals and presenting the ones of competitors. In June 2011, it was sold to one of dominating IT conglomerates in Lithuania, which helped to receive more solid financial back-up, network of advertising channels and implement successful managerial practices.

#### **Performance**

*Kartu* has usually been the third, the fourth or the fifth player in terms of market share in the Lithuanian GBM. In September 2011 the company occupied a little bit less than 10% of the market. That places *Kartu* as number 3 or 4 in Lithuania. The monthly turnover of coupons sold reached 63.000 EUR. Moreover the company was drastically expanding – the same indicator in May (before the sale of the company) was 18.000 EUR. The revenues of the company were around 8.000 EUR, the daily traffic – 10.000 visitors and the subscriber DB around 20.000 customers.

#### **Perspectives upon the industry – current state, key success factors and predictions**

Arturas Mizeras, one of the founders of the project, claims that “*the market is an “inhaled” bubble, where too many players are caught by the hype and entered the market despite objectively assessing personal strengths*”. Nevertheless, the market can be seen as oligopoly, where “*several leaders capture the majority of the market*”. Yet, it also contains many of smaller actors. The market is “*definitely growing*”, but the pace should decrease and come close to the general e-commerce growth ratio. According to Arturas, the market is characterized by the “*snow-ball effect*”, where a company, possessing more customers or resources can gain

better deals and strengthen its position, *“making it even more difficult for others to catch up”*. GBCs could be grouped according to the level and quality of partners/relationships or complementary business portfolio they possess, the origin of the capital invested (foreign or local) as well as by the market share occupied. The MVSG includes the companies possessing low market share, small level of differentiation, but which have already invested heavily.

According to Mr. Mizeras, the main KSFs of the market are *“the capabilities to acquire/arrange a promising deal and the ability to get advertisement (communication) channels cheaply. The limitation for growth is the number of potential suppliers in general”*. As the number of businesses is limited in the country so will the ability to offer various deals. *“The small players will be pushed out of the market”*, but much later, as their fixed costs as well as investments are low and thus they are capable of surviving for a relatively long period of time. There should be around 10 players in the market and a greater number of aggregators.

### **Resources and capabilities**

According to Arturas, the key resources and capabilities *“correspond to the key success factors of the industry”*. These are the ability to acquire/arrange the deal and the communication capabilities. Thus, the main resources are the HR and networks to achieve cheaper advertisement. *“The deals acquisition has to be well planned, organized, smooth and efficient and provide with quality offerings”*. There should be formal processes. Other important skills are the competences regarding online advertisement (e-commerce know-how) – selection of channels as well as designing the ads. It is important to be able *“to monitor, analyse and adjust e-marketing efforts and campaigns”*. Another important skill is to understand the online analytical tools such as Google analytics and Tradedoubler. The acquisition of deals depends on the existing clients and face-to-face interactions, which are *“more effective than the cold calls”*. However, the latter are still necessary. In general, *“marketing is the essence of the whole GB project”* that could be seen as a marketing channel or as a subcategory of the whole marketing.

### **Competitive solutions**

According to Arturas, the main customer for *Kartu* is the supplier of deals. The CVP to it involves *“generating leads, visibility and sales”*. The latter is more important to the products, while publicity is more relevant to services. Additional value might step from offering ticketing/seating, logistics and additional advertisement services. Some promising categories could include travelling, healthcare, beauty, everyday products, events or food. The company uses a dual revenue model, comprising of commission payments as well as income from other GBC for placing their deals on the website. The cost structure of *Kartu* is the following: HR (60%), marketing (20%) and administrative costs (20%).

The company is partly satisfied with the competitive position. *Kartu* differs from the competitors by using the aggregation model; offering the bigger range of advertisement channels (banners) and exposure. The differentiator against smaller players is the size. Mr. Mizeras claims that from the historical perspective the main drivers for *Kartu* competitive success were “*well-timed entry and later change into the aggregator’s model, great webpage design and user-friendliness as well as low investment*” (low debts, positive bottom-line).

The following sources of growth for *Kartu* could be seen: the growth of the whole market and company’s web traffic, attraction of new partners/suppliers, overtaking the partners/suppliers of the competitors and “*selling more to the same customers*”. The company’s future strategy will be “*to grow as the top aggregator*”, one of the three leading deal providers and to introduce two additional revenue sources (for placing a deal on the website and additional advertisement).

There could be different competitive solutions in the GBM. According to Mr. Mizeras, the companies might “*become aggregators or find specific niches*”. Also, the GBC could base their positioning on the brand (domain name). Differentiation can be perceived from the partners/supplier’s perspective. GBC might “*offer exclusive place for partner’s deal on the website*”, “*the top or random position among other deals on the website*”. They might pay more attention to the partner, provide different exposures to advertisement and logistics services. The MVSG (low market share/big investments/international origin) could be suggested “*to optimize the costs, try to leverage international origin and to look for strategic partnership for cheap advertisement*”.

### **5.1.1.3 Key takeaways from the case CityLife**

#### **Background information**

*CityLife* is a GBC originally launched in Latvia and later expanded into Estonia and Lithuania. Thus, the Lithuanian unit, though separate in decision making, still belongs to the parental company. International presence makes *CityLife* different to some extent. Due to our estimations this company occupies between the 5<sup>th</sup> and the 7<sup>th</sup> place in the Lithuanian GBM (the full case is available in the Appendix B on page 91).

#### **Key takeaways (according to M. Butkus, managing director)**

According to the managing director Butkus M., “*GB is a trendy thing*”. The competition in the market is “*evident and strong*”. It is “*gradually dealing with the weaker players*” of the market. 4-5 strong companies are becoming the dominant ones and the rest 80% of them will disappear. The main KSF of the market is “*balancing and matching the preferences of customers and suppliers*”. The most important resources are the partnerships and “*channels to*

*acquire the deals*” and the parent company, providing with support (financial, know-how, IT, products-based and operational). The crucial capability is the ability to work together with the supplier and “*arrange a suitable, valuable and highly demanded deal*”. Different strategies in the GBM could be based on specific types of deals or product categories, changing quality standard of the products offered, or using different advertisement channels. The MVSG (small and without resources) is suggested to quit the business: “*Get out of here!*”.

#### 5.1.1.4 Key takeaways from the case DailyCard

*DailyCard* is relatively different company in the Lithuanian GBM. First of all, it is a general credit card, “*DailyCard*”, offered by one of the four dominating banks in Lithuania – DNB Nord. At the same time, it is considered as a discount card, where specific discounted offerings can be purchased using it. Therefore, the primary goal of the website *DailyCard* is to promote the credit/discount card. As an extra it runs the GB service and offers deals. Even though GB is not the primary activity of this sub-company of DNB Nord, it is actively present in the GBM. The GB service was launched in Autumn, 2010. *DailyCard* could be placed between the 5<sup>th</sup> and the 10<sup>th</sup> place in the Lithuanian GBM (see full case in Appendix B on page 93).

#### Key takeaways (according to Dovile Rimsaite, project manager)

*DailyCard* GB project is an additional service of DNB Nord aiming at “*driving traffic to the website*” and promoting the card. According to Dovile Rimsaite, “*there are a lot of big, yet low quality projects in the market*”. The GBM is a “*bubble and will explode soon*”. The companies could be grouped by having GBC as core business or as an additional service, and by product sold – the deal or the discount. The *KSFs* for *DailyCard* in the GBM are the financial back-up and advertisement. The most vital resources are the financial funding, IT, network of partners, and strong team. The key capabilities are related to marketing, IT and processes management. According to Dovile, “*there are doubts in marketing value of GB – it attracts disloyal hunters of discounts, and decreases the brand value*”. Different strategies in the GBM could be based on “*focusing on different type of users*” and price ranges for the deals.

#### 5.1.1.5 Summary of empirical findings from Lithuania

	Beta	Kartu	DailyCard	CityLife
Performance	<ul style="list-style-type: none"> <li>• Pioneer in Lithuanian GBM, with almost 40% share</li> <li>• Subscribers’ database – 35.000 users</li> <li>• Monthly turnover - 250.000 EUR, profits - 35.000 EUR</li> </ul>	<ul style="list-style-type: none"> <li>• Launched first GB deal in Lithuania in April 2010</li> <li>• May, 2010 - sold to leading IT player.</li> <li>• September, 2011 - had about 10% of the GBM</li> </ul>	<ul style="list-style-type: none"> <li>• Part of DNB Nord banking business</li> <li>• The core purpose of GB is to drive website traffic and sales of the credit/discount card</li> </ul>	<ul style="list-style-type: none"> <li>• Latvian company that expanded to Estonia and Lithuania</li> <li>• Between the 5th and the 7th places according to the market share occupied</li> </ul>

	<i>Beta</i>	<i>Kartu</i>	<i>DailyCard</i>	<i>CityLife</i>
<b>Resources and Capabilities</b>	<ul style="list-style-type: none"> <li>• HR</li> <li>• IT skills</li> <li>• Subscribers DB</li> <li>• Ability to assess great deals</li> <li>• Market knowledge</li> <li>• Constant learning and improvement</li> </ul>	<ul style="list-style-type: none"> <li>• “Key R&amp;C correspond to the KSF”</li> <li>• HR, Network, e-marketing knowledge</li> <li>• “Marketing is the essence of GB”</li> </ul>	<ul style="list-style-type: none"> <li>• Financial funding</li> <li>• IT</li> <li>• Network of partners</li> <li>• Strong team</li> <li>• Marketing</li> <li>• Processes management</li> </ul>	<ul style="list-style-type: none"> <li>• Partnerships and channels to acquire the deals</li> <li>• Strong back-up</li> <li>• Ability to work together with the supplier and arrange a suitable and valuable deal</li> </ul>
<b>RQ1 – Competition between GBC now</b>	<ul style="list-style-type: none"> <li>• The main competitors of the company are relatively smaller players</li> <li>• The majority of companies in the market are “poor quality projects”</li> </ul>	<ul style="list-style-type: none"> <li>• GBM is oligopoly, where several leaders capture the majority of the market</li> <li>• GBM also contains many of smaller actors</li> </ul>	<ul style="list-style-type: none"> <li>• GBM has expanded dramatically. It is difficult to compete</li> <li>• A lot low quality projects, which ruin the reputation and draw GBM down</li> </ul>	<ul style="list-style-type: none"> <li>• The competition is evident and strong</li> <li>• 4-5 strong companies are becoming the dominant ones</li> <li>• 80% of the companies will disappear</li> <li>• “Game for survival”</li> </ul>
<b>RQ2 – Key Success Factors</b>	<ul style="list-style-type: none"> <li>• Know-how and experience</li> <li>• Quality of the deals</li> <li>• Attraction of end-customers</li> <li>• IT</li> </ul>	<ul style="list-style-type: none"> <li>• Capabilities to acquire/arrange a promising deal</li> <li>• Ability to get advertisement channels cheaply</li> </ul>	<ul style="list-style-type: none"> <li>• Financial back-up</li> <li>• The size of the discount (what the customers really value)</li> </ul>	<ul style="list-style-type: none"> <li>• Balancing the preferences of customers and suppliers</li> <li>• Ability to sustain this competitive and difficult period when a great majority of actors will go bankrupt</li> </ul>
<b>RQ3 – Strategic groups</b>	<ul style="list-style-type: none"> <li>• Small players, possessing limited resources, will disappear</li> <li>• Couple of solid and resource-rich players will survive. So 3-7 players will remain in the industry</li> </ul>	<p>Grouping based on:</p> <ul style="list-style-type: none"> <li>• Level and quality of suppliers</li> <li>• Complementary business portfolio,</li> <li>• Origin of the capital</li> <li>• Market share occupied</li> </ul>	<ul style="list-style-type: none"> <li>• GB as core business,</li> <li>• GB as additional service</li> <li>• Companies that sell the deal</li> <li>• Companies selling a discount</li> </ul>	<ul style="list-style-type: none"> <li>• Grouping according to turnovers and numbers of coupons sold</li> <li>• MVSG - have weak market position now and limited amount of resources</li> </ul>
<b>RQ4 – Competitive solutions</b>	<ul style="list-style-type: none"> <li>• Market penetration strategy based on low commissions</li> <li>• Increase marketing and communications</li> <li>• Increasing the range of the deals</li> <li>• Growth through processes optimization</li> <li>• Positioning differently, finding your niche or coming up with something new</li> </ul>	<ul style="list-style-type: none"> <li>• Offering ticketing/seating, logistics and additional advertisement services</li> <li>• Changing business model</li> <li>• Become an aggregator or find specific niches</li> <li>• Differentiating based on offering for supplier</li> <li>• Optimizing the costs, trying to leverage international origin and looking for strategic partnership</li> </ul>	<ul style="list-style-type: none"> <li>• Focusing on different type of users and price ranges for the deals</li> <li>• Stopping imitating others and thinking of own solutions</li> </ul>	<ul style="list-style-type: none"> <li>• International presence</li> <li>• Intensive advertisement</li> <li>• Different strategies could be based on specific types of deals or product categories</li> <li>• Changing quality standard of the products offered, services or using different advertisement channels</li> </ul>
<b>Future predictions</b>	<ul style="list-style-type: none"> <li>• Market consolidation or M&amp;As, especially in the whole Baltic region</li> <li>• For majority of actors in the Lithuanian market finding their difference or specialization is of utmost importance</li> </ul>	<ul style="list-style-type: none"> <li>• “The market is an “inhaled” bubble, many players entered the market despite objectively assessing personal strengths”</li> <li>• There should be around 10 players and a greater number of Aggregators.</li> </ul>	<ul style="list-style-type: none"> <li>• Soon many GBC will go out of the market.</li> <li>• The oldest ones will survive, because they have an established customer DB and brand awareness</li> </ul>	<ul style="list-style-type: none"> <li>• About 5 players only are going to survive</li> <li>• Despite negative results, many companies still try to remain in the market.</li> <li>• Stronger GBC decrease their commission rates to push the smaller ones out of the market</li> </ul>

**Table 10 Summary of empirical findings from Lithuania**

The Lithuanian companies, interviewed for this study, represent a wide range of GBCs – from market leader to aggregators and traditional followers. Some of them are part of other business

and/or possess international origin. Thus, the Lithuanian part of the study provides with very valuable data from different perspectives.

## 5.1.2 Group buying companies in Sweden

### 5.1.2.1 Full case - Gruppi

#### **Background information**

*Gruppi* was co-founded in Sweden in October 2009 by Shahan Lilja, graduate of Stockholm School of Economics, and his partners as a Groupon type of company, aiming to be one of the first GBCs after Groupon and targeting not only Sweden, but also Europe. Today *Gruppi* regards itself as “number three GBC in Sweden among 6 major players”. It employs 6 people. The majority of them are working in sales, while one person is dedicated for the IT. 80% of *Gruppi* customers are woman, “who are actually very loyal – 50% of subscribers are actively buying”.

#### **Perspectives upon the industry – the current state, key success factors and predictions**

According to CEO Shahan Lilja, “there is estimation in media that GBM in Sweden is approximately growing by 1 bln. SEK per year, but in Sweden competition is relatively little, comparing to USA, Russia and Lithuania”. Currently here are 6 competitors. Now big companies (like Eniro with their project EniroDeals) are joining the market, “mainly because they are able to arrange great traffic to their sites”. There is a “fatigue for deals” among buyers – overwhelmed by different offerings, people are becoming tired. But GBCs that started earlier have an advantage, though “making profits in the market is extremely difficult, especially if the company has great expenses on the sales force”.

The CEO sees three major success factors for GBCs: 1. Big user DB (“if this it was not created on the first stages of GBM development it is extremely difficult to grow it afterwards”); 2. Sales force – those people who “bring deals” (however, “spending a lot of money on sales force, does not mean that the company would be profitable, because business model is not very sustainable” – Groupon spending a lot of money on sales could be a good example of this); 3. “Creating great content” (deals and communications).

According to Mr. Lilja, there are three groups of GBCs in the Swedish market: big publishers (possess big database of subscribers as well as resources to get publicity), traditional internet companies (have traffic and want to capitalize on it, “but the major question for them is how to transfer traffic into money”) and small companies or completely independent start-ups. In Sweden *Gruppi* is probably the only representative of the latter group, which is quite an

interesting phenomenon. The majority of players are big companies often with roots in media sector.

Shahan Lilja believes that in the short term consolidation will definitely take place. Small size in GBM is *“not sustainable economically”*. *“Scale in this business is a big advantage”* due to the business model, which is characterized by fixed cost per deal. Long term trends in the GBM include the emergence of other business models, while current ones are becoming *“less and less sustainable”*. For example, now business models are concentrating more on end-consumers. Emphasizing more value to the supplier could be one of the future models. According to Shahan, *“quality is the main driver of success of the deal”*; also, category of the deal might be important. Surprisingly, *“discount does not affect profitability that much”*.

Shana Lilja explains that the competition for partners/suppliers is rather tough among GBCs in Sweden – *“as soon as one of the companies gets new supplier, another one calls him/her and tries to tow it away”*. Several supplier groups of GBCs could be identified in the market:

- Those who make profit directly (mainly suppliers of services, which is a rare group);
- Those aiming to get advertisement (the biggest group, which aims to get new customers);
- Those that execute price discrimination (*“most important mechanism for many businesses helping to get customers that would otherwise never buy a product or a service”*).

According to Shahan, *“aggregators are not a threat”*. They are interesting for GBC only if they would have enough traffic. Also margins of aggregators are very low. For example in USA many aggregators are giving places for free.

### **Resources and capabilities**

Shan Lilja claims that the most important capability is the sales. According to him, *“two sales guys can easily start GB business without any IT skills”*. However, much more resources and capabilities are needed for further development of business. For *Gruppi* successful e-marketing was one of the reasons why it managed to build good user-base. The company arranged competitions, tried to sincerely care about the consumers, combining activities in the real-world and on-line. *“If you are small, you cannot say that you are really competing in the market, because due to fewer resources your impact is limited”*, – notices Shahan.

### **Competitive solutions**

*“In USA Groupon tried to open Groupon-stores, where offered self-service mechanism for partners”*. Yet, this model did not work. Nevertheless, according to Shahan, it could still be considered as one of the competitive solutions in GBM. GBCs that would change their approaches to deliver more value to the partner (i.e. *“accepting supplier’s terms of deals”*,

*“becoming more flexible”, “selling only overcapacity”*) would attract new suppliers to the market (i.e. *“luxury restaurants that would never go to Groupon or Gruppi”*) and could differentiate in this way. Niching of course is another solution. Yet, it is probably *“not for such small countries as Sweden”*. The trend of niching is especially prominent now among GBCs in USA. However, this solution might not be enough for smaller actors, because as Shahan expresses it: *“you could imagine the bigger actors taking all the niches as well”*. Moreover, it could happen that a small niche company would be acquired by bigger actor. Yet, an overlap of the subscriber DBs might result in less value for the big company. To continue, targeting older generations may also represent a business opportunity. Also, *“book of coupons in a digital format as a mobile app”* could be considered as a competitive solution. This old business model has not been used successfully in the Swedish GBM yet. Finally, Shahan states that going *“mobile first, web second”* and *“brands first consumers second”* might be a good option.

In short, the most natural way to compete is to differentiate, or to try to do something differently (i.e. *“good IT team could be part of differentiation strategy”*). Some differentiation solutions could include changing the business model. Other might encompass simple attempts to try to be bought by resource-rich company and compete with its resources.

### **5.1.2.2 Key takeaways form the case YourDeal**

#### **Background information**

GB portal *YourDeal* is a part of HR North, job advertisements company, and employs approximately 50 people. Four of those are working for *YourDeal* project, which took off in 2010. By that time the mother company already had GBCs in Poland, Denmark and Norway, where it worked under the name *SweatDeal*. Currently the company regards its performance as satisfactory comparing to other countries due to lack of synergy effects in Sweden (see the full case in Appendix B on page 95).

#### **Key take-aways (according to Roger Persson, CEO)**

Offering *“low risk campaign”* and *“advertisement at much lower cost”* is key value proposition of *YourDeal* to suppliers. Mr. Persson states: *“It is very important to understand how people buy and why they don’t buy – so a better understanding of buyers’ loyalty may be generated”*. The main KSFs of the market include – *“Arranging great deals”, “education of potential buyers”, “getting members to subscribe to database”*. *“The brand name cannot be a KSF in GB, but should be catchy”*. Mr. Persson continues: *“In one year there will be probably 2-3 main players, other GBCs will be niched. GBC will be very popular for a couple of more years. Cultural differences in the business and adaptation to local culture will be the key”*. Speaking

about the R&C, Mr. Persson believes that “*good sales skills are a key resource*”. In the future he sees potential in adding value proposition for partners – organizing special deals for the existing loyal company’s customer DB. In this way loyalty would be supported. In addition to that, another competitive alternative could be offering deals in “*destinations of travelling*”.

### 5.1.2.3 Key takeaways form the case EniroDeals

#### Background information

*EniroDeals* is one of the new business lines at *Eniro*, which is the most popular “*yellow pages*” service in Sweden. *Enirodeals* was launched in May 2011 and considers itself among 3 leading GBCs in Sweden. It also operates under different names in Norway and Denmark. The GBC was “*a natural step to add value to the yellow pages concept*”. Within *Eniro EniroDeals* project is a combination of efforts between marketing and product development department (see the full case in Appendix B on page 98).

#### Key takeaways (according to Jonas Dahlquist, marketing director)

Perfect infrastructure and the traffic of *Eniro* provide solid background for *EniroDeals*. The established *Eniro* brand and the long history help *Enirodeals* “*to get the deals and to attract buyers*”. According to Jonas Dahlquist, the main *KSFs* of the market include good deals, subscribers DB and/or traffic. “*All actors on the GBM are extremely similar, so they need to create different positions*”. The sales force, technology and great deals are the most important resources and capabilities for GB business. “*Everyone has to find his own way to compete and differentiate*”. Mobile channels, making mechanism available for suppliers to arrange the deals themselves, changing the revenue model, partnerships with aggregators and other businesses could be the potential solutions.

