

Online Group Buying:

The Effect of Coupon-Based Internet Marketing on the Travel Industry

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HTM 4484 International Tourism

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April 31, 2015

Introduction

Online group buying is easily and simply defined as any website that provides “coupon offers on products [and] services from sellers to groups of consumers,” (Hsu, Chen & Ting, 2012, p. 520). Online group buying websites made their debut to the Internet marketing world in the United States circa 2008, and the presence of these alternatively structured marketing sites has been growing and expanding, both nationally and internationally, ever since. In fact, the online group buying system has been “described as one of the most successful and profitable online business[es] since [its introduction],” (Erdoğan & Çiçek, 2011, p. 309). These types of websites exist in multiple forms that operate through different mechanisms, with variations in the presentation of the price and time limit of offers. Online group buying websites unite sellers and buyers in a fluid, mutually beneficial manner that “could be a means for travel firms to raise sales, increase market share, and boost competitiveness” (Hsu, Chen & Ting, 2012, p. 519) while simultaneously offering a travel experience to consumers that will minimize their cost while maximizing their utility. The question is what impact the emergence and increasing online presence of group buying websites and their coupon-based promotions has had on the travel and tourism industry. We will examine this possible impact through the coupon proneness of consumers, group buying’s encouragement of consumer travel participation, and an analysis of the website Groupon’s presence and influence in the tourism market.

Literature Review and Discussion

Arguably the largest component making online group buying websites competitive in the current marketplace is their coupon-based discounts and promotional offers that are unparalleled by other companies and intermediaries. For this reason, it is important to understand how the consumer responds to these marketing efforts to gauge their success in, and impact on, the travel

industry. Coupon proneness is defined as an individual's "inherent propensity to use coupons" in the purchase of a good or service (Park & Gretzel, 2011, p. 1653). Park & Gretzel's 2011 study created a tourism-specific scale used to determine the coupon proneness of hundreds of mid-travel consumers in the Midwest corridor. Their intercept study found that no real relationship exists between a consumer's use of travel coupons during destination-based planning, when specific, pre-trip decisions are made; however, coupon offers tend to have a much stronger influence on unplanned travel behavior. Consumers are more likely to be looking for other opportunities for potential savings, see a travel deal, and act simply on visceral impact (Park & Gretzel, 2011, p. 1656). It can be inferred from these conclusions that while not all consumers respond to coupon-based marketing efforts in the same way, it is more common that online group buying promotions are more likely to be accepted by consumers when based in a spur-of-the-moment decision. The presence of coupons will become more important as the Internet's breadth and reach continues to widen, which will in turn allow these discount-price promotional sites to target more specified markets to help potentially increase the tourism provider and seller's return.

The proposed consumer tendency to respond to coupon deals under abrupt circumstances resulting in intuitive consumer reactions is directly encouraged by the most commonly used structure of online group buying websites – the price threshold mechanism. Price threshold provides a well-formulated guideline followed by many popular group buying websites. The seller's offer is approved by the host site as an "online daily deal" that is listed at a largely discount, yet static, rate (Erdoğan & Çiçek, 2011, p. 308-9). Along with the rate, the seller puts forth a variety of conditions regarding their offer: the original value of the good or service, total savings from the discounted price, time allotted and remaining, the number of current purchases,

and the number of purchases necessary to receive the advertised discount (Hsu, Chen & Ting, 2012, p. 520-1). The limited time frame of a 'daily deal', or even a deal that expires after a longer, but still shortened, period of time promotes fast action by the consumer; "very attractive offers have [a] lesser time limit to create urgency for group purchase," (Hsu, Chen, & Ting, 2012, p. 520). This permits consumers to act congruously with their forecasted behavior of routinely buying travel-based coupon deals on an unplanned, spontaneous basis.

The most widely known and accepted online group buying website that structurally follows the price threshold mechanism is an American site called Groupon. Launched in November 2008, with many copycat sites that soon followed (Hsu, Chen & Ting, 2012, p. 520), Groupon features a 'Getaways' page specifically for the marketing and offering of local, national, and international travel deals to consumers. In July 2011, Groupon's 'Getaways' were analyzed to determine relationships between discount rates, end-of-deal statuses, general consumer responses, and various other factors of the coupon-based site's promotional offers. On average, 22 deals were offered per week, with three-quarters of all offers being discounted 50% lower than the original asking price (Hsu, Chen & Ting, 2012, p. 522). A seller-specified minimum number of buyers must purchase the deal in order for offer to be accepted and the end-of-deal status to be positive, yielding positive profits for the seller and value to the buyer; this occurred more often than not. Occasionally, firms will tip a deal, meaning they reduce the number of necessary purchases and/or the discounted price closer to the expiration date in order to attract more consumers and ensure that the deal occurs. Historically, when this tipping process has been enacted, the number of purchases has been known to substantially increase (Hsu, Chen & Ting, 2012, p. 522