### 5.1.2.4 Summary of empirical findings from Sweden

	<i>YourDeal</i>	<i>Gruppi</i>	<i>EniroDeals</i>
Performance	<ul style="list-style-type: none"> <li>• Part of the HR North, job advertisements company</li> <li>• Started GBB in November 2010</li> <li>• 15.000 subscribers</li> </ul>	<ul style="list-style-type: none"> <li>• “<i>Groupon type of company</i>”</li> <li>• Founded in October 2009</li> <li>• Regards itself as number 3 GBC in Sweden among 6 major players</li> </ul>	<ul style="list-style-type: none"> <li>• One of the new business lines at <i>Eniro</i></li> <li>• Launched in May 2011</li> <li>• 2,5-2,7 mln. unique visitors on <i>Eniro</i> pages every week.</li> </ul>
R&C	<ul style="list-style-type: none"> <li>• Sales skills</li> <li>• Partnerships for getting deals</li> </ul>	<ul style="list-style-type: none"> <li>• Sales capabilities on initial stage of the business.</li> <li>• Marketing – for building good user-database</li> </ul>	<ul style="list-style-type: none"> <li>• Combination – relationships to suppliers, buyers and traffic.</li> <li>• Blend of sales force, technology together with great deals</li> </ul>

	<i>YourDeal</i>	<i>Gruppi</i>	<i>EniroDeals</i>
<b>RQ1 – Competition between GBC</b>	<ul style="list-style-type: none"> <li>• “There is no one single company that has the market”</li> <li>• Some smaller GBCs are approaching others with proposal to buy their DB</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively little competition for buyers in Sweden, comparing to USA, Russia and Lithuania. But for suppliers it is rather tough</li> <li>• “Now big companies (like Eniro) are joining the market, mainly because of having great traffic”</li> </ul>	<ul style="list-style-type: none"> <li>• “We see hype right now regarding GBM”</li> <li>• Very immature market with 3 main established players – Groupon, Letsdeal and Enirodeals</li> <li>• “Since business models are exactly the same, the competition is fierce”</li> </ul>
<b>RQ2 – Key Success Factors</b>	<ul style="list-style-type: none"> <li>• Getting subscribers</li> <li>• Arranging great deals</li> <li>• Strong media platform</li> <li>• “It is very important to understand how people buy and why they don’t buy”</li> </ul>	<ul style="list-style-type: none"> <li>• Big user database</li> <li>• Sales force</li> <li>• Creating great content (deals)</li> <li>• Quality is main driver of success of the deal</li> <li>• “Surprisingly, discount does not matter for being more profitable”</li> </ul>	<ul style="list-style-type: none"> <li>• Having good deals</li> <li>• Need to have either traffic or subscribers</li> </ul>
<b>RQ3 – Strategic groups</b>	<ul style="list-style-type: none"> <li>• “In 1 year there will be probably 2-3 main players, other GBC will be niched”</li> </ul>	<ul style="list-style-type: none"> <li>• Big publishers</li> <li>• Traditional internet companies</li> <li>• Small companies or completely independent start-ups</li> </ul>	<ul style="list-style-type: none"> <li>• Companies having traffic instead of subscribers</li> <li>• Companies having a lot of subscribers</li> <li>• Aggregators</li> </ul>
<b>RQ4 – Competitive solutions</b>	<ul style="list-style-type: none"> <li>• Separation of deals based on districts of a city</li> <li>• Big variety of deals</li> <li>• Payment to suppliers immediately after deals</li> <li>• Concentrating on smaller cities</li> <li>• Organization of special deals for company fan club members</li> </ul>	<ul style="list-style-type: none"> <li>• Self-service mechanism for suppliers</li> <li>• Changing business model to deliver more value to supplier</li> <li>• “Niche is also one of the solutions”</li> <li>• “Book of coupon sellers in digital format as an app”</li> <li>• Targeting older generation</li> <li>• Going mobile</li> <li>• Be acquired by company with many resources and compete with them</li> </ul>	<ul style="list-style-type: none"> <li>• “Everyone have to find his own way to compete and differentiate”</li> <li>• Change business model</li> <li>• Add mobile channel</li> <li>• Making it easier to arrange good deal for supplier</li> <li>• Partnerships with aggregators and other partners</li> </ul>
<b>Future predictions</b>	<ul style="list-style-type: none"> <li>• GBC will be very popular for a couple of more years</li> <li>• “Cultural differences in the business and adaptation to local culture will be the key”</li> </ul>	<ul style="list-style-type: none"> <li>• “Being small in GBM is not sustainable economically”, therefore consolidation will take place</li> <li>• In more long term perspective - emergence of other business models, since current ones are becoming less and less sustainable</li> </ul>	<ul style="list-style-type: none"> <li>• “For future growth there is a need to target all companies that can offer any deals”</li> <li>• “All actors on GBM are extremely similar so they need to create different positions”</li> </ul>

**Table 11 Summary of empirical findings from Sweden**

The Swedish GBCs interviewed provide interesting insights about GB from another angle – first of all because Sweden is highly developed market with a wide penetration of internet and high level of e-literacy. In addition to that, the interviewed GBCs comprise an interesting sample of market players – a start-up company and two GBCs supported by parent organization. One of them is very large and well-known brand in Sweden.

### 5.1.3 Group buying companies in Russia

#### 5.1.3.1 Full case - DailySmiles

##### Background information

*DailySmiles* was established in summer 2010 in the city of Kazan, which is in central Russia about 800 km from Moscow. When GBCs emerged in Russia, the founder and current

managing director Arthur Shamsutdinov investigated one of them and “*saw the potential to develop his own business*”. Arthur Shamsutdinov is 29 year old and started his first own business when he was a student. The next business was related to development of electronic document management system and enabled to get experience in direct sales, working with complicated IT systems, and “*understanding that supply can drive the market and create demand*”. Later on this business was sold, but the rich experience in IT, sales and promotion of software development had been acquired by Mr. Shamsutdinov and helped a lot in GB.

## **Performance**

A rapid and effective start of *DailySmiles* was a great denominator of the future success. It was one of the first entrants to the market. Moreover, one of the co-founders was the director of a large distribution company and possessed skills in direct sales and sound connections especially in the region of Tatarstan. These factors contributed to rather easy acquisition of suppliers.

In summer 2011 there were about 20 employees working at *Dailysmiles*. Five of them were sales managers and one took the lead of the sales department, located in Kazan. There were sales people in other cities like Saint-Petersburg, Nabereznie Chelny, Ulianovsk. From the beginning *Dailysmiles* decided to focus only on particular cities and “*exclude those characterized by high competition*”. Mr. Shamsutdinov sees Moscow as a very saturated market. Marketing would be very expensive there. He continues by stating that “*in Moscow many buyers are already lost in abundance of offerings*” and a syndrome of buyers’ fatigue is evolving there. The latter claim was also expressed by the CEO of *Gruppi Shahan Lilja*.

*DailySmiles* possesses comparatively small DB – 55.000 subscribers. However, it generates high level of sales (30.000 coupons per month) “*due to good organization of processes*” – “*company did not simplify registration process, thus, managed to get the most interested users*”. Monthly turnover of the business is appr. 32.500 EUR with the margin averaging at 60-65%. According to RBC research of GBCs in Russia, *DailySmiles* is at the tenth place based on brand awareness in the Russian GBM. In its homecity Kazan and the republic of Tatarstan *DailySmiles* could be placed on the second place after Biglion – the national market leader.

The revenue model of the company is based on two types of deals – coupons for the deals (the commission level is 30-50%) and coupons for the discounts. In latter case *DailySmiles* sets the price for the coupon and keeps the whole amount earned. Mr. Shamsutdinov reveals that the greatest costs of the company are marketing and sales followed by salaries.

Main marketing efforts of *DailySmiles* include advertising in social networks and on the internet. The getting of buyers is mainly carried via social networks. The search for suppliers is based on networking and the existing relationships. As company managed to attract big firms as

suppliers in the early stage of its development, it is rather easy to maintain great deals.

### **Perspectives upon the industry – the current state, key success factors and predictions**

According to Arthur, there are particular features of doing any business in Russia – *“the inflation is high, therefore from the beginning it is necessary to have high margins”*. For example, there are rarely discounts less than 70% offered, which implies that a supplier is ready to sell its service on prime cost to get some strategic benefits like advertising and brand awareness or do a *“stress-test”* for the business. When a supplier wants *“to get some profit on the sales of the deals”*, the discount set is around 50%. Another particular feature of the Russian GBM is that the majority of GBCs are aiming to be sold to strategic investors.

Mr. Shamsutdinov states that it is easy to see the evolution of the GBM – *“in the beginning it was crucial to gather particular number of buyers to make the deal confirmed”* (Groupon model). When more players appeared on the market, *“buyers became not interested”* in that model. However, those companies that managed to get into the market will be profitable, because *“already created subscribers data base is a very valuable instrument that could be now used in any area of the business”*, though GB business model can change.

### **Resources and capabilities**

The founder of *DailySmiles* claims that *“even though the IT and technical part of the GB business is very easy”*, it is still necessary to possess or acquire IT skills for further development of the competitive solutions. According to him, the network of contacts from the previous working experience was the most valuable resources for establishing good relationships with suppliers. Furthermore, marketing and sales skills are crucial in this business. The latter refers to clear structure of sales and the right approach to it.

### **Competitive solutions**

Mr. Shamsutdinov believes that *“a better quality of the subscriber database”* may be one of the strongest competitive solutions. For example, using of special filters in registration procedure could help to create a more detailed DB. *DailySmiles* was the first GBC in Russia that combined free coupons and for money. By doing this, the company tried *“to target those Internet users who are reluctant to pay via Internet”*. Another solution could be the development of new groups of subscribers or new target markets, i.e. *“DailySmiles tried to find new categories of users category through off-line advertising”*. Yet, according to Mr. Shamsutdinov, it is costly.

### 5.1.3.2 Key takeaways from the case So-skidkoy

#### Background information

*So-skidkoy* is a part of the business of ArtPolitics company that was founded in 2001 as the developer of web-pages and internet-based solutions. Head office of the company is located in Lipetsk (438 kilometers southeast from Moscow), which has 650.000 inhabitants. In the Lipetsk market ArtPolitics is the leading company in terms of quality software. GB business emerged in autumn 2010 aiming to bring additional value as another advertising tool. *So-skidkoy.ru* employs four people, possesses 1400 fans and is considered among average players in the region (see the full case in Appendix B on page 101).

#### Key takeaways (according to Rostislav Dolgov, project manager)

The *business model* of *So-skidkoy* is based on offering coupons for discounts only (not actual deals) with average price of 1 EUR. According to Rostislav Dolgov, good deals are the key for success in GBM – “*if it is good, it would be immediately sold*”. Personal relations are “*the most important channel to attract partners/suppliers*”. Strong mechanisms of finding good deals could be offering special conditions “*to make the process of publishing deals as fast as possible*”. Additionally, crucial resources and capabilities include: the IT skills, other resources and synergy effects a company can get from the parental organization. Additionally, “*good competences in internet business and extensive informational support help a lot in development [of GBC]*”. *Competitive solutions* are introducing internet services related deals, simplifying process of working with suppliers and educating buyers for on-line payments.

### 5.1.3.3 Key takeaways form the case Boombate

#### Background information

*Boombate* was founded in July 2010 in Moscow, by Maxim Kondratyukhin, who is currently managing director in the company. Initially the idea was to develop a clone of Groupon, but then the strategy was reconsidered towards having a unique revenue model – offering only free coupons for discounts and charging suppliers (see the full case in Appendix B on page 104).

#### Key takeaways (according to Maxim Kondratyukhin, founder and CEO)

Russian GBM is growing very fast and have big potential – it “*may become something new in advertising industry and already has strong influence on it*”. Success here depends a lot on “*the level of subscriber involvement*”. Buyers are choosing deals based on the actual price rather than the discount size. Network could be considered as the most important resource in this business, additionally sales and marketing processes matter to a great extent. Currently

both big and small GBCs have problems – “[small ones] *have too small subscriber data base and difficulties to attract more buyers due to lack of financial resources*”; for bigger ones there is “*less flexibility from the point of view of conditions that could be offered to suppliers*”. Competitive solutions on this market may include – geographical focus, focus on particular deal or wide range of products, free or not free discount coupons for subscribers.

#### **5.1.3.4 Key takeaways form the case MyFant**

##### **Background information**

*MyFant* was founded in July 2010 by its current CEO Farid Gazizov, who spent 10 years in USA working as financial analyst before coming back to Russia. During the first year of the existence the company developed capabilities in sales, IT and currently employs 50 people. The revenue model of *MyFant* is exceptional, since it is based on selling coupons for discounts (not coupons for the whole deal, or “*certificates*“, as the founder calls them). At the moment *MyFant* considers itself belonging to the group of the 7 most dominant GBCs, and is especially strong in the region of Saint-Petersburg (see the full case in Appendix B on page 105).

##### **Key takeaways (according to Fard Gazizov, founder and CEO)**

Marketing and attracting subscribers are the biggest costs in GB business. The KSF in the GBM is to “*make both buyers and suppliers happy*” – the deal should not be one-time action only. “*It takes sales skills and creativity*” to arrange interesting deals for both suppliers and buyers. The “*process of investigating and analysing statistics of the market*” should be established. Furthermore, the processes of “*dealing with negative comments*” (or feedback of buyers) should also be present. “*In the GBM timing of entry is very crucial for the profits*”. At the moment the investment barriers would be too high to enter. Consolidation of the market and the threat of aggregators “*should be faced by GBCs together*”. There are not many competitive solutions in GBM. The majority uses the “*multideal*“ model, though these GBCs were the first-movers. The revenue models could differ in selling coupons for discounts or selling certificates for the whole deal. Finally, the execution of the IT resources may help to differentiate, for example “*by embedding additional tools into web-page*”.

### 5.1.3.5 Summary of empirical findings from Russia

	<i>DailySmiles</i>	<i>So-skidkoy</i>	<i>Boombate</i>	<i>MyFant</i>
<b>Performance</b>	<ul style="list-style-type: none"> <li>Established in summer 2010 in Tatarstan region of Russia (800 km from Moscow)</li> <li>20 employees</li> <li>55.000 subscribers</li> </ul>	<ul style="list-style-type: none"> <li>Part of internet-based solutions development company</li> <li>Based in small Russian city of Lipetsk</li> <li>GBB emerged in autumn 2010</li> </ul>	<ul style="list-style-type: none"> <li>Founded in July 2010 in Moscow</li> <li>Unique business model - all coupons are free for subscribers</li> <li>Revenue model is based on money from suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Founded in July 2010</li> <li>Considers itself among group of 7 most dominant GBC</li> <li>Strong in Saint-Petersburg region</li> </ul>
<b>Resources and Capabilities</b>	<ul style="list-style-type: none"> <li>Network for starting GBB</li> <li>IT skills – for further development</li> <li>Marketing and sales skills</li> </ul>	<ul style="list-style-type: none"> <li>Skilled HR</li> <li>Network</li> <li>Synergy effects</li> <li>Knowledge of internet business and IT</li> </ul>	<ul style="list-style-type: none"> <li>Network of the owner to start GBB</li> <li>Sales and advertising processes should be set</li> </ul>	<ul style="list-style-type: none"> <li>HR, sales people</li> <li>IT skills</li> <li>Working with unsatisfied users</li> </ul>
<b>RQ1 – Competition between GBC</b>	<ul style="list-style-type: none"> <li>Majority of GBC in Russia, are aiming to be acquired by strategic investor, so <i>“the main aim is showing immediate economic results”</i></li> </ul>	<ul style="list-style-type: none"> <li>Increasing competition with on-line media and decline of advertising on TV and radio</li> </ul>	<ul style="list-style-type: none"> <li>2-3 leaders on the market are competing fierce</li> <li>Not very active buyers</li> <li>Appearance of aggregators increases competition</li> </ul>	<ul style="list-style-type: none"> <li>Profits depend on the time of entrance</li> <li>GBB provides fast ROI, but only for those players that entered early</li> </ul>
<b>RQ2 – Key Success Factors</b>	<ul style="list-style-type: none"> <li>Early entrance to market</li> <li>Good network to establish relations with suppliers</li> <li>Quality subscriber DB</li> </ul>	<ul style="list-style-type: none"> <li>Good deal</li> <li>Personal relations to attract suppliers</li> <li>Special conditions for suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Interesting deals (surveillance of the history of deals popularity is essential)</li> </ul>	<ul style="list-style-type: none"> <li><i>“Make both buyers and suppliers happy”</i> (the deal should not be only one-time action)</li> </ul>
<b>RQ3 – Strategic groups</b>	<ul style="list-style-type: none"> <li><i>“Most probably very dynamic company that is constantly monitoring market would survive”</i></li> </ul>		Both small and big companies have issues: <ul style="list-style-type: none"> <li>first - small subscribers data base, lack of financials</li> <li>second –less flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Aggregators present a big threat on the market, however some small companies became very dependent on them.</li> </ul>
<b>RQ4 – Competitive solutions</b>	<ul style="list-style-type: none"> <li>Using special filters in subscribers database to increase sales output</li> <li>Combining free of charge coupons and coupons for money</li> <li>Creation of new group of subscribers</li> </ul>	<ul style="list-style-type: none"> <li>Having deals related to internet offerings</li> <li>Educating people to use on-line payments</li> <li>Simplifying the process of working with suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Differentiation of business model - offering free coupons for subscribers</li> <li>Focus only on particular geographical regions</li> <li>Focus on particular deals or wide range of deals</li> </ul>	<ul style="list-style-type: none"> <li>Free coupons</li> <li>Revenue only from buyers (selling coupons)</li> <li>Using both coupons and traditional Groupon model for different deals</li> <li>Using coupons and tradition Groupon model within one deal</li> </ul>
<b>Future predictions</b>	<ul style="list-style-type: none"> <li>Trend - increasing number of deals offered</li> <li><i>“Those companies that managed to get into the market will be profitable”</i></li> </ul>	<ul style="list-style-type: none"> <li>The further active development of the market is probably very likely in the future</li> </ul>	<ul style="list-style-type: none"> <li>Russian market of GBB is growing very fast</li> <li>Success will depend on the level of subscriber involvement</li> </ul>	<ul style="list-style-type: none"> <li>Most probably there will be consolidation of the GBM</li> <li>Small players will not survive.</li> </ul>

**Table 12 Summary of empirical findings from Russia**

Empirical findings from Russia suggest some new business models not adapted in other countries (namely discount coupons and free coupons), but similar and fierce competition as well as high risks of existence for small and non-differentiated players.

## 5.1.4 Suppliers of deals for group buying companies

### 5.1.4.1 Full case *Kavosdraugas*

#### **Background information**

*Kavosdraugas* is a young company offering new types of coffee products – the coffee pads and coffee machines for them. Its revenue model is based on selling the coffee machines at a bargain, but locking the customers in and earning from the sales of the coffee pads afterwards.

#### **Group buying experience**

The director of the company Aurimas Vainauskas reveals that the first time he spotted GB concept was in the ads on the biggest websites of the country. As the success of the company is determined by the number of coffee machines sold, the director believed the GB service “*to be worth trying*”. All in all, *Kavosdraugas* arranged eight GB campaigns.

#### **Arranging the deals and the expectations**

In the beginning the company approached GBCs itself, but later on when its deals became rather successful, the GBCs turned to *Kavosdraugas*. The main criteria to select the GBC were the traffic of the website or size in general. Credibility as well as timely and reliable payments were also important. Another crucial factor was the target market of the GBC. Coffee machines were promoted on generic GBCs in order to reach as wide auditory as possible. *Kavosdraugas* did not experience any competition among suppliers regarding the position on the GBC.

The first campaign was arranged via *Kartu*, because it was a company of a group of friends. “*Networking and connections were essential*”. The main expected benefits included: advertisement, sales and customer loyalty. As an exchange for that, the director was eager to offer a good discount. Yet, “*the discount was partly fake*” as the prices were artificially increased before the deal. The quality of the offers was not decreased, because of the threat to lose reputation, image and potential long-term benefits. In addition to that, “*a coffee machine was provided as present for the GBC*”. The barter trading was utilized. *Kavosdraugas* also bought additional online advertisement (google adwords and banners) to promote the deals.

#### **Results of the campaigns**

Aurimas Vainauskas claims that “*GB is not an efficient advertisement mean, since it drives disloyal clients*”. Moreover, it reduces the reputation of the company to some extent. Other channels work better. “*GB is effective only for enhancing sales*”. The results usually depended on the size of the GBC. Yet, the long term value was not as high as expected – the customer loyalty was low. Based on general estimations, only 20% of them remained buying the coffee

pads. Additionally, Mr. Vainauskas claims “*evaluation of the long-term effectiveness of the GB campaigns is a serious problem in the industry*”. The additional advertisement did not pay off and therefore this practice was terminated. “*While GB can enhance your turnover, it could not be the main sales vehicle*”. The target market is the “*discount hunters*”, which is not the most attractive auditorium. Also, if too many GB deals are arranged, there is a risk to attract disloyal clients, build negative associations and “*lose the capability to sell for a regular price*”. Some GBCs provided with no customer support (*kiauletaupykle.lt*), while some of them were exceptionally good. According to Mr. Vainauskas, “*it is of utmost importance for the GBC to assist in identifying and suggesting the most promising offerings from the company’s product portfolio*”.

### **Future considerations about the GB**

Mr. Vainauskas is still planning to use the GB service, just more rarely – “*it works well introducing something new*”. According to the director, only the biggest players will survive in the GBM, since “*it will be difficult to provide with something new*”. Yet the existing market will remain as significant as it is. “*GBCs could improve customer orientation, support and the connection with the clients*”. GBCs could start selling positions at their website. It would be very beneficial to the suppliers if the payment in barter for the GB service would be introduced.

#### **5.1.4.2 Key takeaways form the case Beauty Salon Lady**

### **Background information and the group buying experience**

Beauty Salon Lady has 48 salons in Saint-Petersburg, Russia, and belongs to the group of companies with diversified businesses (60 cafés, saunas and beauty salons). The interviewee, Alexander Konovalov, is the founder and currently one of the partners of the company. He was widely using GB campaigns to maintain number of customers in order to stay profitable and competitive (see the full case in Appendix B on page 108).

### **Key take-aways (according to Alexander Konovalov, founder and partner)**

According to Mr. Konovalov, “*coupon discounts are much stronger tools comparing to traditional advertising means*”. SMEs face strong competition to get into GB sites now, since GBCs are looking for very interesting deals and “*consider beauty salon as back-up option*”. Using coupon discounts creates an image of “*low cost services provider*” and attracts a lot of discount-hunters rather than creates pool of loyal customers. Most probably many small GBCs will get bankrupt by the end of this or the next year. “*The market is over saturated*”.

### 5.1.4.3 Key takeaways form the case Vero-Café

#### Background information and the group buying experience

*Vero Café* is a chain of coffee take-away outlets. It emphasizes quality and focuses more on urban, mobile and trendy coffee drinkers. It had two GB deals. In addition to that, the marketing manager of *Vero Café* Agne Jusaite was also involved in arranging GB deals for a beauty salon and a healthy food take-away restaurant (see the full case in Appendix B on page 110).

#### Key takeaways (according to Agne Jusaite, marketing manager)

*Vero Café* had negative experience with GBC mainly due to “mismatch of the target audiences”. The main criteria to choose the GBC were the size of a GBC, target market, nice sales presentation as well as “lack of any payments in advance and risks”. The core expectations of the GB deal were: advertisement, new leads and trial of products. The number of sales in itself was not emphasized. “GB can be successful with some categories of products”, where the customers usually “stick to one product/service provider” if it was delivered well (ex. hairstylist). The negative traits of GB include: “education to buy cheaply” and “making price the main decision criteria”. “GBC could offer additional value for the regular price or could specialize”. Products for kids are a good niche. GBC can focus on young business and add consultancy as part of their service.

### 5.1.4.4 Summary of empirical findings from suppliers of GBC

	<i>Kavosdaugas</i>	<i>Vero-Café, Lithuania</i>	<i>Beauty Salon Lady, Russia</i>
Back-ground	<ul style="list-style-type: none"> <li>• Young coffee products seller</li> <li>• Lithuania</li> </ul>	<ul style="list-style-type: none"> <li>• Chain of coffee take-away outlets</li> <li>• Lithuania</li> </ul>	<ul style="list-style-type: none"> <li>• Belongs to group of businesses</li> <li>• 48 beauty salons in St. Petersburg, Russia</li> </ul>
GB experience	<ul style="list-style-type: none"> <li>• 8 GB campaigns arranged</li> </ul>	<ul style="list-style-type: none"> <li>• 2 GB campaigns</li> </ul>	<ul style="list-style-type: none"> <li>• Main reasons to start GB campaign - “the debts and the risks to get bankrupt”</li> <li>• Working with over 25 GBCs</li> </ul>
Arranging GB deals and expectations	Main criteria to select GBC: <ul style="list-style-type: none"> <li>• Traffic or size</li> <li>• Credibility, timely payments</li> <li>• Target market of GBC</li> </ul> Expectations: <ul style="list-style-type: none"> <li>• advertisement, sales and customers’ loyalty</li> </ul>	<ul style="list-style-type: none"> <li>• Main incentive – GB was new and did not require advance payments</li> <li>• Main criteria to choose – the size, target market, nice sales presentation, no risks</li> <li>• Expectations - advertisement, new leads and trial of products</li> </ul>	<ul style="list-style-type: none"> <li>• First campaigns were very successful</li> <li>• “Now there is need to run constantly campaigns to maintain sales on the same level”</li> <li>• GB – The only way for some businesses to remain competitive</li> <li>• The efficiency of traditional advertising compared to GB is lower</li> </ul>
Results of GB campaigns	<ul style="list-style-type: none"> <li>• “GB is not an efficient advertisement mean since it drives disloyal clients”</li> <li>• GB is effective only for enhancing sales</li> <li>• The long term value was not as expected, since customer loyalty was low</li> </ul>	<ul style="list-style-type: none"> <li>• Deals were not purchased due to differences of target audience</li> <li>• Customers did not become loyal</li> <li>• Success of the GB campaign highly depends on the type of the product or service</li> <li>• GB makes price the main decision factor</li> </ul>	<ul style="list-style-type: none"> <li>• High bargaining power of GBC</li> <li>• GB campaign gave some profit which solved short-term financial problems</li> <li>• Issue how to motivate personnel</li> <li>• Usage of GB created the image of low cost services provider</li> <li>• Less than 1 % of customers became loyal</li> </ul>

<b>Future considerations about GB</b>	<ul style="list-style-type: none"> <li>• GB „works well [for supplier] introducing something new“</li> <li>• GBCs could improve customer orientation, support and the connection with the clients</li> <li>• Only the biggest players will survive in the GBM, since “it will be difficult to provide with something new”</li> </ul>	<ul style="list-style-type: none"> <li>• Dealing with a specialized GBC would be preferable since it’s much about the target market</li> </ul>	<ul style="list-style-type: none"> <li>• Most probably many GBCs will get bankrupt by the end of 2011 or 2012, because the market is oversaturated</li> <li>• Some GBC have problems with paying the remuneration to the suppliers on time.</li> </ul>
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**Table 13 Summary of empirical findings from suppliers of GBC**

Empirical findings from suppliers of GBC suggest both positive and negative experiences depending on the nature of the business and purposes of the deal campaigns. Thus, relationships with suppliers are important aspect of GBC performance.

## 5.2 The results of the customer survey

As mentioned above the main aim of the self-completion questionnaire is to test competitive solutions identified during qualitative interviews and derived from the further analyses. In addition to that, its aim was to provide with new inputs into answering the RQs, especially the fourth one – the competitive solutions. Therefore, more clear links to the survey results are provided in answering the RQ4. Most of the actual solutions were first identified and then tested in the survey. Yet, other ideas or concepts were identified in the survey itself and served as a basis for other potential competitive solutions. After the survey and the analyses of the empirical findings the final 12 solutions are developed. The groups of solutions that were checked during the survey are presented in the Appendix D and statistical support for solutions in the Appendix A. Table 14 summarizes the most relevant empirical findings from the customer survey, which directly relate to our RQs.

	General findings	Heavy users	Non-users	Sweden	Russia	Lithuania
<b>Relevance of deal categories</b>	Travelling, events, leisure activities – are promising categories	Mainly using beauty and health services	Especially interested in travelling, events, leisure	Non-users are interested in food and restaurants	Similar preferences to general findings and to Lithuanian users	Similar preferences to general findings
<b>Demographic details</b>	Majority of GB users are woman. The survey results confirm the very typical picture of customers of GBC (mostly women 25-30 years old, employed or students)					
<b>Communication preferences</b>	Most favoured method is recommendation by friends 43% (aggregators, sites and newsletters come close)	Visits on GBC web-page	Are irritated by advertisement of GBCs	Newsletters are preferable rather than friends recommendations	Newsletters are very unpopular, recommendations are more important	-

	General findings	Heavy users	Non-users	Sweden	Russia	Lithuania
<b>Biggest problems with GB sites</b>	Irrelevance of the deals along with quality	Size of discount	Annoying advertisement	The general pattern of irrelevance	Risks, irritating adds and quality of the deals	No negative relation to advertisements
<b>Perceptions of the future of GBM</b>	Several strong players will remain and the small ones will disappear, GBCs are similar	More optimistic about the market	More sceptical about the market		Biggest percentage of respondents with positive attitude (57%)	
<b>KSF (what makes users to come back)</b>	Quality of the deal; wide range of choices; user-friendliness	Appropriateness of product services (quality)	Appropriateness of product services (quality)	Preferences are similar in all countries		
<b>Potential improvement/new offerings</b>	Specialized offerings, niche offerings Better quality and more targeted offerings Expensive deals and more branded goods services vs. more everyday product deals					
<b>Relation to GB activities</b>	Wide range of deals is needed, plus constant introducing of new categories. At the same time specializing in one category of products/services is also popular. People are interested in free coupons for discounts. Specializing and niche offerings could be interested for specific users					
<b>Relation to GBC business models and deals offerings</b>	After-purchased based model is very unpopular as well as presenting deal on the original website of a product/service provider			Get 2 for the price of 1	Deal is available for longer period of time	Deals get cheaper the more people have bought
<b>Relation to new services offered by GBC</b>	Complementary deals would be popular	Vending machines for coupons is not attractive idea		Ability to sell or exchange coupon already bought is appealing. Idea of buying a deal that is no longer available on other group buying sites seems also interesting for some groups of people		

**Table 14 Summary of main empirical findings from the survey**

There were differences identified between perceptions and preferences of people who are actively using GB and those who never tried the service. Also we tried to compare answers got from respondents from different countries, when it was possible. However some limitations should be kept in mind while considering the results – the answers of respondents from Sweden are influenced by big percentage of non-users.

## 6 Analysis

### 6.1 RQ2: What could be the key success factors in group buying markets?

As it was mentioned in the theoretical approach, the KSFs can be regarded as “*the rules of the game*” and derived from two major areas – external environment, including country-wide analysis and the industrial perspective, and internal environment, focusing on the company’s R&C. Research-wise they are acquired from the GB cases and the customer survey (see Figure 9). The empirical findings suggest the main KSFs in GBM to be of two kinds: the ability to acquire/arrange a great deal and to attract end-customers followed by selling the deals. These two perspectives are emphasized to a higher or lower extent by the majority of actors in the market. There are some differences of how actors (i.e. GBCs or end-customers) understand these two KSFs in a narrower sense. Yet, the core idea remains the same – GB is about acquiring great deals and attracting a huge volume of website traffic as well as a vast customers’ DB. Some GBCs like *CityLife* go even further and emphasize the ability to match and balance the two as the core KSF.

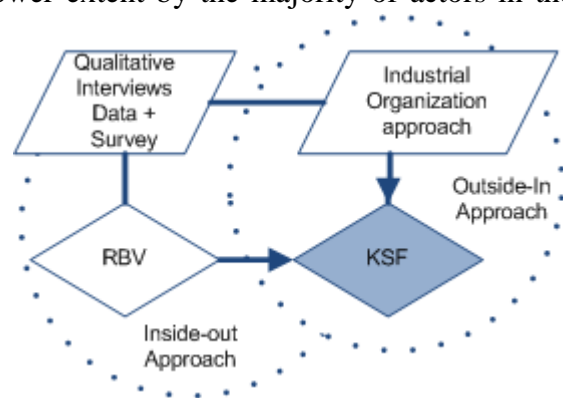


Figure 9 Process of KSF identification

In addition to the main KSFs, some GBCs emphasized the importance of IT capabilities. Finally, the timing of market entry was regarded as another important denominator of success.

#### 6.1.1 Quality of the deal

The majority of interviewees emphasized the importance of having interesting, high quality and relevant deals, characterized by a real and significant discount and aimed at satisfying a strong need of buyers. The relation of a deal to the existing demand might be based on extreme usefulness or pure trendiness and fun. The ability of a GBC to provide high quality deals is closely related to its R&C. Maybe for that reason, majority of the interviewees did not distinguish KSFs from R&C and considered them as a similar concept. The more specific KSFs based on R&C, related to the acquisition of the deal and offered by interviewees, are presented in a greater detail below.

#### **Know-how, competence, deep understanding and experience of the market**

Competencies related to market knowledge were heavily emphasized by the Lithuanian market leader *Beta*, therefore, are of particular interest. According to RBV, the characteristics

mentioned are associated with organizational capabilities. As capabilities of a firm are results produced by “resources working together” (Grant, 1991) and “creating capabilities is not simply a matter of assembling [...] resources”, not all companies possess similar capabilities.

According to Grant (2008) suggestion that KSFs help to answer two questions: *what do customers want?* and *how is it possible to deal with the competition?*, we can clearly see that the first one matches our empirical findings and KSF of deep understanding of market. For example, an important factor of success, identified by *Beta* is being able to sense the market, respond to the existing needs as well as develop the market by presenting novel, interesting and even un-suspected deals. It is clearly aligned with ideas expressed by Slater & Narver (1998) of being market oriented. The later includes *being driven* by the market and responding to the existing needs as well as *driving the market* by introducing new offers, building the demand and satisfying the latent needs. This is also confirmed by the customers survey, where users request a huge variety of deals and want both: pragmatic as well as fun, entertaining and novel offers.

Know-how, competence, deep understanding and experience of the market are tightly related to each other and represent important and less explicit, but very powerful KSFs in the GBM (case *Beta*). The fact that they were emphasized by the leading company, but not accented by the following companies might raise an assumption, that deep understanding of the market (needs) can be a differentiating capability.

### **Competencies for acquiring the deals or sales capabilities**

This capability not only was emphasized by all GBCs, but also was greatly stressed by the customers during the survey. It is, naturally, the next required capability after the one of the market intelligence. It can be understood as organizational routines (Grant, 1991) and therefore can be obtained only through repetition. Arturas Mizeras of *Kartu* emphasizes vital importance of sales and the need to have structured, systematic procedures to ensure proper quality. Sales capabilities are crucial in dealing with competitors, in building network and getting the bargaining power. In addition to that, they are often part of synergy got from parent organization or previous experiences (*YourDeal*, *DailySmiles*, *EniroDeals*). The ability to acquire deals is related to transferring the interim-specific resources throughout the value chain, which is an important skill for a web intermediary (Soto-Acosta et al, 2011).

### **Partnerships with suppliers/partners**

Partnerships and networks are intangible resources of an organization (and were mentioned by all Russian GBCs interviewed), but to make use of them, the development of particular internal capabilities is needed. The capability to establish partnerships is directly related to the business performance of the company. For example, the bottom line results for *YourDeal* are poorer than

the ones of the daughter company in Denmark. The company attributes the difference to a high number of partners the Danish subsidiary possesses. *So-skidkoy* considers itself quite strong in its region due to partner support of leading media portal of the town; *DailySmiles* is also possessing strong position in its home city due to ability to establish partnerships with biggest suppliers in the very beginning of GB operations. *DailyCard* possesses an existing strong network of partners, thus puts strong emphasis on this KSF. However, the importance of a great number of partners does not necessarily lead to cooperative approach. While *EniroDeals* suggests a relationship-based approach to partnerships, *Beta* clearly expresses the transactional viewpoint, which according to Alvyde Palaimaite assists in playing the market, using the bargaining power to get the best deals and the conditions.

### **6.1.2 Attraction of end-customers/buyers/subscribers**

Attraction of customers constitutes a vital part of business for the majority of companies. Even though the opinion of who is the customer for GBCs vary, we stick to the definition that the end-customer is the final buyer, who buys a deal online (according to *Beta* this so, because “*he is who actually pays*”). This KSF was strongly stressed by the majority of GBCs and especially by all three suppliers interviewed in the study. GBCs highlight the relevance of building popularity of the website (*MyFant*, 2011) to get cheap traffic (*Kartu*, 2011) as well as building subscriber DB and qualitative marketing communications (*Gruppi*, 2011). It addresses the KSFs related question *what do the customers want?*. It is also aligned with the RBV. It is interesting to notice how capabilities suggested by Kaplan (2002) as crucial for e-commerce are required for different types of customers. While for managing attraction of end-users there is a need for addressability, interactivity and postponement, the customization and personalization capabilities are not that relevant for them. GB deals are standardized for the mass, but customisation and personalization become crucial for selling the offers to the partners/suppliers.

The empirical findings suggest the following ways to attract the end-customers:

- Driving website traffic (*EniroDeals*, *Gruppi*, 2011). Considering this component of KSF from RBV perspective, several resources and capabilities are needed:
  - Partnerships and synergy effects from existing business portfolio. The ability to acquire advertisement channels through mutually beneficial partnerships (*So-skidkoy*, 2011) or deriving synergy from other corporate businesses helps to increase traffic (*YourDeal*, 2011).
  - Quality of marketing communications also requires whether financial resources or skilled employees and strong marketing capabilities (*Gruppi*, 2011).

- Maintaining solid subscriber DB and CRM. Attraction of customers means also keeping track on their preferences and repeated transactions, which requires established CRM processes (*MyFant*, 2011). CRM capabilities have direct impact on dealing with competitors and understanding the further development of the market.

### 6.1.3 IT and market timing

**IT related capabilities** are important in e-commerce business, i.e. strong and skillful team working fast. Though GBCs see lack of complexity in developing basic GB website, IT is still considered as an important denominator for development business further. *Beta*, as the leading GBC in Lithuania, puts more emphasis on it than the rest of the players in that market. According to this company, IT is related to the general principle of never-ending improvement of offers and processes. IT may help in increasing efficiency of operations, develop new ways of services' delivery and align business process with rapidly developed technological world. The IT competencies may be considered as capabilities-based KSFs.

**Timing** or the early market entry is another KSF of the industry. Some representatives of GBCs explicitly state its importance (*MyFant*, *Gruppi*, 2011); others implicitly express the same claim by speaking about the competitive positions, vulnerability of resourceless late entrants and their potential bankruptcy (*CityLife*, 2011). It is related to the approach of industrial organization by analysing the markets as well as the ability to spot and develop novel opportunities so emphasized by the entrepreneurial framework. According to Lasserre's (2007) framework, the early entrance into the market clearly requires less resources and level of differentiation, thus, can definitely be regarded as KSF. The managing director of *CityLife* goes even further and stresses the importance of enduring these difficult and competitive times. He believes that once weaker players will be pushed out of the market, the situation will get better for the rest. Finally, the capabilities of developing start-up business extremely quickly can be regarded as one of the most important denominators of success (*Gruppi*, *Beta*, *Kartu*, 2011).

Other KSFs mentioned in the cases include the international origin of a parent (*CityLife*, 2011), financial support (*DailyCard*, 2011) and successful differentiation (*Kartu*, 2011).

### 6.1.4 Competitive strength grid

The next step in analysing the KSFs in GBI suggests developing a competitive strength grid of GBCs (Aaker, 2005). The strength of each of KSF, identified above, was assessed based on the interview data (high level means that company clearly distinguishes from other GBCs, average – performance is quite similar to others, white - the results are lower).

Assets and competencies, KSF	Russia				Lithuania				Sweden		
	MyFant	So-skidkoy	Boombate	Daily Smiles	Beta	Kartu	City Life	Daily Card	Your Deal	Gruppi	Eniro Deals
The quality of the deal	A	L	A	A	H	A	A	A	A	A	A
Knowledge and understanding the market	H	L	A	H	H	A	A	H	A	H	A
Sales capabilities	A	A	A	A	H	A	A	A	A	H	H
Partnerships	L	H	L	H	H	A	H	H	H	A	H
Attracting end-customers	A	L	A	A	H	A	A	A	A	A	A
Driving traffic	A	A	A	A	H	H	A	A	H	A	H
CRM	H	L	A	H	A	A	A	A	A	H	A
IT capabilities	A	H	A	H	H	L	A	A	A	A	H
Timing	A	A	A	A	H	H	A	A	A	H	L

**Table 15 Competitive strength grid for interviewed companies. High – H, Average – A, Less than average – L (Estimation of high, average or low level of performance of each company is subjectively made based on interview data)**

The table infers that KSFs for the majority of GBCs interviewed are of average strength. This may be explained first by the fact that most of them (except *Beta*) do not belong to market leaders. In addition to that, from the RBV perspective we can imply that companies do not possess, cannot acquire or are not developing the R&C to gain stronger competitive positions.

## 6.2 RQ3: What could be strategic groups in GBM and their future development?

### 6.2.1 Identifying strategic groups

Identification of strategic groups in the GBM and trying to grasp their future development is based on RBV and Porterian perspective, as well as qualitative interviews data. As Dawar & Frost (1999) suggest, by better understanding the relationship between the company's assets and the particular characteristics of the industry managers can anticipate how their strategies may evolve over time.

Analysis of strategic groups usually starts by identifying dimensions or characteristics of competitive actors (Aaker, 2005). We used the findings of the pre-study, 2 levels of differentiation variables between GBCs (business and marketing levels) to be exact. To continue, we added dimensions of generic strategies – focus, cost leadership, differentiation as well as the theoretical views – the RBV and Porterian perspectives (inside-out and outside-in approach). Furthermore, we added the empirical findings from the study and the following dimensions of strategic groups were considered.

**Market share.** The research of GBMs has easily revealed dominant, average and the poor

players in terms of the market share owned. This was the main grouping factor for *Beta* and one of important ones for *Kartu*. Other interviewees distinguished between big and small companies, bearing the size of the market share in mind (*Boombate, CityLife, 2011*). It is aligned with some of Aaker's (2005) grouping criteria: size and growth.

***Time of the market entry.*** It was rather easy to distinguish between first-movers and followers in GBM. Even though the companies did not explicitly express this dimension of grouping, while talking about the future of the market and the competitiveness, they indirectly divided the companies into two parts – early entrants and followers (*Gruppi, Kartu, 2011*).

***The business portfolio, parent companies and partnerships.*** There was evidence that there is a number of companies that have GB as their core business (mainly start-ups) and those ones that have it as an additional business unit. This grouping is supported by *Gruppi, DailyCard* and indirectly by *EniroDeals* and *So-skidkoy*. Moreover, some GBCs may possess strong parent company, while others rely solely on themselves. This grouping is suggested by *CityLife* and in some way by *YourDeal*. Yet, another solution could be finding solid partnerships. One of advantages here may lay in attracting the traffic (*Kartu, 2011*). Thus, grouping might be based on the level and strengths of partnerships possessed. However, all these factors may be seen from the perspective of resources or the RBV view.

***The origin and strength of funding.*** Financial resources might be important (i.e. *DailyCard*) among GBCs if the companies are late entrants (*Gruppi, Kartu, MyFant, 2011*) or have lack of differentiation (*Beta, 2011*). Based on these criteria the firms may be classified as those that have external investor, belong to parent company, or are individually funded.

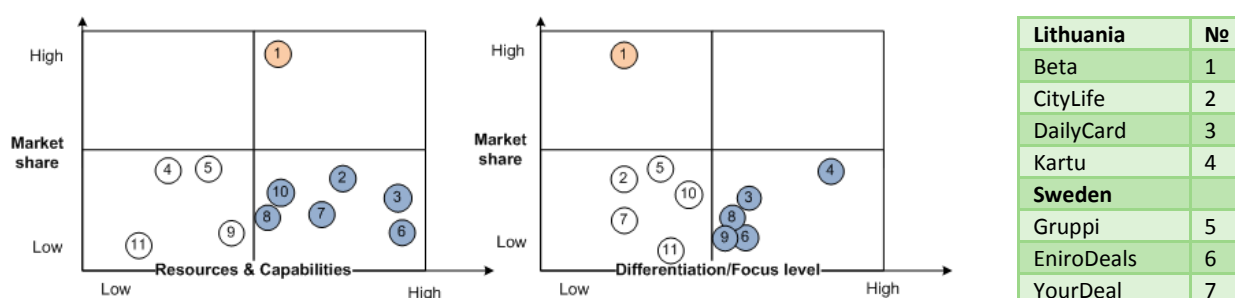
***Geographical scope.*** The geographical presence of GBCs might be another grouping dimension. Though none of GBCs mentioned explicitly presence in particular areas as a grouping criteria, it was addressed indirectly by *CityLife* and *EniroDeals* and all Russian GBCs (need to have geographical focus due to big territory of the country). Also, the GBCs could be grouped as local, regional, national and international.

***Level of differentiation or focus and the product scope.*** This grouping criterion is based on Porter's generic strategies. The level of differentiation or focus might relate not only to geographic focus, but also to the product scope (Lasserre, 2007). These two dimensions, combined with the level of vertical integration constitute the corporate strategy (Medvedev, 2011). The latter partly relates to business portfolio and the parent organization described earlier. In terms of product scope, GBCs vary by offering: one or many deals as well as general or focused offers. The level of differentiation refers to the extent of additional value added by a product compared to competitive offerings. This provides with clear guidelines of grouping the

companies. Some of GBCs reveal it is possible to become specialized (i.e. *noriunoriunoriu.lt*) or an aggregator (i.e. *Kartu*). Additionally, it was heavily emphasized by the end-customers in the survey. The respondents showed contradictory demands – a high variety of deals as well as specialized offers at the same time.

From the dimensions presented above, three were selected as the most appropriate and relevant – the market share, the level of differentiation or focus as well as the R&C. The market share allows distinguishing between market leaders and followers, while the differentiation and/or focus assists in understanding company’s strategies, their perspectives and the R&C needed. As a focus option, it also encompasses the geographical scope. Resources comprise the business portfolio possessed, resources from the parent, partnerships, financial assets as well as other R&C mentioned by the interviewees. GBCs emphasized the importance of specific competencies like market intelligence, acquisition of the deal, generating traffic or subscribers and IT (where IT and finances are especially important in case of late entrance).

Two matrixes with respective dimensions ‘Market share and Resources & Capabilities’ as well as ‘Market share and Differentiation/focus level’ (see Figure 10) were developed.



**Figure 10** Identifying strategic groups using two matrixes with three dimensions – Market share, Resources and capabilities possessed, Level of differentiation or focus. The numbers within circles on the picture correspond to GBC interviewed as indicated in the legend table to the right.

GBCs from empirical findings were placed according to the data of interviews and the pre-study. Furthermore, they were combined to see what could be the aggregated groups of companies along these dimensions. It was decided not to present 3D picture here in order to keep identification of groups more simple and without complicated graphics. As a result, five strategic groups were identified. Of course, there are some “grey” areas on the matrixes and companies that are in the transition phase, but in order to simplify the understanding of groups, the GBCs were assigned a place in the matrixes. It is much more important to see which poles exist and how companies may move among them. To continue, the R&C dimension is mainly based on resources a GBC possesses. Though some GBCs can have prospective capabilities without resources, less emphasis is put on them in strategic grouping since it might be difficult to evaluate the capabilities of all companies accurately and thus there’s a need for rough

estimations. Otherwise the research might become too complicated and wide.

Based on the three dimensions mentioned above, the following groups were identified. Their names were invented in order to better reflect the strategic focus behind.

1. **The Low group** – those companies have low figures on all the three dimensions – market share, R&C, and differentiation/focus. They are usually late market entrants or start-up companies with very limited resources and sometimes undeveloped capabilities, lacking previous knowledge and experience from the market (i.e. found during pre-study *zina.ru*, *delicatus.ru*). They represent the most vulnerable group in GBM (i.e. during work on this thesis some of Russian GBC considered in pre-study were closed). However, some companies may still carry a bit better condition within this group, i.e. *Gruppi* that is almost in transition phase to higher market share and constantly looking for differentiation solutions. *So-skidkoy* could also be regarded as in transition zone. Even though its differentiation is low, but it still has average/low marketshare. Moreover, even though its resources for GB are rather low, it still has parental business portfolio, which might be regarded as a potential resource.
2. **The differentiation dreamers** – those companies are limited in resources, have low market share, but an average or even high level of differentiation. We called them “dreamers”, because these companies are trying to survive and invent ways of differentiation despite lack of resources (i.e. *Noriunoriunoriu*, *Kartu*).
3. **Equipped or corporate followers** – the players that have some or many resources, but low market share and low level of differentiation. These businesses are often supported by corporate ownership (i.e. *YourDeal*) and were started in order to follow market trends, or further develop and support the existing products/services of a company. That is reflected by the name “corporate”. Another part of this group is comprised by GBCs that have no corporate ownership, but possess strong resources (i.e. *MyFant*), this is reflected by the name “equipped”.
4. **Equipped or corporate innovators/differentiators** – this group of GBCs as the previous one hold the resources, and though they have low market share, they are trying to differentiate (i.e. *DailyCard*, *EniroDEals*, *Boombate*), which puts them into a promising position.
5. **Market leaders** – finally, the leading GBCs possess a lot (or at least sufficient amount) of R&C, have large market share. However, market leaders do not differentiate that much between each other, trying to cover as big target market as possible (i.e. *Beta*).

The majority of the interviewed companies were placed on the low boxes, due to considerably smaller market share compared to market leaders. They also do not differ that much on the first

glance, which confirms the starting assumption of the authors regarding similarity of all actors in GBM. There seem to be no firms with high market share, but low R&C or high level of differentiation/focus, which might be explained by the currently young stage of the market.

Group 5 is usually the early market entrants. The dominant position and the R&C possessed allow them to secure the leading position and raise the indirect entry barriers for the followers. GBCs in groups 3 and 4 could be supported by parent organization or investor, therefore are not lacking financial back-up, and enjoying synergy effects or other R&C brought by the parent. Sometimes GBCs in this group (i.e. *MyFant*) have quite strong position in terms of various resources they possess even without corporate support. The strategy of group 2 is aligned with Lasserre’s view of strategies at different stages of the market’s development. In the growth phase, he suggests market entry even with limited resources, provided by a differentiation. The majority of GBCs interviewed agree with the fact that the most vulnerable group is the one possessing no differentiation, no market share and no resources. It is even advised to quit the market (*CityLife*, 2011). However, *Kartu* sees group 3 of namely “*corporate followers*” as vulnerable as well, because it has already invested, but without differentiation it will have difficulties to recoup the investment. Yet, aligned with the majority of cases we consider group 1 as the most vulnerable one.

### 6.2.2 The future development of strategic groups

The future development of the five strategic groups identified is based on empirical findings and opinions of industry experts. 4 potential directions and criteria were chosen to evaluate the future potential of the groups:

- Market-share, which was identified as important dimension in the previous paragraph.
- Financial situation, which is generally one of the key indicator of business success.
- Competitive strength, which goes along with R&C, KSFs and competitive strength grid, identified answering RQ2. Thus, it reflects how well the group fits into the GBM and suggesting the potential for the long-term sustainability.
- The potential for mergers and acquisitions, which can be seen as an important and attractive exit alternative for many start-up GBCs (mentioned by *Gruppi*).

Table 16 summarizes future predictions for the five strategic groups identified.

Strategic group	Market share	Financial situation	Competitive strength	M&A potential
<b>(1) The low group</b>	Poor or none	Profitability fluctuating around negative	none	none
<b>(2) The differentiation</b>	Same or slight/moderate	Slight increase, potential for	Average in their position and	High if differentiation is promising. Young or

Strategic group	Market share	Financial situation	Competitive strength	M&A potential
<b>dreamers</b>	increase	profitability	sustainable overall	developed GBCs can be bought out
<b>(3) Equipped or corporate followers</b>	Could increase in case of investing more R&C or differentiating	Turnovers might increase, but breakeven can be questionable	Might decrease or could increase in case of growth of the market share or proper differentiation	Low probability of acquisitions and moderate for mergers among the corporate followers.
<b>(4) Equipped or corporate innovators / differentiators</b>	Should increase	Should reach breakeven and become profitable	Should highly increase	Long-term based development and commitment or high potential for M&A
<b>(5) Market leaders</b>	Should remain the same or growth at the same pace as the market	Should increase	Should generally increase, but relatively decrease in areas of competition with differentiated actors	High potential for these companies to acquire other players. High consolidation probability. Potential for IPO

**Table 16 Future predictions for strategic groups**

The predictions of the industry experts for ‘*The low group*’ or the most vulnerable one seem very unpleasant – due to high level of competition, it is very unlikely that the market share or profitability might increase. Many interviewees were speaking about a GB “bubble” (*Beta, Kartu, Beauty Salon Lady, 2011*). Such companies, due to having no differentiation or focus, do not seem to possess any competitive strength, have difficulties to get potential partners and other R&C. Consequently, the opportunities to acquire or be acquired by another company are very limited. The timing of the market entry, entrepreneurial capabilities of fast start-up development as well as resources possessed play a crucial role in the young GBM.

The perspectives for ‘*The differentiation dreamers*’ might be more promising due to the differentiation level. Depending on the level of differentiation and successful development of a start-up R&C, its market growth might vary from slight to tremendous. Hence, these companies may also be attractive for an investor or another company. Good example here is the history of *Kartu*, which was a start-up with limited resources (*low group*). Then it differentiated by becoming the first aggregator in Lithuania (*differentiation dreamer*). To continue, *Kartu* due to its innovative approach attracted an investor and was successfully acquired by a strong local Web/IT player (*equipped/corporate differentiator*). Now, according to the latest market updates (November, 2011), it is very close to getting the leading positions in the Lithuanian GBM.

‘*Equipped or corporate followers*’ most probably will increase their market share due to constant help of resources they possess. However, that may be gained only by constant and large investments (*Gruppi, 2011*) so their position depends very much on internal incentives of owners or investors. Also, big corporations might invest in GBC as a complementary activity even at a loss in order to support or ensure sales of other products (i.e. *DailyCard*). Equipped

followers might “*join their forces*” to face the competition (i.e. in form of associations, *Myfant*, 2011).

‘*Equipped or corporate innovators/differentiators*’ represent quite promising strategic group since they possess enough resources and if needed might invest more. Moreover, they are trying to differentiate. All these indicate that this group is likely to increase its market share, and also have a lot of potential to become profitable (*Beta*, 2011). Also, being unique, they may have good database of subscribers and, thus, be more attractive for M&As (*Gruppi*, 2011).

The growth of the ‘*Market leaders*’ strategic group would most probably follow the trends of the whole GBM, which is forecasted to generally grow. Part of the market share can be captured by differentiated competitors (i.e. *Kartu*). Yet, they might become more profitable for the reason of established execution of resources and capabilities and economies of scale (*Gruppi*, 2011). Among companies of this group, the probability of consolidation is high (i.e. in Baltic region, *Beta*, 2011) as well as willingness of companies to acquire other market players. Finally, in the distant future the companies of this group might have a potential for IPO.

The determination of the MVSG allows us to focus the development of potential competitive solutions mostly for this type of companies. Yet, some of the solutions still consider other vulnerable groups like the ones with resources, but without differentiation or focus as well as group 2. It is important noticing that under the entrepreneurial perspective presented in the theory part, the companies can quickly build their skills and acquire resources, thus, the competitive solutions might also include ideas that require significant efforts, yet are still feasible and could be regarded as solutions worth the pursuit.

### **6.3 RQ4: What could be competitive solutions in group buying markets**

The empirical findings (case studies) combined with inputs from the theory (generic strategies, KSF, RBV, market timing) suggest the following general alternatives for the strategic group mentioned: 1. Quit the business; 2. Merge with competitors (of the same type); 3. Keep the existing model, while focusing on execution and development of R&C; 4. Find a proper/unique focus; 4. Differentiate.

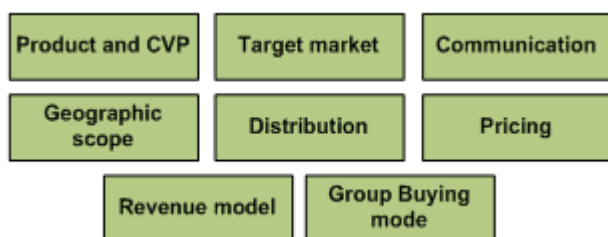
As the core topic of this thesis considers competitive solutions we will not focus on option number one – quitting, even though it was a highly emphasized and offered suggestion by many of industry practitioners (i.e. *Kartu*, *CityLife*). In contrast to that, the same experts regarded option number two as not attractive. According to them, the margins and turnovers are too small to be shared by a greater number of actors, the coordination processes become rather complex and the characteristics of the industry, where a lot is determined by the website traffic,

does not allow to share the customers easily (Kartu, 2011). Simple development of R&C in the third alternative is not enough – there is a need to overcome the ones possessed by the competitors. That is unlikely to happen for most companies in the MVSG. Therefore, we focus on the last two strategic options – finding proper focus or differentiating.

Aligned with the thinking of M. Porter we claim that the focus strategy can be based on both: the focus-based cost leadership strategy and the focus-based differentiation strategy. Yet, the nature of the GBM, where sales volume is important, suggests avoiding having a small scope or possessing focus and trying to compete by low cost at the same time. The research findings and analysis support the differentiation-based focus or general differentiation. Also, the majority of interviewees emphasized the importance of becoming different, finding your own distinction (Beta, 2011). It was strongly emphasized by Beta, Kartu, Gruppi, CityLife. Therefore, the most promising competitive solutions could be present within these categories. It is true that novel positioning solutions or even products might carry some challenges like user-adaptation, technological complexity and development of new competences. Nevertheless, the competitive situation and thorough analysis of alternatives suggests concentrating on differentiation and differentiation-based focus.

The differentiation alternatives are based on the outside-in view or the analysis of the external environment. Since differentiation means staying distinctive compared to other actors, this approach starts with analysing the market and spotting the positions unoccupied. Thus, it is related to notions of entrepreneurship and consequently new product development. Yet, the choice to pursuit these different market opportunities can and should be influenced largely by R&C of the company. However, due to limitations of the paper, we will just present the competitive solutions without presenting the ideas for execution.

It is reasonable to identify and select the dimensions, where the competitive solution might be present. In order to derive as many solutions as possible we decided to select several concepts and group the dimensions according to the characteristics and business logic. The decisions are guided by the empirical findings suggesting the most relevant areas in GB business.



First, we select the conventional marketing mix, pioneered by P. Kotler (2001) or the latest approach to this notion the 4Cs – Customer value proposition (product), convenience (place), costs (price), and

**Figure 11 Dimensions of competitive solutions**

communication (promotion). We add up the concept of target market and based on the Ansoff's growth matrix, determine the pathways to growth – any combination of the categories

new/existing products and new/existing markets. Under these perspectives the product and geographic scopes as well as the customer relationship management are considered. The latter emphasizes customer lifetime value and the pursuit of growth by trying to sell more to the same customer.

In addition to that, we utilize the business model concept, presented by Johnson and Christensen (2008). This framework was used in the pre-study. As a result, we identify eight the most relevant dimensions of the competitive solutions as presented on Figure 10 above.

### 6.3.1 Product – customer value proposition

Product category provides many of opportunities to distinguish the company from its rivals.

The products / CVP	General alternatives	Examples
<b>Type of product and CVP</b>	Existing category/ new category; High value for average price/average value for low price; monetary discount or promotional testing sample,	Health & Beauty, Food, Entertainment, Events, Traveling / Toys, books, software, bicycles, renting (scooters), training (pc literacy); Night at the Grand Hotel / night at an ordinary hotel; discount of 50% for a sushi or buy a sushi get another one for free.
<b>Product scope / types of deals</b>	Focus on <b>one category</b> , several categories or huge variety.	Specializing in <b>toys, renting</b> , books, health & beauty; a combination of these and/or becoming an aggregator and presenting all.
<b>Number of products (deals)</b>	From 1 to unlimited.	1, 2,3...5 deals per day.
<b>Timeframe of a deal</b>		Momentum (1 hour), <b>1 day, 1 week</b> , 1 year.

**Table 17 Differentiation/focus alternatives at the product level**

As presented in the Table 17 there are many alternatives at this level. The majority of industry experts claimed product level to be one of the most realistic means of differentiation. Artūras Mizeras, the CEO of *Kartu*, suggests selecting and focusing on one category of a product. Combined with a determined urge to stay different, expressed by Alvyde Palaimate, CEO *Beta*, one of the competitive solutions would be specializing in a new product category like toys for kids. Occupying a distinctive position is favoured by M. Porter (1985). In addition to that, the suppliers would also be interested in a specialized GBC (*Kavosdraugas, Vero Café, 2011*). On the contrary, the company might choose to present a big number of deals and not only the ones it offers itself. In this case it would become an aggregator. Customer survey revealed double demands: consumers want both specialized products as well as a huge variety of them. That suggest that there are quite many different alternatives for GBCs.

An interesting option would be not focus on the discount in a monetary value, but use the promotional approach, where an additional unit for the price of one is offered. These kinds of offers are not that attractive to discount hunter (according to *Beauty Salon Lady*, very undesired customer group), but can attract more sophisticated clients, more quality-based partners and,

finally, differentiation. Results of the quantitative survey revealed this option particularly attractive to the Swedish buyers.

### New business ideas (developed by authors)

- Second hand coupon market. The market to buy, sell and exchange the coupons bought. There is a great potential in this option as some customers realize they cannot use the coupon after the purchase or were too late to acquire it. Even though some companies forbid re-selling the coupon, there is potential for the negotiations.
- Coupon anytime. A low number of various coupons from other GBCs for a slightly higher price than the originals, but available for a longer period of time.

### 6.3.2 The target market, communications and pricing

In some cases, the target market could be pre-determined by the product offerings. The following table represents the strategic choices:

Fields of competitive solutions	General alternatives	Examples
<b>The scope of target audience</b>	Focus on <b>one segment</b> , several segments or mass marketing.	Focusing on travelling and rest ( <i>Noriunoriunoriu.It</i> )
<b>B2C direction</b>	Segmentation based on needs, demographics, psychographics.	Young mothers, businessmen & business women, heavy book readers, Indians, Christians, the rich.
<b>B2B direction</b>	Segmentation based on needs, products & services, location.	Young companies, small companies, vertically disintegrated companies.
<b>Differentiation via communication</b>	Selecting different media platforms, channels, formats	Different platforms like online, mobile, TV, print, interactive; different channels like blocket, facebook, skype as well as different formats like banners, <b>games</b> , <b>events-shows</b> . Offline communication via events, competitions, print ad and location based marketing.
<b>Pricing mode</b>	Random pricing; fixed pricing, fluctuating pricing	Price different for every single deal (different meals); deals, arranged to cost a fixed sum (just the deals costing 100 SEK); pricing dependent on time (the later the more expensive) and sales volumes (the more people buy, the cheaper it gets).

**Table 18 Differentiation/focus alternatives at target market and communications levels**

There are a lot of groups and sub-groups of people, which could be targeted specifically (*YourDeal*, 2011). Though many of them are too small in the countries analysed, they can still be a source of focus, if the target market is big enough. Another interesting alternative is to target B2B clients. Intangible offerings like training, education, accountancy or legal advice could be distributed using the GB. It is related to the market intelligence and understanding the consumer capability (*Beta*, 2011), yet the alternative of targeting specific groups was not supported by the respondents of the survey. Yet, we have to stress that the survey was not aimed at business owners or managers. Finally, the suppliers expressed a great desire for GBCs with specific target audience (*Vero Café*, 2011).

Communication might not be sufficient to establish a distinguished competitive position, yet it can still enhance the level of competitiveness. Usually GBC base their communications on direct advertisement on the web, subscriber database as well as social media. In many cases, the same websites for buying ads are being used. Thus, there are opportunities to find new channels, indulge in more interactive way of communications like games and events/shows. Finally, there might be a potential in the offline advertisement (*So-skidkoy*, 2011). The company might develop offline business models or simply advertise using printed ads. This type of communications is possible especially with the deals, which allow postponed payments. It is interesting noticing that the customer survey revealed that respondents generally dislike ads of GBCs and perceive them as irritating.

The general pricing model in most GBC is random or dependent on the characteristics of a specific deal. GBCs might focus on offering deals, arranged at a stable price level. A more risky approach would be to indulge in fluctuating pricing, where the price could change according to the time passed and the volumes of sales. This option, according to survey results, seems interesting to potential buyers. Some GBCs are already using this approach while dealing with the partners, when different commission rates are attributed to different levels of sales volumes.

#### **New business ideas (developed by authors)**

- “Live” the deals. Partner with a dominant GBC and offer only complementary deals.
- “Personal” group buying for supplier. Develop a software platform quickly redirecting buyer to the website of the supplier to drive traffic on its website.
- Sms deal. Arrange deals with free coupons and distributed as well as communicated in various offline channels.

### **6.3.3 Distribution and the geographic scope**

An abundance of strategic alternatives might lay in the choice of the geographical presence or locations (*YourDeal*, 2011) as well as the distribution channels.

The target market	General alternatives	Examples
<b>Geographic scope</b>	Focusing on one region/location or multiple regions	Focus on particular district (Östermalm), business districts, city (Stockholm), regions (countryside), Stockholm and other cities or online national presence.
<b>Internationalization</b>	Expansion or partnership	Partnering and promotion foreign (travelling) deals; exchange of shares.
<b>Distribution channel</b>	Online (direct (email), aggregators), mobile (aps, sms) or offline (retail outlets, vending machines, print media).	Kartu as an aggregator; mobile aps; group buying vending machine in the supermarkets, metros; print ads with numbers to get the coupon by sms;

**Table 19 Differentiation/focus alternatives at the target market level**

The differentiation might be achieved by focusing on single, but economically significant districts (*YourDeal*, 2011), regions or trying to establish national or even global presence online. There is a possibility to establish international partnerships and share the deals, pool and optimize the back-end functions, exchange the resources as well as benefit from diversification of risks (*CityLife, Kartu,2011*). Finally, geographic scope as a serious strategic choice is widely considered by theoretical notions of strategic management (Lasserre, 2007).

Distribution might also be a way to differentiate. On one hand, GBCs are using online distribution method to reach their customers and transfer the coupon codes. On the other hand, both the suppliers and the buyers are dependent on the actual location of the first one. Consequently, GBCs might choose to specialize on particular distribution channels, like online. Another option is establishing offline presence by opening small retail outlets, using print media and free-coupons model or developing GB vending machines. The rapidly increasing mobile channel is another platform for distribution (*Gruppi, EniroDeals*, 2011). However, a new distribution channel might not be enough to achieve significant competitive advantage, but it could be a complementary part of the differentiation solution.

**New business ideas (developed by authors)**

- GB vending machines. Establish vending machines in supermarkets and other public places, presenting various deals offline.

**6.3.4 The group buying mode and the revenue model**

There could be different GB modes or ways to arrange the GB process. Currently, majority of companies (except of GBCs in Russia) follow the Groupon-based model (see Appendix I). Despite that, there are several other ways to arrange GB as presented in Table 20 below.

Group buying mode	The concept/process of the group buying
<b>Supply-based</b>	Groupon-pioneered mode. GBC or the partner/supplier arranges the deal. The customers pay for the discounted product or service at GB website.
<b>Demand-based</b>	The customers form a group of people interested in a specific product and approach suppliers in bulk to get the quotes, choose and pay in bulk for the deal.
<b>Afterpurchase-based</b>	The partner/supplier and GBC agree on products/deals. The customers buy the products for the full price, but if the required minimum number of people obtains the deal, a certain amount of money equal to the discount is paid back.

**Table 20 Group buying modes**

The Groupon type of model is based on the supply-focused approach. Another model suggests providing a discount coupon for free or for some small payment (see Appendix I) and use it by purchasing the deal from the supplier. This model is favourable in emerging markets, where e-commerce is not perceived as reliable. But it can be also used to utilize other communication channels as offline print media, ads in public transportation.

It is possible to arrange the GB from another perspective or from the demand side (Table 20). Yet, it has not been implemented successfully in the countries of this study, and is not perceived as interesting by the majority of the respondents of the survey. However, under the new product management perspectives and aligned with the notion of *driving the market* (Slater & Navar, 1998) there is alternative to educate the customers and build the demand for the concept. Thus, this opportunity could be considered to dramatically change the whole GB process.

Arranging GB process using the payback method for volume sales (Table 20) is another fundamentally different approach to GB. However, since in many cases, customers demand the discount right here and right now, it did not get much support from survey respondents. However, this approach might distract discount-hunters, the worst target group according to Artūras Mizeras of *Kartu*, and allow focusing on a more high-end product range.

The revenue model is a fundamental part of a business model. As the majority of GBC carry on the same revenue model, it is reasonable to look for competitive solutions within this dimension. The Table 21 below presents the potential alternatives.

The revenue model	The comment
<b>Commission based</b>	The payment for GBC is based on the volumes of sales
<b>Premium</b>	Additional services like advertisement, consultancy and/or better conditions for posting the deal can be provided for the partner/supplier
<b>Position-based</b>	GBC, especially aggregators can charge for the higher position on the deal's list
<b>Subscription-based</b>	Availability of great deals for customer-subscriber with bigger discounts and/or ability for partners/suppliers to be constantly upload deals on the GBC's website
<b>Ad-based</b>	GBCs can introduce advertisement – starting from simple banners ending with more sophisticated and engaging communication campaigns

**Table 21 Revenue models**

The MVSG generally possess the commission-based revenue model. It can be characterized as the industry standard and is still feasible. As potential differentiation solution, GBC might use the premium model. Interviews with suppliers confirm this option, when they seek for advice and consulting support from GBCs. Some of the GBCs already start charging for placing a deal on the website. A revenue model of fixed or varied fee for placing a deal on different positions, might become a substantial competitive differentiator. GBCs could introduce advertisement as many other publishing-based websites, but since end-consumers are already annoyed by ads of GBCs (according to survey results), additional ones can be even more irritating.

A new approach to the revenue model could be the subscription-based model. This could be a more radical and thus risky change, but if successful would lead to a differentiated position.

#### **New business ideas (developed by authors)**

- All GBCs in one place. Aggregating the GBCs for suppliers.

- Partners at once. Aggregate suppliers to get the best conditions for both GBCs and partners.

The goal of presenting this dimensions and ideas within them was to show a way of thinking. Detailed solutions were identified based on them and tested in the customer survey (see Appendix D).

### 6.3.5 Final solutions

The previous chapter introduced the dimensions for competitive solutions as well as the analysis. Hereby, we combined different alternatives, insights and options to develop the finalized competitive solutions. All in all, authors propose twelve final solutions. They can be divided into hard and soft ones, based on the level of novelty and the difficulty to implement. Hard competitive solutions correspond to more radical and innovative changes required. The soft ones are rather easy to implement, do not require extremely new R&C and can be executed by modifying the existing business model slightly. Sometimes they incorporate already existing options from different markets or countries and are offered by industry practitioners. Due to limitations of the paper, in-depth explanation, rationale and support for these solutions is presented in the Appendix A, while brief explanation is provided in Table 22.

	Competitive solution	Brief explanation
<b>Soft solutions</b>	Provide with a variety of deals	Add variety, introduce filters and personalized communication
	Niche	Specialize in categories like leisure, events, travelling, clothing
	Complementary deals	Provide with deals, which could be as an extra to the ones sold at other websites
	Target quality, high-end offers	Introduce free samples or “buy 1 get 2” type of deals
	Free GB coupons	Provide with free coupons for deals and allow payment at the suppliers’ distribution place
	Deals from abroad	Deals for places you could be traveling to
<b>Hard solutions</b>	CSR-based group buying	Deals, where a big part of the discount (half of it) the customer is donating for a great cause
	Deals market	Buy and sell deals, which are not available at other GBC anymore
	Suppliers evaluation website	Provide users with ability to rate, give feedback and get information about suppliers of deals. Ensure the quality of deals
	Demand-driven GB model	Develop a platform, enabling users to express their needs, form groups and approach suppliers to get a deal
	Deals offline	Establish offline distribution channels. The GB vending machines
	Fluctuating price deals	The deals getting cheaper the more people buy them or the less\more time is left

**Table 22 Final competitive solutions in GBMs**

The final solutions provide a varied and at the same time detailed answer to the core problem of the research – what kind of decisions or solutions could allow surviving in the GBM. It is worth noticing that they encompass the whole spectrum of rather easy to implement and radical solutions as well as the ones satisfying the existing needs and focusing on the latent ones. Some of them are based on strategic positioning, while others represent development of entrepreneurial opportunities and new products.

## **7 Conclusion, final discussion and suggestions for future research**

### **7.1 Conclusion**

The increasing number of GBCs on the market as well as similarity of their business models pose question about how these companies might survive in the future. The main purpose of this thesis was to investigate GBM and propose competitive solutions to the most vulnerable companies. The supportive steps are the understanding of the competitive landscape, deriving the KSFs, grouping GBCs based on appropriate criteria as well as trying to foresee their future.

The rivalry in the investigated GBMs can be characterised as strong. The GBCs powerfully compete for both: the suppliers of the deals and the subscribers. A need for potentially new value propositions and business models is evident.

The empirical findings suggest that the KSFs of the industry are relevant and appropriate offers (deals), acquisition of traffic and subscribers, IT as well as timing of the market entry. These KSFs are valid for all of the three markets studied.

Based on the market share, resources possessed and the level of differentiation (focus) five strategic groups were identified – the ones with low characteristics on all of these dimensions; the ones trying to differentiate with limited resources; the ones with low differentiation, but supported by resources; the differentiated and resource rich ones, yet with low market share; and, finally, the market leaders, holding many resources. The most vulnerable strategic group scores low on all key grouping criteria. Its future is seriously questioned and therefore it has the biggest need for the competitive solutions. The group with low differentiation and low market share, but having already spent some resources to be in the market, might be threatened too.

Specific dimensions, based on empirical findings, the most relevant elements of the business model, marketing mix and theoretical approaches of this thesis, were used as areas to analyze and develop the competitive solutions. These dimensions included customer value proposition, target market, communications, geographic scope, distribution, pricing, revenue model and the group buying mode. As a result, 12 final solutions were developed, categorized as soft or hard, depending on their feasibility, R&C needed as well as the level of differentiation they provide.

### **7.2 The final discussion**

The research and analysis led to some thoughts and considerations.

First of all, it is very interesting to observe the development of a completely new market and

see how it follows the curve of a new product life-cycle. It confirms the relevance of different strategies based on market timing. As suggested by Lasserre (2007) the early entrants should lead the market, while the followers should differentiate or dedicate more resources. However, in many cases, strategies, based on market timing, are overcome by more conventional and static strategic concepts like Porter's generic strategies. On the other hand, the latter ones provide with sound foundation and a starting point for deriving the more detailed strategies and competitive solutions. Additionally, understanding the KSFs, or the pre-requisites for success (Grant, 2008), for a new phenomenon like GB, revealed a solid value of the KSF concept as it encompassed both the outside-in and the inside-out views of strategic management. We believe the research once again proved the worthiness of combining the two perspectives (Medvedev, 2011). While the early market entry and recognition of the opportunity could be attributed to understanding the external environment, the proper development and execution should be addressed by internal skills and resources possessed.

Secondly, the concept of strategic groups assisted a lot in executing the study. Grouping the companies according to certain criteria, observing their development under the timeframe and putting them into visual grouping matrixes allowed to spot some patterns. The first movers with R&C rushed to be the market leaders (i.e. *Beta*) and the resourceless actors still managed keeping an average position (*Gruppi*). The followers try catching up the leaders. Their success still depends on timing of entry, R&C possessed or the level of differentiation achieved. The latter proves to be a great strategic alternative to catch-up with the competitors. As the example of *Kartu* reveals, a company can move from one strategic group to another: by differentiating, attracting external investors, as a result acquiring more R&C and, finally, becoming one of the market leaders. We believe this case might prove and connect the concepts of strategic timing, differentiation as well as the RBV.

Thirdly, we believe it is beneficial to combine theoretical perspectives like strategic management, business models and entrepreneurship. The business model as a concept could be regarded as a part of strategic management or entrepreneurship. That is why we see it as an intermediary or a smooth transition between these two approaches. Moreover, it provides with a great deductive tool to break-down the business into separate pieces, analyse them and come up with potential solutions or improvements. Yet, it might lose the broad perspective, therefore in this case strategic management serves as a foundation of deriving the competitive solutions. The generic strategies, the logic-based reasoning and different concepts allow understanding the problem, or the competition in GBM in this thesis, and developing sound answers. However, we believe that in some cases the logic-based approach can be regarded as too standardized and limited. Therefore, the concepts of entrepreneurship and/or new product development might

complement the strategy approach by adding creativity, opportunity prototyping skills as well as a healthy appetite for risk-taking and potentially radical competitive solutions, leading to sustainable competitive advantage.

Fourth of all, it is interesting to consider the term competitive solution itself. Even though the separate words *competitive* and *solution* are quite popular in the academia of strategic management, there is a very limited usage of them together. We find it surprising, as we see the two words and their combination as rather self-explanatory and worthy. In this study they refer to answers how to survive in a competitive marketplace. In our opinion, McAfee P., who released a book “*Competitive Solutions: The Strategist's Toolkit*” might agree with this idea. In this thesis, the competitive solutions encompass not only the ones leading to competitive advantage, but also those leading to competitive parity. We believe, that the latter is also relevant and worthy in the business environment and is often unreasonably neglected and overshadowed by a concept of competitive advantage.

Fifth of all, we would like to quickly comment the geographic comparison among the GBMs studied. They are very close in terms of KSFs, strategic groups, strategies pursuit and general development of the market. The differences include the size of markets, their structure and the level of competition. The structure might refer to an unusual number of GBCs in Lithuania and Russia (around 40 and 100 respectively) and relatively low number in Sweden (less than 10). Correspondingly, the competition is higher in Lithuania as well as in Russia. Yet, user preferences and competitive differentiators are rather similar among the countries. Competitive solutions-wise, some of them might be tried in all countries (i.e. niching, complementary deals). Those that spot an approach not used in some countries, could be applicable there (i.e. free coupons from Russia could be tried in Lithuania and Sweden).

Finally, it would be interesting to find out how the findings of the research could be applied on a broader level, especially in the e-commerce. Proper conclusions would need another study, yet we can still make modest assumptions. We believe that time-wise the GBM is developing as the WEB market during the *.com bubble* era. The actors are caught by the hype and do not assess the reality objectively (Kartu, 2011). Yet, in this case GBCs could learn more from the other e-commerce actors, not the other way around. In our opinion, the KSFs of the industry should be similar and could be applicable also for other e-commerce players (see Appendix H). Attention to quality offerings of products/services, attraction of buyers and traffic, IT capabilities determine strategies that can be pursued for example by e-Auctions, and actually by any distributor of goods and services on-line (e-Tailers). Market timing is important for specific areas of e-commerce, depending on their age, but not to e-commerce in general. Partly the KSFs identified for GBCs are important for social networks, namely subscriber database and IT

technologies. Facebook is good example of combination of these factors and not surprisingly, there were rumours about its plans to launch GB service (Vesti.ru, 2011). We argue that it is possible and useful to group players of e-commerce based on the same dimensions – market share, R&C and level of differentiation/focus. Based on that, it would be possible to try predicting their future and based on the life cycle of the market look for strategic decisions, which could be pursuit of differentiation/focus or acquiring R&C and following the market. As this study focused more on solutions for differentiation we might consider them under the broader e-commerce perspective. We could argue that the same strategy-business models-entrepreneurship approach could assist for developing competitive solutions. Even though the hard solutions could be difficult to implement in general e-commerce due to lack of discounts similar to GB and differences in business models, we believe, some soft solutions might still be worth considering. They could include expanding the product scope, niching or providing with complementary offerings to another website. All in all, we argue that the theoretical and analytical approaches used in this study could be applied to solve similar problems on a general e-commerce level. Yet, the final solutions should still seriously consider the details of specific cases.

### **7.3 The suggestions for further research**

First of all, it would be interesting to compare the chosen markets to the GBM in USA, which is the motherland of this phenomenon and particularly study Groupon as the global leader of GB. It could be worthy investigating other countries too. Furthermore, in relation to Groupon and strategic-wise it could be interesting to study the internationalization of GBCs and its impact on the performance. While expanding abroad, the GBCs can use local adaptation, standardization or both strategies (Hill W. L., 2007), which were not stressed in this study and could be another area of research focus. To continue, it could be interesting to investigate GBCs under the financial perspective and the value-based management approach. Even though this study included the marketing mix and touched the essence of branding and communications, a more focused research based on the latter two could be of a great interest. Another potential direction for further research could include investigating what kind of capabilities lead to the ability to develop competitive solutions in GBM. Even though the b2b market was considered to some level in this paper, we believe a more thorough study could be of a particular value. Finally, a general direction for further research could include investigating GB and its effect on the performance of suppliers as well as satisfaction of the latter.

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## Appendix A: Final solutions

The detailed presentation and explanation of the final 12 competitive solutions developed is presented in the following appendix.

### Soft solutions

**1. Providing a huge variety of deals.** *Expand the number of deals and/or become an aggregator, personalize emails and offerings, introduce a category filter, simplify the procedures, consider eliminating registration and introduce e-codes.* It is related to the KSF of quality deals, which are relevant, timely and with a huge discount. It is highly supported by the customer survey – one of the highest scores among competitive solutions (5.18 out of 7, where 7 is favourable and 1 is unfavourable), with lowest variance 2.65 and standard deviation 1.63. More than 76% (138 out of 181) of respondents consider a wide range of deals as positive. It is aligned with expressed problem of an inability to find a relevant deal and irritating impersonal advertisement. A mobile application could complement the solution. A quality filter could be an important extra or even a competitive solution. It could be based on customers' votes, referrals or traditional filters. The discount validity checker might also be introduced. These solutions are based on customer's problems of the quality and the real size of the discount, expressed in the survey. It is a problem-based ideation approach. The solution is aligned with the novelty requirement of deals, which was expressed by Beta and supported by the survey, where buyers demanded new and fresh deals. 69% of all users are wishing them, while 40.4% of non-users express the same claim. The mean is 4.76 and the deviation is 1.74. These are relatively high and reliable results, compared to other alternatives. Thus, as an option, a GBC might constantly introduce new types of deals. The same tendencies could be spotted geographically, i.e. in Russia 78,37% of users are looking for new categories.

**2. Focusing (niching).** *Make a great number of specialized deals and extend the time-frame.* The customers' survey revealed the latter to be a relevant problem. *Build your specific target audience*, which was seriously stressed by the partners/suppliers (*Vero Café, 2011*) and communicate relevant offers. *Introduce wider choice of deals inside within the frame of the category. Provide with novel deals. Simplify the procedures, consider eliminating registration and introduce e-codes. Develop an app.* The most promising categories according to the survey are events, leisure and travelling. Other categories or target markets mentioned by the respondents and/or GBCs include: men, clothing, kids, food & restaurants, pizzas, nightlife deals, sports tickets, cinema tickets (part of events), automotive deals, psychology sessions & consultancy, everyday products. Narrower niches could include even exotic specialization like

wine or cheese. Both categories were mentioned in the customer survey. It is also based on the core KSF on the industry – the quality or appropriateness of the deal. It is a greatly emphasized solution by GBCs (i.e. *Gruppi, Beta, Kartu, Dailycard, 2011*). The respondents also support the need for specialized offers – the mean of the solution is 4.62 (on a scale from 1-7). Yet the variance is high 3.75, while standard deviation is average 1.94. Generally 176 out of 307 or 57% of respondents see specialization as positive. The 21 out of 39 or 53% of heavy users (buying 8 deals or more) also favour it. The support for the increased time-frame – “*the deal which is available for a long period of time (i.e. one month)*” scored the average of 4.42 in the customer survey. The variance is 3.30, while standard deviation 1.82. The latter two are quite high and suggest uncertainty of the results. 154 out of 309 or 49,83% favour this idea. If we align it with the inputs from the question about the key problems, stating time-frame to be one of them, we have a solid case and a competitive solution.

*An interesting focus could be achieved by localization of deals.* The solution of offering deals in specific districts of a city was considered as average (the mean 3.99) by the respondents of the survey. The favourite and unfavourable responses are equal – 130 users claiming “pro” and 130 claiming “against”. Yet, this idea could be promising in Russia, where 43 out of 78 or 55,12% regard it as positive. Probably that could be addressed to a huge size of the country. The idea might not necessarily be supported by the mass, but could be interesting for a specific group.

**3. The website of complementary deals.** *Offer deals, which could complement the ones sold at other websites* (i.e. “if Groupon offers a bowling session, a complementary deal could be a great dinner nearby”). *Find a dominant strategic partner or partners.* The solution was favoured by the respondents of the survey – the average is 4.61, the variance 2.84 and the deviation 1.69. The deviation is low, the average is rather high, suggesting a potentially strong idea. 149 out of 269 of all respondents favour this idea. That is 55,4%. Users are more positive than non-users. 61,54% of them or 96 out of 156 express interest in this idea. It is a promising sign as these are already active users, already spending money in group buying services. In Russia the percentage of favourites is 47,7% (31 out of 65), Lithuania 65,9% (81 out of 123), Sweden 54,3% (19 out of 35). The concept is novel, thus, might possess solid potential for differentiation.

**4. Provide with Free Test Samples or indulge into “pay for one get two” model.** *Target quality, high-end offers, more prestigious brands and offers.* The lack of high-end deals is a relevant problem mentioned by the respondents. It is aligned with the demand of a great variety of deals. Yet, as expressed by Agne Jusaite of *Vero Café*: “*Group buying and traditional discounts are evil for luxury or high-end brands*”. Thus, she suggests Free Test Samples. GBCs could distribute free testing samples, if a required minimum of users subscribe for the deal.

Another option is “*Get two, pay for one*” model. In the survey, it is a rather positive choice, once again suggesting a potential for a specific group. 50% (69 out of 138) of Lithuanians favour the idea, 36% (28 out of 78) of Russians and 22 out of 40 (55%) in Sweden. Yet, in Sweden the results are influenced by non-users, so that might be a potential niche or misleading statistics. The mean of this solution in the survey is 4.44 (on a scale from 1 to 7), the variance is 2.94, while deviation is 1.71. It is a rather positive choice, once again suggesting a potential for a specific group.

**5. Provide with free GB coupons.** People are willing to get free coupons, providing with discounts. The mean of the solution in customer survey is 4.64, suggesting a rather positive outlook. Yet the variance is quite high 3.45 and the standard deviation 1.86. 54,39% of all respondents are positive about that (5,6,7 points out of 7). Users and non-users express the same preferences (54%). In Russia the percentage of favourability is 53,24%, in Lithuania 60,8%, Sweden 45%. This suggests that Lithuania, which does not have coupons for free, could introduce this offer. The Swedes, probably, do not consider online payments that risky, thus, they do not pay attention to the fact that they have to pay instantly via online. The idea is supported by *So-skidkoy*, *Myfant* and *Boombate*. It solves the risks problem expressed by end-customers. This model would be novel in Sweden and Lithuania.

**6. Specialize in presenting deals from abroad (in places you could be traveling to).** *Aggregate a huge number of deals from many foreign countries, cities, present it in a concise and filtered manner and allow the ability to easily purchase.* The concept was suggested by *YourDeal*. It is related to the need of travelling and supported by the strong demand of a variety of deals. Some of the respondents of the survey favour this idea. The average is 3.95. The favourable and unfavourable answers are divided evenly – 123 respondents consider it as negative, while 124 as positive. It might still suggest a potential niche. The mean is average, yet, still there is an interested audience. It is also a novel idea.

### **Hard solutions**

**7. CSR-based group buying.** *Position as a CSR orientated GBC. Arrange a discount of around 50%, yet make the end-customer get a 20% of discount in monetary terms and allow to donate other 20% for a great cause (the remaining is left for the GBC).* The donation should take place at the distribution point of a supplier. The solution is developed by authors, based on the problem-based ideation method. It is grounded by a problem of feeling “*shame*” of using a coupon, which was expressed by respondents of the survey. One of them went as far as saying: “*I feel filthy, while using a coupon*”. The final price of a deal would increase for a user, thus, more sophisticated and loyal users could be attracted. It is favoured by higher-end products and

strong brands. The latter are very difficult to attract in conventional GB, thus, could provide with sound differentiation. In addition to that, many strong brands could be willing to associate themselves with CSR efforts and justify the discount not in terms the need to sell high quantities, but to contribute to a great cause. It is aligned with the customers' interest in new deals and high-end products as well as suppliers' concern of attracting loyal and more sophisticated target audiences.

**8. Sell deals, which are not available anymore.** *Buying small quantities of various deals and selling them at a small premium, once they are not available at the original website. Entering cooperation and/or reach agreements with GBCs. Arranging un-official coupon market.* It is aligned with customers' problems – the time-frame of the deals and the limited number of coupons. It is also related to the risk reduction of buying a deal. Some respondents even manually expressed the need of a market and ability to sell the coupon or to acquire one once the official deal is over. Yet the mean of the attractiveness of the idea is rather low 3.83, variance 4.47 (very high) and deviation 2.11 (moderate). In general the proportion of favouring respondents and the ones, who don't, is equal (112 versus 114). It is important noticing that 73 out of 158 or 46% of users regard this service as positive. In Russia 53% (16 out of 30) of respondents regard it as interesting, while in Lithuania the percentage is 46% (43 out of 94). In Sweden it is 54% or 7 out of 13. The concept was not supported by the mass market, but still might contain potential dealing with existing users. It might become a viable differentiation in the GBM if the latter will continue growing steadily and more and more users as well as coupons will appear on the scene. It is important noticing that an aggregator offering a coupons market exists in Lithuania – 50proc.lt.

**9. The website for evaluation of partners/suppliers/vendors.** *Provide users with ability to rate and give feedback about suppliers of deals. Involve GBCs into evaluation. Introduce evaluation rankings. Add tools to verify the quality and the validity of the discount. Build an app. Consider including a guarantee stamp (of quality).* The concept is based on problems, expressed by users of the inability to provide with feedback and report issues quickly. It is also related to the risks of buying the coupons. The problem as well as potential solutions was suggested in the customer survey. Lithuanian GBCs consider solving the same problems by forming an association and evaluating suppliers to some sense. An international example of this type of solutions is *yelp.com*.

**10. The demand-driven GB mode.** *Develop a platform, enabling users to express their needs, form groups and approach suppliers.* The revenue model could be ad-based or commission-based. The model was suggested by separate respondents, yet rejected by the majority of them in the final evaluation of a competitive solution. The mean of the solution is 3.48 (from 1 to 7 in

attractiveness), the variance 3.61 and the deviation 1.90. These results rather suggest lower acceptance of the concept, yet the big variance leaves some space for optimism that it can be appealing for a particular group of people. It is still interesting for 31,4% of users. Could they be regarded as the lead users? The rating of favourite answers is low in Russia 25% or 19 out of 76. It is rather moderate in Sweden (36,8% or 14 out of 38) and Lithuania (37,2% or 48 out of 129). Implementation of this model should be based on the *driving-the-market* approach. It is a radically novel approach, thus the results of customer survey might not necessarily represent the real potential of this type of concept. However, it can definitely be regarded as risky. 32% of all respondents still favour this idea. This number is sufficient enough to have lead users. The solution would provide with high level of differentiation.

**11. The deals offline.** *Establish offline distribution channels – small scaled presence in retailing outlets or even partnerships with retailers.* It was suggested by respondent of a survey, willing offline presence of GB. Yet in general this competitive solution was regarded as average by the consumers. Its mean was 4.04 (on a scale from 1 to 7), the variance 3.05 and the deviation 1.75. The big variance and spread opinions of users suggest potential indecisiveness. It provide with evidence for potential of mass marketing. On the other hand, the latter could be achieved by developing the demand and educating the users to buy deals offline. Once, the users had to learn to buy them online, thus, this process should be easier in this case. In Russia and Lithuania the opinions are equal, in Sweden 21 out of 40 favour this idea. The risks and uncertainty are high. There are some examples of distributing coupons off-line. In Russia *So-skidkoy* does that by giving coupons out on the streets during big events. In addition to that, it also indulges in off-line advertising in printed media.

Another option of offline distribution of deals is pairing-up with retail centres or other owners of high traffic areas (metro, business centres). *Develop simplified vending machines of deals or integrate into existing multifunctional automated vending machines (in Russia).* It is another *driving-the-market* solution, which is risky, difficult to implement, yet, if executed, possessing strong potential and level of differentiation. The solution generally was not favoured by the respondents – the average 3.37, variance 3.03 and the deviation 1.74. However, we believe as it is an innovative product the opinion of lead users would be more worthy and accurate in this case.

**12. The deals getting cheaper the more people buy them.** The idea was precisely mentioned by a respondent of a survey. The average of this competitive solutions is rather good – 4.16. Yet, the variance of 4.04 is pretty high. The standard deviation is moderate at 2.01. This approach is favoured in Lithuania, where 73 out of 138 or 53% perceive it as interesting. Respondents in other countries regard it more negatively than positively. Thus, the uncertainty

of this solutions is rather high, the feasibility is also questionable and there we can conclude that the risks are high as well. *Another alternative of fluctuating pricing is to tight the price to the time, which is left for the deal.* The price could increase when time passes, or the opposite – it can decrease the less time for a deal is left. It is related to the timing issue mentioned by the respondents as well as differentiating by having the model of fluctuating prices. It might be interesting to discount hunters, willing to get the best deal. Yet, it is not the most desired target audience. On the hand, the fact that some customers overpay, enables an opportunity to provide with even bigger discounts, which might attract a great number of users.

## Appendix B: Full Case Studies

### 1. Case Study CityLife

#### Background information

*Citylife* is a GBC originally launched in Latvia and later expanded to Estonia and Lithuania. Thus, the Lithuanian unit, though separate in decision making, still belongs to the parental company. International presence makes *Citylife* different to some extent.

#### Performance

The director of the company Donatas Butkus was not willing to disclose the performance figures. Yet, he claimed it *“to be number 5 in the Lithuanian GBM”*. Our estimations place this company between the 5<sup>th</sup> and the 7<sup>th</sup> one according to the market share occupied.

#### Perspectives upon the industry – current state, key success factors and predictions

GB is a *“trendy thing”*, according to Donatas. *“The competition is evident and strong”*. Only 4-5 strong companies are becoming the dominant ones, but 80% of weaker players will disappear. Many companies experience negative bottom line results, but still are trying to remain in the market. Some stronger actors lower their margins *“in order to push smaller players out of the market”*. The industry is *“taking its pants off”*. Donatas would group the companies in the market based on their turnovers and numbers of coupons sold. According to him, the dominating GBCs are *Grupinis, Deal24, Kiauletaupykle and Citylife*. Mr. Butkus believes that the main KSF of the market is *“balancing and matching the preferences of customers and partners/suppliers”*. It is *“a divine circle”* – a customer might be attracted by a great deal. Yet in order to offer a great deal GBC has to possess a great number of customers. Therefore striking the balance is important. Another success factor is ability *“to sustain this particular competitive and difficult period when a great majority of actors will go bankrupt”*. Afterwards, the situation will get better, the margins will raise-up. The most vulnerable group is the one possessing weak market position now and limited amount of resources.

#### Resources and capabilities

The most important resources are *“the partnerships and channels to acquire the deals”*. Then the strong back-up can be an essential asset. *Citylife* possesses a powerful parent company, which supports by providing with deals, know-how, IT services and financial back-up. The key capability in the GBM is the *“ability to work together with the supplier and arrange a suitable, valuable and highly demanded deal”*. Marketing to final customers is not so important and

comes afterwards. *Citylife* attracts the customers using newsletters, social networks (Facebook), traditional banners, Google adwords. The company is “*slowly trying to get into offline advertisement*”. The acquisition of deals is the priority of the company and, as expressed by Donatas, “*is executed by all means possible*”, though standardizing the processes is important.

### **Competitive solutions**

Donatas Butkus considers both the end-customer and the supplier as significant. Yet the latter is “*more important and could be regarded as more of a customer than the final buyer*”. The value proposition of *Citylife* to the suppliers focuses on “*flexibility, easiness, simplicity and time savings*”. The communications and advertisement are emphasized more than pure sales, since “*sometimes too much of sales can also be a downside*”. The company uses the traditional commission-based revenue model.

The main competitive differences of *Citylife* are the international presence in all three Baltic countries, “*timeframe of a deal*”, which is the whole week, affiliate marketing program and intensive advertisement using Google adwords. The *Citylife* group of companies “*creates economies of scale, exchanges the deals and know-how, provides with financial support as well as centralized and optimized back-end functions like IT*”. The company is going to base its growth on increasing the quality of the deals and offering new categories, increase the sales team. The goal is to be among top-5 companies in Lithuania.

Considering potential strategies in the GBM trial-error route can be suggested. Different strategies could be based on specific types of deals or product categories. Differentiation might be achieved via “*changing quality standard of the products offered*”, services or using different advertisement channels. Finally, the suggestion for the most vulnerable group is best expressed in own words of Mr. Butkus: “*Get out of here!*”.

### **Key takeaways (according to Donatas Butkus, director)**

- *Citylife* is a GBC operating in Lithuania and belonging to a strong group of GBC present in the Baltic States.
- GB is a “*trendy thing*” and the competition is evident and strong, gradually dealing with the weaker players of the market. 4-5 strong companies are becoming the dominant ones and the rest 80% of them will disappear.
- The main KSF of the market is “*balancing and matching the preferences of customers and suppliers*”.
- The most important resources are the partnerships and channels to acquire the deals, the parent company, providing with support (financial, know-how, IT, products-based and

operational). The crucial capability is the ability to work together with the supplier and arrange a suitable, valuable and highly demanded deal.

- Different strategies in the GBM could be based on specific types of deals or product categories, changing quality standard of the products offered, or using different advertisement channels.
- The suggestion to the most vulnerable group of companies is to quit the business.

## 2. Case study DailyCard

### Background information

*DailyCard* is relatively different company in the Lithuanian GBM. First of all, it is a general credit card, called “DailyCard”, offered by one of the four dominating banks in Lithuania – DNB Nord. At the same time, it is considered as a discount card, where specific discounted offerings can be purchased using it. Therefore, the primary goal of the website *DailyCard* is to promote the credit/discount card. As an extra it runs the GB service and offers deals. Even though GB is not the primary activity of this sub-company of DNB Nord, it is actively present in the GBM. The company launched the GB service in Autumn, 2010.

### Performance

*DailyCard* could be placed between the 5<sup>th</sup> and the 10<sup>th</sup> place in the Lithuanian GBM. That was confirmed by the project manager Dovile Rimsaite. She disclosed that the number of daily visitors of the website was around 2000 in August, 2011. GB division “*would not be able sustain itself organically without financial back-up from the parent company*”. Yet, the company grows steadily and is expecting to become profitable in the mid-range future. The core purpose of GB at *DailyCard* is “*to drive website traffic and sales of the credit/discount card DailyCard*”.

### Perspectives upon the industry – current state, key success factors and predictions

“*The market has expanded so dramatically that it is difficult to compete in it*”. There are “*a lot of big, yet low quality projects, which ruin the reputation and draw the whole industry down*”. The market is a “*bubble and will explode soon*”. For some companies GB is the core business, for others it is an additional service, aimed at “*other purposes like increasing website traffic*”. Another way of grouping the actors could be dividing them into companies, which sell the deal and companies, which sell a discount. The KSF in the market is the financial back-up because “*GB project needs long-term commitment and support in order to survive and reach profitability*”. Advertisement is important in this business since suppliers demand great

advertisement campaigns. Another general KSF of the market is *the size of the discount*, which is what the customers really value.

Ms. Rimsaite predicts that *“soon a great number of actors will go out of the market”*. The oldest ones will survive, because they have an established customer DB and brand awareness. The most vulnerable ones are *“late market entrants, without the financial resources and the decent market share”*.

### **Resources and capabilities**

The most important resources are the financial funding, IT and network of partners. The latter is a great strength of *DailyCard*. Lastly, a strong team as a valuable and important asset. The key capabilities are related to marketing: defining strategic positioning (*“strategizing”*), long-term scope as well as being able to attract traffic and customers. To continue, crucial capabilities also include IT and processes management. *“Approaching suppliers/partners and arranging deals is not that vital for DailyCard GB division”*, because it works with the existing network of partners, present in the discount program of the *DailyCard*. The most efficient ways to attract customers are newsletters and aggregators. General banners are not effective as *“the market uses the same channels even for advertisement”*; there is a strong need to look for new solutions. It positions itself as the high-end GBC, aiming at *“high-standard, prestigious deals as well as more sophisticated customers”*. The company does not depend on quantity of sales that much, also it will not follow the whole market and sustain the principle *“one deal one day”* or minimum number of deals at least *“because that ensures quality and proper focus”*.

From a broader perspective all other discount cards are competitors for *DailyCard*. In addition to that other bank (credit/debit) cards are also rivals. In a narrower sense, other GBCs like *Beta* or *Kartu* are competitors. The key differentiator of *DailyCard* is the *“high-end focus, great financial and networking support from the parent organization”* and *“different priorities and targets in the market”*.

*“The marketing value of GB is doubtful”*, because it attracts discount hunters, who are not loyal. Different strategies in GBM could be based on focusing on different type of users and price ranges for the deals. The suggestion to the most vulnerable group would be *“to stop imitating others and think of their own solutions”*.

### **Key takeaways (according to Dovile Rimsaite, project manager)**

- *DailyCard* is a discount/credit card and GB project run by the DNB Nord bank as an additional service aiming at driving traffic to the website and promoting the card.
- There are a lot of big, yet low quality projects on the market that is *“a bubble and will*

*explode soon”.*

- The companies could be grouped by having GBC as core business as or as an additional service as well as product sold – the deal or the discount.
- The KSF for *DailyCard* in the GBM are the financial back-up and advertisement.
- The most trivial resources are the financial funding, IT, network of partners, and strong team. The key capabilities are related to marketing, IT and processes management.
- There are doubts in marketing value of GB. It attracts disloyal hunters of discount, and decreases brand value.
- Different strategies in the GBM could be based on focusing on different type of users and price ranges for the deals.

### 3. Case Study YourDeal

#### Background information

Group buying portal *YourDeal* is a part of HR North, job advertisements company, owned by British media house Mecom. HR North was founded in 2004 and employs approximately 50 people, four of those are working for *YourDeal* project. Interviewee Roger Persson started in the company 5 years ago as account manager and currently holds the position of CEO. In 2010 representative of Mecom suggested to start GBB in Sweden, by that time the mother company already had GB portals in Poland, Denmark and Norway, where it works under the name *Sweat Deal*. Business in Sweden started in November 2010. *“There were only minor investments needed to start the business, mainly sales capabilities were the major input required”.*

#### Performance

Comparing to other similar businesses in Denmark and Norway, *“YourDeal is not doing so well”.* For example, *SweatDeal* in Copenhagen is supported by media platform that mother company owns there. Main *YourDeal* issue currently is *“getting members for database”.* Currently, it has 15.000 subscribers; however, *“there is no information how big percentage of them is buying”.* Additionally, there are approximately 2.800 Facebook fans. Current turnover of goods and services generated by *YourDeal* is varying between 200-350.000 SEK per month. Value proposition to suppliers includes following two messages: business gets *“low risk campaign”* and advertisement at much lower cost.

*YourDeal* has 4 sales persons; each of them is in charge of particular area and works maximum with 400-500 potential customers. The revenue model is following – company is getting percentage of the deals, which is always different based on negotiations with business customers and varies in range 22-50%. Main costs in the GBB are related to two major areas –

salaries and marketing (mainly Facebook).

Major competitors of *YourDeal* are Groupon and Let's Deal, but *"there is no one single company that has the market"*. Some smaller competitors like *EniroDeals* are struggling very much, because *"it turned out to be not as easy business as they thought in the beginning – mainly because building database of subscribers takes time and is expensive"*.

Target customers include mainly small and medium sized businesses. Such companies *"usually are bad at marketing, therefore it is easy to make them interested"*. Though *"some are afraid of losing money"*, but *"this is short term thinking"*. *YourDeal* did not succeed yet with attracting big business as customers, mainly because this is time consuming process.

### **Key success factors and the future of the market**

Three areas are most important for success in GB, according to Mr.Persson: 1. *"Getting subscribers"*; 2. *"Arranging great deals"*; 3. *"Strong media platform"*. Great deals is difficult to define, but generally they are those that *"have higher margin and are popular among buyers"*.

There is problem on the market that *"there are still people who never heard about GB and also it is difficult to explain what GB is in five words"*, *"people are still a bit scared to use it"*. There is also some criticism to GB from business perspective – there is a *"risk to lose old/existing customers"*.

As for R&C, *YourDeal* considers sales skills as its key competence. This capability is actually leveraged from parent company HR North, which has very strong competence in sales and also *"established sales structure and corporate culture to succeed and try new things"*. Additionally, partnerships as a resource are also very crucial in getting deals (*"one of the founders have very good and strong network of contacts"*). Also, Mr. Persson points out that *"it is very important to understand how people buy and why they don't buy – so, better understanding of buyers loyalty may be generated"*.

Some of his thoughts about future of the market:

- In general companies relate very positively to GB offering and often are approaching GBCs themselves.
- Competition did not change very much during last year, though *"YourDeal was contacted by several smaller companies with proposal to buy their database"*.
- *"Potential buyers' education"* is very important on this market.
- *"In 1 year there will be probably 2-3 main players, other GBC will be niched"*. There is consumption trend in USA that people before travelling to some area tend to check deals

there before travel and buy them. *“This trend might be present in Sweden soon as well”*.

- There might be big niche market among students and mothers.
- *“GBC will be very popular for a couple of more years. Cultural differences in the business and adaptation to local culture will be the key”* (structure of market and habits).

### **Potential competitive solutions**

There is idea of *“buying advertisement pages in newspaper and selling small part of it”* – this might be potential revenue stream, when there will be more members in DB.

In nearest future *YourDeal* plans to divide Stockholm in 4-5 parts (Södermalm, Kungsholmen, Östermalm etc.) and have separate deals for these areas – *“this could help to get more members for data base, because some people visit only particular parts of the city”*. This tendency to split deals and relate them for smaller geographical areas rather than whole city might be considered as one of the solutions to deal with competitors.

Because *YourDeal* belongs to HR North and company has diversified structure of the business, it *“can afford itself to pay its business customers right away after deals”*. Because majority of business customers are small companies, *“liquidity is very important to them”*, therefore this created competitive advantage and helps to get better deals. Also, *YourDeal* tries to mix deals from different areas, not specializing in particular areas.

Additionally, *YourDeal* plans to develop several cities in the nearest future, not concentrating only on Stockholm. Later on it is considering continuing *“pay attention to small cities and establishing contacts with local media”*. (The idea is to use the same strategy as used for job markets in HR North – going into smaller cities, because *“competitors usually don’t think like that”*).

In the future the potential value proposition might be extended to organization of special deals for company fan club members – *“so companies get the way to keep old customers and YourDeal will strengthen and develop its brand”*.

### **Key take-aways**

- *“It is very important to understand how people buy and why they don’t buy – so, better understanding of buyers’ loyalty may be generated”*.
- KSFs include – *“Arranging great deals”, “education of potential buyers”, “getting members to subscribe to database”*. *“Name cannot be key success factor in group buying business, but should be catchy”*.
- *“Good sales skills is a key resource”*.
- In the future potential value proposition for companies – organization special deals for

company fan club members, offering deals in areas where people travel.

- *“In one year there will be probably 2-3 main players, other group buying companies will be niched”. “GBC will be very popular for a couple of more years. Cultural differences in the business and adaptation to local culture will be the key”.*

#### **4. Case Study EniroDeals**

##### **Background information**

*EniroDeals* is one of the new business lines at Eniro, which is most popular in Sweden “yellow pages” service. *EniroDeals* was launched in May 2011 (in Norway and Denmark it operates under other names and there also were launched respective GB sites) and was “a natural step to add value to yellow pages concept”. There is no one particular department in Eniro that was responsible for *EniroDeals* development – it was combination of efforts between marketing and product development. GB concept suits very well into Eniro’s business model, since the company has business contacts with majority of Swedish companies. Eniro has already 200.000 suppliers relationships and is very known brand in Sweden both in B2B and B2C sectors (90% of Swedish population know Eniro). As for buyers, there are 2,5-2,7 mln unique visitors on its pages every week.

Though Jonas Dahlquist, marketing director at Eniro, comments that early entrance is important for this market, he thinks that “*Eniro entered early enough to be successful*”. If compare Eniro with Groupon, the latter has only subscribers, but Eniro instead of them traffic. There is correlation between buying and just using service and “*now Eniro aims at transformation of their users into subscribers of EniroDeals*”.

##### **Performance**

Both suppliers and buyers are equally important categories in GBI (this is kind of “*hen and the egg*” question) and “*it is difficult to say what goes first*” – of course *EniroDeals* wants to attract users with great deals, “*but if there will be no users there will be no advertisers [suppliers]*”.

Business model *EniroDeals* pursues is currently based in the principle “*one deal per day*”, which “*makes it not very relevant*”; however, company is going towards multiple deals model. Also *EniroDeals* has some exclusive deals (with prices over 1000 SEK) and “*such a time as one day is too short for buyer to make a decision*”. In that case it is more relevant to have weekly deals, where the value for buyer is a little bit higher. In Sweden *EniroDeals* concentrates on 6 geographical markets and offers localized deals in these 6 places. However,

*“in big cities it is easier to make good deals”*, so now company is looking for national wide weekly deals that would cover also small cities.

*EniroDeals* considers as its target audience as *“population that is making transactions on-line”*. Also, audience varies greatly depending on type of the deal. *“Being well known brand with 100-years history”* helps to attract to transactions via internet those users that never did them before. So, since parent company Eniro has older generation as their loyal users, it is possible to attract them to *EniroDeals*. In that sense *“the audience EniroDeals is targeting is completely different of its competitors”*.

Marketing activities of Eniro include both on-line and off-line channels. *EniroDeals* have own marketing channel related to Eniro yellow pages services – almost 50% of Eniro users, making about 400.000 users per day, are informed about *EniroDeals*. TV commercials channel is used *“to signal about Eniro brand new launch of EniroDeals”*, but of course on-line communication – banners, competitions, Facebook, blogs is used.

In the beginning *EniroDeals* tried to concentrate more on offering *“product deals, rather than services deals”*. The revenue model is based on the following principles: user gets discount 50%; Eniro gets 25%; supplier keeps 25%. Since that is hard to find products that have that type of margin, *“in services it is much easier to work within such a model”*. That is also the reason why so many services are being advertised via group buying principle.

According to Jonas, *“we see hype right now regarding GBM and for Eniro offering around 5 deals per day it is extremely narrow market comparing to the size of its database of suppliers”*. So, for future growth there is a need *“to target all companies that can offer any deals”*. Also, showing Eniro as a company that *“is using latest technology and goes along with contemporary trends”* is important, it is equally important to show that Eniro as such a big player on the Swedish market is able to take good position also in GB business.

### **Perspectives upon the industry – current state, key success factors and predictions**

First driver of success in GB business is having good deals. Commercial pay-off means also that the deal is good (*“it is hard to sell lousy deals”*). Secondly, one has to have *“either traffic or subscribers”*. It is not only very high relevance of the deals (due to the model one deal per day), it is *“question of luckiness if many people would like the deal”*. Therefore, it is necessary to attract many people.

*“All actors on the group buying market are extremely similar, so they need to create different positions”*. There could be identified following groups on the market:

- Those that have traffic instead of subscribers (like Eniro and LetsDeal).

- Those that have a lot of subscribers (as Groupon).
- Aggregators (their market share is growing) – “*could not be considered as a threat and provide a good way to distribute deals*”, though it is noticeable that aggregators are taking share on the market as well.

It is very immature market for the moment, however according to Jonas “*there are 3 main established players on it – Groupon, Letsdeal and EniroDeals*”. It would be very interesting to see how market positions will be evolving in the future. In general there are about 10 players in Sweden, but it is difficult to see anyone of smaller players taking the market, because it is “*extremely expensive to get subscribers now, especially if there is no traffic from other businesses*”.

### **Resources and capabilities**

In terms of main building blocks for launching GB service “*Eniro had perfect combination – relationships to suppliers (who might already advertise on some other Eniro channels), buyers and traffic*”. As for resources and capabilities needed to successfully run the GB business and “*win this race*”, there is a “*combination of sales force, technology together with great deals*”. Technology here means constant improvements of web-site and “*getting latest and best technology in house*”, as well as improving performance and processes. Currently in Eniro following human resources are engaged in *EniroDeals*: project leader in each country; project owner; 15-20 specially dedicated to *EniroDeals* sales representatives that are working on getting the deals; development team of 10 people that are also partly working with *Enirodeals*, and provide support for platform for all countries; approximately 2 people from marketing department that are working close with *EniroDeals*; 2 people responsible in social media also partly. Since Eniro has opportunity “*to try get into this business while continuing its major one*”, it is very hard to estimate which time and costs are dedicated particularly for *EniroDeals*.

### **Competitive solutions**

Due to the fact that the business models are exactly the same, the “*competition is fierce*”, and “*there is constant monitoring of competitors of each other trying to draw away each other suppliers*”. Also, competition for buyers is not less severe. Main competitors of *EniroDeals* are Groupon and LetsDeal, GBC, owned by Schibsted Media (“*very similar to Eniro, because also had in the beginning traffic*”).

Competitive advantages of *EniroDeals* include – a lot of traffic, widely known and trusted brand, audience that is in the midlife (and “*usually this audience does not intersect with that of competitors*”) and Eniro having its main business is able to attract that audience by offering products and services that are suitable especially for them. *EniroDeals* tries to position itself as

more for that type of audience. *“Everyone have to find his own way to compete and differentiate”*. Potential areas for differentiation, according to Jonas include:

- Currently there is quite fixed deal that discount is only 50% off – could be changed.
- Mobile channel makes it possible to have deals *“right next to you”* – proximity marketing based. Currently the mobile application of *EniroDeals* is the only one on GBM that provides function of purchasing the deals directly.
- *“Making it easier to arrange good deal for supplier”* (i.e. restaurant having empty tables tonight could quickly login into GB web-page and offer their deals there or in the mobile channel).
- Partnerships with aggregators and other partners (*“launching a couple of sites that are using EniroDeals rebranded to their own deals”*) – is possible to use traffic and get another advantages of Eniro.

#### **Key takeaways (according to Jonas Dahlquist, marketing director)**

- *EniroDeals* is separate business-line at yellow-page services provider Eniro. The main reason to opening GB site was to add extra value to its current services. Additionally, company already had perfect infrastructure and the traffic.
- *“Established brand with long history”* helps *EniroDeals* a lot to get deals and to attract buyers.
- Good deals and subscribers database or traffic are key success factors in the market.
- *“All actors on the GBM are extremely similar, so they need to create different positions”*.
- Combination of sales force, technology together with great deals is most important resources and capabilities for GB business.
- *“Everyone have to find his own way to compete and differentiate”*. Mobile channels, making mechanism available for suppliers to arrange deals themselves, changing revenue model and partnerships with aggregators and other businesses are potential solutions.

## **5. Case Study So-skidkoy**

### **Background information**

*So-skidkoy* is a part of the business of ArtPolitics, that was founded in 2001 as web-pages and internet-based solutions development company. Head office is located in Lipetsk (438 kilometers southeast from Moscow), which has 650 thousand inhabitants. ArtPolitics is leading company on Lipetsk market in the area of quality software. Majority of advertising businesses is represented by Internet and web-pages. So, web-page is mainly advertising tool for majority

of companies and that business is growing.

GB business emerged in autumn 2010 on the regional level (not as many other companies coming from the federal level). *“It was interesting to try this business in terms of advertising opportunities”*. Biggest part of advertising business in Lipetsk was taken by 2 major companies, but they were not strong in internet advertising. So, *So-skidkoy* decided to take this niche. The name of portal reflects the concept of business behind it – *“with discount”*.

Rostislav Dolgov, project manager at *So-skidkoy*, is responsible for the whole GB project development, including looking for customers, working with designers etc. His previous work experience is related to advertising, mainly on radio and TV.

### **Performance**

There are 10 people in the ArtPolitics, four of which are working for GB project. *So-skidkoy* can be considered as a number two company in Lipetsk region, having 1.400 fans in major Russian social network Vkontakte.ru and average price of coupon – 1 EUR. Other competitors working in the same region are:

- Darlion – opened after *So-skidkoy* and has state support.
- Poltseni – was closed after several months of work.
- Gorod skidok 48 – the main informational portal of the Lipetsk city is the owner, therefore this site is the main competitor. It has large data base of customers, and thus *“due to extensive media support has more opportunities to attract buyers and create more targeted and differentiated deals”*.
- Biglion – is a major player on Russian market, but in Lipetsk region has had only minor activities so far.

Major marketing activities *So-skidkoy* is using include Internet campaigns, leaflets on the streets, advertising in printed media. Consequently, main channels to attract customers (*“subscribers and suppliers both are considered as customers”*) are:

- Subscribers – Internet (social media), printed media (media group of Lipetsk is a good partner).
- Suppliers – direct contacts via cold calling, personal relations (*“most important channel due to the fact that Lipetsk is small city”*).

*So-skidkoy* sells only coupons for discounts and gets revenue from coupon sales, it does not get any percentage from deals. *“The issue is that in Lipetsk people are not ready to pay big amounts of money especially via internet”*. Therefore, selling only coupons with discounts offers benefit to buyers from risk declining point of view.

## **Perspectives upon the industry – current state, key success factors and predictions**

According to Rostislav, “*performance figures do not show much, while good deal is most important in that business*”. In Russia (especially Lipetsk) sometimes suppliers offer the same deals on the several sites. Good deal – is key for success, meaning that “*if it is good deal it will be immediately sold*”. Increasing competition with on-line media and decline of advertising on TV and radio is a trend going on the market. But in the regions traditional advertising methods will still prevail. The further active development of the market is probably very likely in the future. *So-skidkoy* plan for future development includes increasing penetration to other regional markets.

## **Resources and capabilities**

Most important resources and capabilities *So-skidkoy* possesses and exploits are skilled human resources from parent company ArtPolitics, network and synergy effects, which is achieved by constant B2B relationships. Additionally, good competences in internet business and extensive informational support help a lot in development GB services.

## **Competitive solutions**

For *So-skidkoy* the biggest differentiator from competitors is the fact that company has deals related to internet offerings (due to own business in that area). Since in Lipetsk on-line payments were very badly developed, *So-skidkoy* used personal consultancy work to educate people how to use them. This could be also considered as one of solutions to deal with market development and differentiate from competitors. Additionally, “*simplifying the process of working with suppliers by eliminating complicated agreement approval process*” (or sometimes starting the work even without any agreements) helps *So-skidkoy* to offer benefits to suppliers and thus also differentiate in competition for good deals.

## **Key takeaways (according to project manager Rostislav Dolgov)**

- *So-skidkoy* (in English „*with discount*“) is a part of internet solutions provider ArtPolitics and works in the Lipetsk region, which is over 400 km to the south-east from Moscow and has relatively small number of inhabitants.
- The business model of *So-skidkoy* is based on offering only coupons for discounts with average price of 1 EUR.
- Good deals are key for success in that market (good deal = “*will be immediately sold*”)
- Personal relations is most important channel to attract suppliers, also offering special conditions to make the process of publishing deals as fast as possible are strong mechanisms of finding good deals.

- IT skills, other resources and synergy effects company can get from parental organization are crucial for success.

## 6. Case Study Boombate

### Background information

*Boombate* was founded in July 2010 in Moscow, by Maxim Kondratyukhin, who is currently general director of the company. Initially the idea was to develop *clone of Groupon* – it was called *grupper.ru*, but then he reconsidered its strategy and changed the site and the name. Before starting business founder worked in real estate and was member of the board of one Swedish company.

### Performance

*“Internet advertising has biggest part within all marketing activities”*, also *Boombate* uses some off-line channels. For attraction of suppliers various methods are executed, but main of them are *“checking suppliers of competitors and cold calling”*. As one of its competitive advantages *Boombate* tries to offer to businesses *“deals that will be not unprofitable”*. In general, there are two major cost areas in company – HR and advertising. The revenue and business model of company is somehow unique from majority of competitors and overseas companies – all coupons for discounts are free for subscribers, there is only fee for suppliers.

### Perspectives upon the industry – current state, key success factors and predictions

Coupon business has very big potential – *“may become something new in advertising industry, already having strong influence on it, but success of this business depends very much on the level of involvement of users”*. Russian market grows very fast. There are currently 2-3 leaders on the market, but competition between them is very fierce because there are not very much active users. *“Appearance of aggregator sites increases competition”*, and also less exclusivity could be offered. KSF in this market are of course interesting deals, and therefore *“surveillance of the history of deals popularity among subscribers is essential”*. Also it should be kept in mind that for subscribers the final price is important, whereas *“actual discount is not that attractive”*. It is difficult to say what companies are most vulnerable – both small and big companies have issues:

- For small companies these include: *“too small subscribers data base and difficulties to attract more subscribers due to lack of financial resources”*.
- For big companies – there is *“less flexibility from the point of view of conditions that could be offered to suppliers”*.

## **Resources, capabilities and competitive solutions**

Most important resource on the stage of beginning the business is network of the owner. Additionally, *“sales and advertising processes should be set”*. Main differentiation of the company lies in its business model – offering free coupons for subscribers. Also, *Boombate* does not focus on particular deals, aiming at *“offering wide range of deals, so that every customer may find something”*. Another differentiation factor is that company focuses only on the three geographical areas – Moscow, Saint-Petersburg and Novosibirsk. This was strategic choice due to high level of internet penetration in these regions, while *“in other regions it will be difficult to educate people to use coupon services”*. Other differentiation strategies one can use in the market could be – focus on particular deals, or, on the opposite, wide range of deals.

### **Key takeaways (according to Maxim Kondratykhin, founder and CEO)**

- *Boombate* is GBC founded as clone of Groupon in Moscow.
- Russian market of GBB is growing very fast, but success in it depends a lot on *“the level of user/subscriber involvement”*.
- Customers are choosing deals based on actual price rather than discount size.
- *Boombate* has unique business and revenue model – providing all coupons for discounts for free for customers and charging only suppliers.
- Network could be considered as most important resource in that business, additionally sales and marketing processes should be established.
- Focus on three particular geographical regions (Moscow, Saint-Petersburg and Novosibirsk) in the *Boombate* was based on the levels of internet usage there.
- Competitive solutions on this market may include – geographical focus, focus on particular deal or wide range of products, free or not free discount coupons for subscribers.

## **7. Case Study MyFant**

### **Background information**

*MyFant* was founded in July 2010 by its current managing director Farid Gazizov, who before that spent 10 years in USA working as financial analyst. Before foundation, Groupon was considered as an example along with five other fastest developing GB sites. On the initial stage team of three people were in the business – partner, responsible for marketing and responsible for software. It was decided *“to avoid word coupon”* in the name of the company, therefore *MyFant* appeared. During first year company developed sales methodology, technical capabilities and reached number of employees of 50 people.

## **Performance**

Currently *MyFant* belongs to the “*group of 7 most dominant GBC*”, and is especially strong in Saint-Petersburg region. However company targets all regions, though the competition in Moscow is very strong. Business model of *MyFant* includes several basic rules:

- Supplier shall always be ready to provide 50% discount of its products/services.
- Some deals can be launched without mailing through subscriber DB “*in order not to spam subscribers too much*”.
- *MyFant* can see which area brings more sales and therefore “*can easily decide what is more interesting for the customer*”, additionally some customers send requests.

Revenue model – sell coupon for discount (not the whole deal) and get money from buyer. This model is also “*easier for customer and provides him with more freedom*”. The probability that subscriber will buy coupon for discount is higher than buying the certificate (certificate means here whole discounted price for product/service). However, since the level of sales of actual deals for businesses may be lower in coupon for discount case, there are usually sold more coupons, but upper number is always agreed with business customer. There is need to “*constantly make research to understand market prices in particular good/services category*”.

Biggest costs for *MyFant* are marketing and attracting of subscribers. Marketing actions are not run constantly – for example, *MyFant* refused completely of marketing activities for several months “*to be able to see generic growth*”. Sometimes company also tests some marketing activities, most widely used of those are social networks, banners, competitions, payment for bring a friend.

## **Perspectives upon the industry – current state, key success factors and predictions**

*MyFant* recently initiated gathering of Russian GBCs in order to discuss threats and common actions. Around 10 companies attended the meeting, however biggest market players (Groupon and Biglion) did not show up. Among issues discussed there were – “*black list of businesses*” (those who may danger the image of GBCs, thus, representing common threat for all players) and “*threat of aggregators*”. However, common future actions were not agreed.

“*Profits on the market depend very much on the time of entrance*”, i.e. “*now it is almost impossible to enter the market*”. The business provides fast ROI, but only for those players that entered early. According to founder’s estimations, currently investments to start business should be not less than 1 mln RUB. The main rule of the game – “*make both buyers and suppliers happy*”, which means the deal should not be only one-time action.

One of the most obvious predictions – next year there will be consolidation of the GBM, and

small players will not survive. However, GB business *“provides good platform”* for any other businesses that *“may be built over night”*. The biggest risk on the market, according to Farid, are aggregators of discount sites. Some GBCs (Groupon, Biglion) refused of working with aggregators. Many small companies, on the contrast, became very dependent on them (*“because looking from short-term benefits, they are making their financial plans”*). The problem here is that *“aggregator’s customers belong to aggregator not to the GBC”*. Also, aggregators are dangerous, because big player may buy aggregator and, therefore, *“block other companies completely from the market”*. Finally, advertising campaigns of aggregators were influencing prices for advertisements in the whole internet towards bigger ones. Together GBCs can resist this threat of aggregators, for example, by establishing association that will control the work of aggregators (i.e. set conditions of deals similar for all companies).

Finally, investigation of statistics, subscriber surveys should be done constantly, that may help *“to make decision regarding stopping of deal or adding business to the black list”*. Constant monitoring of competitor activities and figures could also help to deal with competition better.

### **Resources and capabilities**

Human resources, namely the work of sales people, are mostly important in GBB, especially considering that *“sales are very stressful activity”*. Additionally, here is a need to be able to build interesting deal both for buyer and business vendor, which requires creativity. Technical background of a company is also important, for example, based on it *MyFant* was *“able to make customer support online a differentiation tool”*. Additionally, established process of *“dealing with negative comments”* and unsatisfied users is important capability, according to Farid. For example he, as managing director, processes all negative comments and discusses them with sales or if needed with business representative.

### **Competitive solutions**

Main competitive advantage of *MyFant* is that it sells coupons for discounts, not for the whole deals. There is following logic behind it – in case of deals sales *“supplier is not interested in quality of services so much, because it gets money for the good/service beforehand”*. The model of deals sales had led to the situation, when companies got money for the deals and immediately closed. However, it is still good also for some companies (i.e. big ones). The biggest problem with coupons for discounts is that 70-90% of them may actually be not used. Another competitive advantage is established good relations with both businesses and customers, which leads to getting good feedback from them. *MyFant* specialists can also *“consult supplier on the level of discount”*. Within revenue model there are 5 options to differentiate:

- Free coupons and revenue only from businesses;
- Only coupons – money from buyers;
- Only deal coupons for goods and services (“*certificates*”) – money from buyers, but also commission from businesses;
- Using both types of coupons for different deals, “*depending on agreed conditions and what will be easier for buyer*”;
- Using both types of coupons within one deal (this model is not yet used by any player).

Finally, according to Farid, “*all companies try to differentiate, but actually majority use the same models*”. Biglion is fully copying Groupon. Bigbuzzy was first site in Russia that implemented several deals instead of only one per day. But now almost everyone in Russian GBM is using “*multideal*” model.

### **Key takeaways**

- *MyFant* in Saint-Petersburg based GBC that is one of the strongest in this region, while targeting also various geographical markets broadly.
- The revenue model of *MyFant* is based on selling coupons for discounts (not coupons for whole deal, or “*certificates*” as founder calls them).
- Marketing and attracting of subscribers are biggest costs in the market.
- KSF in the GBM include – “*make both buyers and suppliers happy*” ( the deal should not be only one-time action); sales skills and creativity to arrange interesting deal for both supplier and buyer, process of investigation and analysis of statistics about suppliers and buyers should be established, as well as process of working with negative comments.
- In GBM timing of entrance was very crucial for profits, now – investments would be too high to enter.
- Consolidation of market and threat of aggregators should be faced by GBC together – these are the most important market trends.
- There is no much competitive solutions on market – majority of players use “*multideal*” models, though there were first-movers. Also, revenue models could vary across selling coupons for discounts or certificates for whole deals or combining both. Finally, execution of IT resource may help to differentiate – by embedding additional tools into web-page.

## **8. Case study Beauty Salon Lady**

### **Background information and the group buying experience**

*Beauty Salon Lady* has 48 salons in Saint-Petersburg, Russia, and belongs to the group of

companies with diversified businesses (all over 60 cafés, saunas and beauty salons). The interviewee, Alexander Konovalov, is the founder and currently one of the partners of the company. He first heard about GB sites in January 2011, when salon was approached by GBC. The main reasons to start working with them were *“the debts and the risks to get bankrupt”*. The first GBC Beauty salon Lady worked with was Biglion, which is currently one of the leaders in Russia. Later on company partnered with Groupon and Myfant. Currently it is working with over 25 GBCs.

### **Arranging the deals and the expectations**

The first project with Biglion was very successful – 1000 coupons were sold and salon was able to pay back salary debts. In the beginning coupon discount concept worked better, but *“now there is need to run constantly campaigns to maintain sales on the same level”*. In general the beauty salon is *“ready to use any model proposed by GB”*, since it is the only way they are capable of attracting enough customers to remain competitive. Also, management has realized that only *“non-stop series of coupon discount projects work better for them, therefore, there is need to work with as many GBCs as possible”*. GB is absolutely free for company comparing to other advertising means. According to Alexander Konovalov, *“the efficiency and effectiveness of traditional advertising compared to coupon discounts is lower”*.

### **Results of campaigns and the greatest problems executing the GB**

One of the greatest problems from the perspective of a supplier is that it cannot influence the discount size, because GBCs has the bargaining power and *“dictate the conditions”*. The actual sales price might be as low as 25% of the original price. Nevertheless, the Salon was able to get some small profit on GB campaigns, which assisted it to solve the short-term financial problems.

According to Alexander Konovalov, another issue is *“how to motivate and persuade employees to deliver the same kind of quality for a much lower price”*. Some employees even needed to be fired. Despite all the efforts to maintain the same level of quality, due to the motivation of the employees in many cases the customers coming without coupons were treated better.

Gradually, the competition to get into a GB site appeared and is increasing. For example, *“one must queue to get to Biglion”*. To continue, the heavy usage of coupon discounts created the image that company is *“a low cost services provider”*. Furthermore, *“less than 1% of customers attracted by coupons became loyal, as the majority of new customers were discount-hunters”*.

According to Alexander Konovalov, the majority of GBCs *“consider the beauty salons as a*

*backup option*”, which could be used *“if they run out of interesting and different deals”*.

### **Future of this market**

Mr. Konovalov predicts that most probably many GBCs will get bankrupt by the end of 2011 or 2012, because the market is oversaturated. Some partners from GBCs revealed to him that they have problems of paying the remuneration to the businesses on time.

## **9. Case Study Vero-Café**

### **Background information and the group buying experience**

*Vero Café* is a chain of coffee take-away outlets. It emphasizes quality and focuses more on urban, mobile and trendy coffee drinkers. It had two GB deals. In addition to that, the marketing manager of *Vero Café* Agne Jusaite was also involved in arranging a GB deal for a beauty salon and a healthy food take-away restaurant.

### **Arranging the deals and the expectations**

The main motives for *Vero Café* to try GB were the fact that it was a new service and it did not require any payments in advance. The company was approached by the GBC themselves. The main criteria to choose the GBC were the size, target market, nice sales presentation as well as *“absence of any payments in advance and risks”* The core expectations of the GB deal were: advertisement, new leads and trial of products. The number of sales in itself was not emphasized. In exchange for that the company was ready to offer a significant discount of 50%, without any deterioration in quality of the product.

### **The results of the campaigns**

The results for the *Vero Café* deals were disappointing – *“the deals were not purchased”*. Agne Jusaite is happy that *“at that moment the GBCs were relatively small and the buzz was little”*. Therefore little damage was made to the brand. *“GBC possess a completely different target market”*, than the one *Vero Café* is aiming at. Most of the customers have already known *Vero Café* and did not become loyal clients. Similar conclusions were reached in the case of the healthy food take-away restaurant. Even though the customers were new to the restaurant, they did not become loyal ones. However, GB campaign for a beauty salon was really successful due to possessing the same target audience – the women, who tried the service. They were satisfied and actually came back. Therefore, *“the success of the GB campaign highly depends on the type of the product or service”*.

The negative traits of GB include: the wrong target market (discount hunters), disloyalty, *“educating to buy cheaply”* and, finally, *“making price the main decision factor”*.

Nevertheless, in general cooperation with the GBC was good, a lot of attention was paid to the details and GBC provided with interesting statistics.

### **Future considerations about the GB**

*Vero Café* generally rejected the discounts policy and thus will not continue working with GBC. A better approach would be to offer promotions and free test samples. Ms. Jusaite believes the “*GBM will get adjusted based on the products offered*”. The more recognized and high-end brands will not engage in GB. Discount hunters and cheaper offers will remain. The negative side of GB is that the customer is get accustomed to the discounts. In addition to that, “*dealing with a specialized GBC would be preferable since it’s much about the target market*”.

The market for kids is potentially promising for the GBC – the mothers, who are potential target audience for GB, spend rather much for their children. Another suggestion is focusing on small businesses and offering consultancy services complementary to GB.

## Appendix C: Interview guides

### 1. Preliminary guide for qualitative interviews with GBCs

#### Background information

- Role of interviewee in the company, the employment history.
- Main focus of business, structure, projects portfolio.
- Employees, financial, other figures (if not a secret).

#### Historical perspective

- History of the company – who was the founder, how business idea developed?
- How particularly coupon / GBB emerged – when, who was behind it, how big part of the whole business it was in the beginning and now?
- Did you consider any other GBCs (like Groupon in USA) before starting own business in the area?
- What kind of resources (financial, HR, projects portfolio, network) did you have when started the business?
- What was the initial positioning solution? (was there one?) How did it change through time?

#### Current situation – performance (average numbers, if possible to reveal)

- How would you evaluate the current performance of the company? What do you think are the most important variables?
  - Daily traffic of web-page
  - Registered users database (+ social media fans number)
  - Turnover of goods and services
  - Market share
  - Net margin

#### Market and competition

- What do you think about your country market of group buying companies in general?
- What companies do you see as your main competitors? What kind of strategic groups could you differentiate? How would you classify companies?
- How do you deal with competition? How you are different from competitors? What are main differentiation factors and tools (competitive advantages)?

- What are the key success drivers in group buying markets? What are the rules of the game?
- How do you think GBM will develop in the future? What will happen in 2 and 5 years? What will happen with different strategic groups? Which of them is the most vulnerable?

### **Company resources and capabilities**

- What you consider most important for success in group buying business in general? And for your company in particular? (Key success factors)

#### *Resources*

- What are financial recourses to start and maintain business (investments etc.)?
- What is the role of human resources in this business?
- Do you use any specific IT/software/systems for coupon management?
- How other company businesses influent group buying business? Are there any synergy effects?
- What partnerships and network help business?

#### *Processes and capabilities*

- What do you think are the most important capabilities and their contribution to the development of your business?
- How would you evaluate the competencies in sourcing, marketing and general start-up business development in your company?
- What would you call the most important marketing activities in your company? What marketing tools are you using? How are they executed? How does the company attract its customers or traffic? (communications, traditional ones vs interactive)
- What are main channels to attract business customers and “buyers” (i.e. advertisement, social networks, promotions, events)?
- How would you evaluate your brand name and its contribution to business? What kind of brand value does it possess? How brand name emerged?
- How sales and business development is organized? How do you work with current business customer, is there customer relationship management system?

### **Business model**

- What do you consider as key benefits that your company provides to customers (1. Businesses; 2. “Buyers” of services)?
  - Average price and average discount size
  - Categories of products/services offered – is there any specific?

- Whom do you consider as your client (the customer buying the deal or the deal supplier)?
- What are the main criteria for selecting and uploading the deals on the website?
- Profit formula
  - What is your revenue model? (What is commission for business customers, does it vary depending on some cases? Are there any other sources of revenue?)
  - Cost structure (what are main areas for costs? If possible mention percentages (fixed vs variable) gross margin)

### **Possible future development**

- What do think are the competitive solutions? Are there any? What kind of examples do know? What kind of competitive solutions might there be?
- How did the competition changed during the time?
- How do you see the future of group buying companies?
- What is your plan for future development?

## **2. Preliminary guide for qualitative interviews with Partners/Suppliers of GBCs**

1. When have you heard about group buying for the first time?
2. How many deals have you arranged via group buying principle?
3. What was main aim (motive) to choose group buying site to promote your services/goods?
4. How did you find out about group buying? Did they approach you or did you approach them?
5. How did you choose the group buying company? What were the main criteria for the choice?
6. What kind of value did you expect to receive?
7. What were you ready to provide? What kind of product/service? What kind of discount? What kind of quality?
8. Did you do any specific preparations for the campaign? What additional resources and capabilities did you use?
9. How did the campaign go? What kind of value did you receive?
10. How strong was the cooperation between you and the group buying company? Did you get much support?
11. What other marketing activities did you do?
12. Did you evaluate effectiveness of different advertisement (communication) activities/channels?

13. How many customers did see your product/service for the first time (brand awareness)?
14. How many customers did try your service for the first time (new client)?
15. Did the customers become loyal clients? How many of them?
16. What was effectiveness of group buying promotion comparing to other marketing activities/campaigns?
17. What are the disadvantages of using group buying concept?
18. How did you choose group buying company to work with? Did you try several? Do you prefer working with one partner or dealing with several?
19. Did you experience the competition among the suppliers of the same type of product/service regarding ability to arrange the deal with the most popular group buying companies? How did it affect your actions? How did you deal with the competition?
20. Did you experience any problems working with group buying company or providing service to customers afterwards?
21. Do you plan to continue using it? Why?
22. What do you think are the prospects of this channel?
23. What could be improved in group buying service you were dealing with? What additional value could they provide?
24. What payment model do you prefer - paying commission to group buying company and offering customer free discount coupons or charging customers for coupons only?
25. Would you prefer a specialized group buying website or a generic one, but generating more traffic?

## Appendix D: Potential groups of competitive solutions for testing in customer survey

GBC activities	GBC business models and deals offerings	New additional services offered by GBC
Specializing in one category of products/services (i.e. travel offers only)	Offering “get 2 for the price of 1”	Providing opportunity to sell or exchange coupon that was already bought on a special web-site
Specializing in deals for specific social group (i.e. students, young mothers, business woman)	Offering deals off-line rather than on-line (i.e. offered at the super-market)	Offering deals that are no longer available on other group buying sites
Specializing in low price deals (i.e. product/services priced lower than 100 SEK)	Offering deals that Get cheaper the more people buy it and less time to a deadline is left	Offering complementary deals to the deal people are buying currently
Constantly introducing new categories of deals	Offering deals presented on the original website of a product/service provider	Offering to buy a deal at a special coupon vending machine in the super-market
Offering a wide range of product/service categories	Selling a deal for a regular price, but offering a discount payback later if enough people buy the same product	Offering opportunity to easily form own group of buyers and approach a supplier of product/service to get a discount
Offering deals in specific districts of the city (i.e. Södermalm)	Offering deals that available for a long period of time (i.e. one month)	Offering to sell or exchange coupon already bought on a special web-site
Offering B2B deals	Offering free coupons that provide discounts to particular products	
Specializing in presenting deals from abroad (in places people could be travelling to)	Offering paid coupons for a discount to a particular deal	

## Appendix E: Customer survey – self-completion questionnaire

**How often do you visit group buying sites (i.e. Groupon)?**

- Never
- Less than Once a Month
- Once a Month
- 2-3 Times a Month
- Once a Week
- 2-3 Times a Week
- Daily

**How many deals have you bought?**

- 0
- 1
- 2-3
- 4-7
- 8 - 20
- 21 and more

**What is the most convenient way for you to get information about various deals?**

- Group buying websites
- Newsletters
- Social Media
- Aggregators (a website where all deals are presented)
- Recommendations or suggestions from friends
- On-line advertisement (advertisement you can see on other web-pages, banners)
- Off-line advertisement (advertisement printed in newspapers, magazines, presented on billboards and etc.)

**On a scale from 1 to 7, to what extent are these categories of deals relevant for you?**

	1 (no preference)	2	3	4	5	6	7 (great preference)
Food and restaurants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Beauty and healthcare	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Traveling	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Events	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Leisure activities and entertainment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Everyday/casual products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Educational services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
B2B services (business services)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**What are the biggest problems related to group buying?**

- The deals are not interesting or relevant
- Small discount
- Risk and/or discomfort of not getting services or product due to big amount of coupons sold
- Bad quality of the services/products
- Difficulties to pay for coupons (via internet and other means)
- Difficulties in getting information about the deals
- Difficulties in getting information about the deals
- Other

**What do you think will happen with the group buying industry and the competition? To what extent do you believe this is true:**

	1 (absolutely false)	2	3	4	5	6	7 (absolutely true)
The demand is promising and the market will grow steadily	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Several strongest players will remain. Small companies will disappear	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The number of companies will increase	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Group buying web-sites differ from each to another	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**What would make you come back to the group buying site?**

- Appropriate service/product bought at a discounted price
- Ease of use and navigation on the website
- Wide range of deals offered on the web-page
- Name of the group buying site (easy to remember, appealing and etc.)
- Other

**What could be something new that a group buying company could offer or do?**

**On a scale from 1 to 7, how much would you be interested or prefer using group buying company, which:**

	1 (not at all)	2	3	4	5	6	7 (prefer very much)
Specializes in one category of products/services (i.e. travel offers only)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Specializes in deals for your social group you belong to (i.e. students, young mothers, business woman)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Specializes in low price deals (i.e. product/services priced lower than 100 SEK)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Constantly introduces new categories of deals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Offers a wide range of product/service categories	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Offers deals in specific districts of your city	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Offers B2B deals (products/services for another companies)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Specializes in presenting deals from abroad (in places you could be traveling to)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Offers free coupons that provide discounts to particular products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Offers paid coupons for a discount to a particular deal	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Would you be interested in a deal, which:**

	1 (not interested at all)	2	3	4	5	6	7 (interested very much)
Offers you to “get 2 for the price of 1”	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is offered off-line rather than on-line (i.e. offered at the super-market)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Gets cheaper the more people buy it and less time to a deadline is left	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Is presented on the original website of a product/service provider	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is sold for a regular price, but you would get a discount payback back later if enough people buy the same product	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is available for a long period of time (i.e. one month)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Would like to be able to:**

	1 (not interested at all)	2	3	4	5	6	7 (would like very much)
Sell or exchange coupon you already have bought on a special web-site?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Buy a deal that is no longer available on other group buying sites?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
See complementary deals to the deal you are buying currently (i.e. if Groupon offers a bowling session, a complementary deal could be a great dinner nearby)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Buy a deal at a special coupon vending machine in the super-market?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Easily form your own group of buyers and approach a supplier of product/service to get a discount?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Please, indicate your gender:**

- Male
- Female

**How old are you?**

- 18 and under
- 19-24
- 25-30
- 31-40
- 41-50
- 51 and above

**What is your primary occupation?**

- Student
- Full-time employee
- Part-time employee
- Entrepreneur / freelancer
- Unoccupied
- Other

**Where do you live?**

- Russia
- Sweden
- Lithuania
- Other

## Appendix F: Interviews

### 1. Interviews with GBC

Company	Date of interview	Interviewee, position	Mode of interview	Duration	Place
<b>YourDeal (HR North)</b>	22.06.2011	Roger Persson, CEO	face-to-face unstructured interview	90 min	Stockholm
<b>Gruppi</b>	23.09.2011	Shahan Lilja, CEO and co-founder	face-to-face unstructured interview	90 min	Stockholm
<b>EniroDeals</b>	26.09.2011	Jonas Dahlquist, Marketing director, Eniro	face-to-face unstructured interview	60 min	Stockholm
<b>DailySmiles</b>	13.07.2011	Arthur Shamsutdinov, owner and managing director	skype interview	90 min	Kazan, Russia
<b>So-skidkoy (ArtPolitics)</b>	14.07.2011	Rostislav Dolgov, project manager	skype interview	45 min	Lipetsk, Russia
<b>Boombate</b>	27.07.2011	Maxim Kondratyukhin, founder, Now: general director	skype interview	45 min	Moscow, Russia
<b>MyFant</b>	31.07.2011	Farid Gazizov, founder, Now: managing director	face-to-face unstructured interview	90 min	Saint-Petersburg, Russia
<b>Beta</b>	19.06.2011	Alvyde Palaimaite, founder	face-to-face unstructured interview	180 min	Lithuania
<b>Kartu</b>	09.08.2011	Arturas Mizeras, one of the founders	face-to-face unstructured interview	180 min	Lithuania
<b>CityLife</b>	10.08.2011	Donatas Butkus, director	face-to-face unstructured interview	90 min	Lithuania
<b>DailyCard</b>	04.08.2011	Dovile Rimsaite, project manager	face-to-face unstructured interview	60 min	Lithuania

### 2. Interviews with suppliers

Company	Date of interview	Interviewee, position	Mode of interview	Duration	Place
<b>Beauty salon Lady</b>	04.08.2011	Alexander Konovalov, founder and CEO	Phone interview	40 min	Saint-Petersburg, Russia
<b>Kavosdraugas</b>	25.07.2011	Aurimas Vainauskas, Managing director	Interview	40 min	Kaunas, Lithuania
<b>Vero Café</b>	24.08.2011	Agne Jusaite, Marketing manager	Interview	1 hour	Kaunas, Lithuania

## Appendix G: Pre-study research. Lists of companies

### 1. Russian group buying companies investigated during pre-study

Name	www
1. Groupon.ru	<a href="http://www.groupon.ru/">http://www.groupon.ru/</a>
2. Vigoda	<a href="http://vigoda.dayoffer.ru/">http://vigoda.dayoffer.ru/</a>
3. Megakupon	<a href="http://www.megakupon.ru/">http://www.megakupon.ru/</a>
4. Cheap & Daily	<a href="http://cheap-and-daily.ru/">http://cheap-and-daily.ru/</a>
5. Biglion	<a href="http://www.biglion.ru/">http://www.biglion.ru/</a>
6. Купикупон	<a href="http://www.kupikupon.ru/">http://www.kupikupon.ru/</a>
7. Sellberry	<a href="http://sellberry.ru/">http://sellberry.ru/</a>
8. CityRadar	<a href="http://cityradar.ru/">http://cityradar.ru/</a>
9. My Fant	<a href="http://www.myfant.ru/">http://www.myfant.ru/</a>
10. BillKill	<a href="http://billkill.ru/">http://billkill.ru/</a>
11. BigBuzzy	<a href="http://bigbuzzy.ru/">http://bigbuzzy.ru/</a>
12. Skidka Est	<a href="http://www.skidkaest.ru/">http://www.skidkaest.ru/</a>
13. We Clever	<a href="http://www.weclever.ru/">http://www.weclever.ru/</a>
14. Fun2Mass	<a href="http://fun2mass.ru/">http://fun2mass.ru/</a>
15. JoyBuy	<a href="http://joybuy.ru/">http://joybuy.ru/</a>
16. КУпиBonus	<a href="http://www.kupibonus.ru/">http://www.kupibonus.ru/</a>
17. Мой купон	<a href="http://www.moykupon.ru/">http://www.moykupon.ru/</a>
18. Daily Smiles	<a href="http://www.dailysmiles.ru/">http://www.dailysmiles.ru/</a>
19. Тут покупки	<a href="http://www.tutpoupki.ru/">http://www.tutpoupki.ru/</a>
20. Brandel	<a href="http://www.brandel.ru/">http://www.brandel.ru/</a>
21. Delicatus	<a href="http://www.delicatus.ru/">http://www.delicatus.ru/</a>
22. SaveBuy	<a href="http://www.savebuy.ru/">http://www.savebuy.ru/</a>
23. Skidman	<a href="http://www.skidman.ru/">http://www.skidman.ru/</a>
24. Boombate	<a href="http://www.boombate.ru/">http://www.boombate.ru/</a>
25. Bupl	<a href="http://www.bupl.ru/">http://www.bupl.ru/</a>
26. Ckidki.ru	<a href="http://www.ckidki.ru/">http://www.ckidki.ru/</a>
27. Скидка всем	<a href="http://www.skidka-vsem.ru/">http://www.skidka-vsem.ru/</a>
28. So-Skidkoy.ru	<a href="http://www.so-skidkoy.ru/">http://www.so-skidkoy.ru/</a>
29. Freeberry	<a href="http://www.freeberry.ru/">http://www.freeberry.ru/</a>
30. 905090	<a href="http://www.905090.ru/">http://www.905090.ru/</a>
31. BestKupon	<a href="http://www.bestkupon.ru/">http://www.bestkupon.ru/</a>
32. Zina.ru	<a href="http://www.zina.ru">http://www.zina.ru</a>

### 2. Swedish group buying companies investigated during pre-study

Name	www
1. Groupon	<a href="http://www.groupon.se/">http://www.groupon.se/</a>
2. CityScoop	<a href="http://www.cityscoop.se/">http://www.cityscoop.se/</a>
3. EniroDeals	<a href="http://enirodeals.se/">http://enirodeals.se/</a>
4. Gruppi	<a href="http://www.gruppi.se/">http://www.gruppi.se/</a>
5. Let's deal	<a href="http://www.letsdeal.se/">http://www.letsdeal.se/</a>
6. Lokaldealen	<a href="https://lokaldealen.msn.se/">https://lokaldealen.msn.se/</a>
7. Yourdeal.se	<a href="http://yourdeal.se/">http://yourdeal.se/</a>
8. Alla deals	<a href="http://www.alladeals.com/">http://www.alladeals.com/</a>

### 3. Lithuanian group buying companies investigated during the pre-study

Name	webpage
<b>Kartu</b>	<a href="http://www.kartu.lt">http://www.kartu.lt</a>
Grupinis	<a href="http://www.grupinis.lt">http://www.grupinis.lt</a>
Beta	<a href="http://www.beta.lt">http://www.beta.lt</a>
Mamamija	<a href="http://www.mamamija.lt">http://www.mamamija.lt</a>
Kiauletaupykle	<a href="http://www.kiauletaupykle.lt">http://www.kiauletaupykle.lt</a>
Skubek	<a href="http://www.skubek.lt/">http://www.skubek.lt/</a>
Dyl	<a href="http://www.dyl.lt">http://www.dyl.lt</a>
Dailycard	<a href="http://www.dailycard.lt">http://www.dailycard.lt</a>
Pagauknuolaida	<a href="http://www.pagauknuolaida.lt">http://www.pagauknuolaida.lt</a>
Labainoriu	<a href="http://www.labainoriu.lt">http://www.labainoriu.lt</a>
Okay	<a href="http://www.okay.lt">http://www.okay.lt</a>
Nuolaidklubas	<a href="http://www.okay.lt">http://www.okay.lt</a>
Myredcat	<a href="http://www.myredcat.lt">http://www.myredcat.lt</a>
Kupon	<a href="http://www.kupon.lt">http://www.kupon.lt</a>
Bigbonus	<a href="http://www.bigbonus.lt">http://www.bigbonus.lt</a>
Tykas	<a href="http://www.tykas.lt">http://www.tykas.lt</a>
Pagauknuolaida	<a href="http://www.pagauknuolaida.lt">http://www.pagauknuolaida.lt</a>
Bendrai	<a href="http://www.bendrai.lt">http://www.bendrai.lt</a>
Groziodovanos	<a href="http://www.groziodovanos.lt">http://www.groziodovanos.lt</a>
Deal24	<a href="http://www.deal24.lt">http://www.deal24.lt</a>
Perpuse	<a href="http://www.perpuse.lt">http://www.perpuse.lt</a>
Citylife	<a href="http://www.citylife.lt">http://www.citylife.lt</a>
Geraakcija	<a href="http://www.geraakcija.lt">http://www.geraakcija.lt</a>
Kasdienpoakcija	<a href="http://www.kasdienpoakcija.lt">http://www.kasdienpoakcija.lt</a>
KomercinisPas.	<a href="http://www.komercinispasiulymas.lt">http://www.komercinispasiulymas.lt</a>
Mybest	<a href="http://www.mybest.lt">http://www.mybest.lt</a>
Noriunoriunoriu	<a href="http://www.noriunoriunoriu.lt">http://www.noriunoriunoriu.lt</a>
Zoro	<a href="http://www.zoro.lt">http://www.zoro.lt</a>
Urbanday	<a href="http://www.urbanday.lt">http://www.urbanday.lt</a>
Zizu	<a href="http://www.zizu.lt">http://www.zizu.lt</a>

## Appendix H: Differences and similarities between GB and other e-commerce models<sup>1</sup>

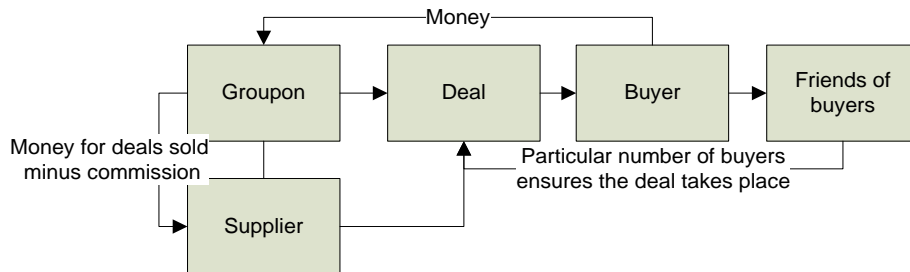
	Similarities with GB	Differences with GB
E-tailer	<ul style="list-style-type: none"> <li>• Large market opportunity – every Internet user is potential customer</li> <li>• Low entry barriers</li> <li>• Highly competitive market</li> </ul> <p>Main challenge – differentiation</p>	<ul style="list-style-type: none"> <li>• Sells only physical products on-line</li> <li>• Often have own off-line inventory</li> </ul> <p>Controlling of inventory is one of the challenges</p>
E-Auctions (market creators <sup>2</sup> )	<ul style="list-style-type: none"> <li>• Creation of environment for buyers and sellers to meet</li> <li>• Commition based revenue model</li> <li>• Importance of marketing</li> <li>• Large firms can leverage their customer base easily</li> </ul>	<ul style="list-style-type: none"> <li>• Need to have sufficient financial resources to attract enough buyers and sellers</li> </ul>
Content provider	<ul style="list-style-type: none"> <li>• Aggregate content of others is one of the models</li> </ul>	<ul style="list-style-type: none"> <li>• Distribute information content on-line</li> <li>• Subscription based, advertising and partner promotion revenue model</li> <li>• Providing own content</li> </ul>
Transaction broker	<ul style="list-style-type: none"> <li>• Main value proposition is saving of money and time</li> <li>• Challenge to overcome consumer fears regarding security and privacy</li> <li>• Consolidation is occurring in industry</li> </ul>	<ul style="list-style-type: none"> <li>• Mainly processes transactions for customers</li> </ul>
Service provider	<ul style="list-style-type: none"> <li>• Main value proposition is valuable, convenient, time-saving and low-cost alternatives</li> <li>• Building confidence and trust among customers is important</li> </ul>	<ul style="list-style-type: none"> <li>• Provides only on-line services</li> <li>• Variety of revenue models</li> </ul>
Community provider	<ul style="list-style-type: none"> <li>• Ease and flexibility of use and strong customer value proposition are important</li> <li>• Can largely benefit from viral marketing and off-line word-off-mouth</li> </ul>	<ul style="list-style-type: none"> <li>• Create environment where people with similar interests can transact</li> <li>• Hybrid revenue model</li> </ul>

<sup>1</sup> Business models are taken from Laudon and Traver E, 2010, p. 78-99

<sup>2</sup> According to terminology used by from Laudon and Traver E, 2010

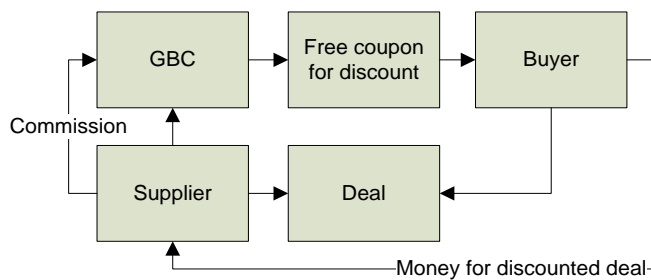
# Appendix I. Groupon and other group buying models

## 1. Groupon Model

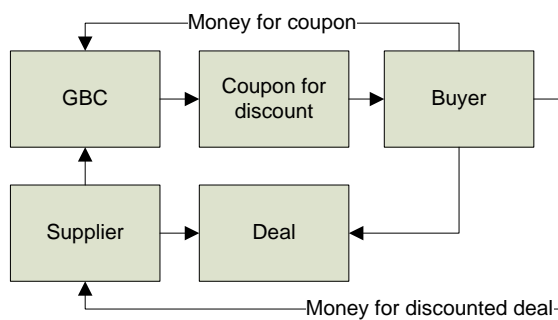


## 2. Group buying models adapted in Russia

### Free coupons for discounts



### Coupons for discounts for money



## Appendix J: Glossary and Abbreviations

*E-commerce* – “the use of the Internet and the Web to transact business”, where focus is on “digitally enabled commercial transactions between and among organizations and individuals”. On the contrast e-business is more related to “enabling transactions and processes within a firm” (Laudon and Traver, 2010, p.11).

*Group buying* – the phenomenon of aggregating the demand or uniting for a purchase.

*Group buying company (GBC)* – the term will be referred to describe a company or actually web-portal that is offering deals for buying goods or services, characterized by big discounts.

*Partner/Supplier* – a business customer of a GBC, or, in other words, a vendor that is willing to sell its products or services using the group buying principle – prepare a deal, characterized by a great discount, arrange it on the GBC’s website, sell it as well as advertise.

*Buyer/End-customer/Subscriber* – a private customer of a GBC or a person who is buying a deal.

*Group buying industry (GBI)* and *Group buying market (GBM)* – there is a slight difference between GBI and GBM. The latter refers to the market of end-customers, whereas the GBI considers a wider scope – the GBM and the partner/suppliers market as well as other actors present in the group buying ecosystem.

*Aggregator* – a web-site that accumulates and presents offerings from the majority or all GBCs in a particular country.

*Competitive solution* – a set of decisions, allowing a company to survive in the marketplace.

<b>GBC</b>	Group buying company
<b>GBM</b>	Group buying market
<b>GBB</b>	Group buying business
<b>GBI</b>	Group buying industry
<b>GB</b>	Group buying
<b>KSF</b>	Key Success Factors
<b>RBV</b>	Resource-based view
<b>SCA</b>	Sustainable competitive advantage
<b>MVSG</b>	Most vulnerable strategic group
<b>HR</b>	Human resources
<b>IT</b>	Information technologies
<b>SME</b>	Small and medium size enterprises
<b>R&amp;C</b>	Resources and capabilities
<b>FMA</b>	First mover advantage
<b>CVP</b>	Customer value proposition
<b>DB</b>	Data Base
<b>RQ</b>	Research Question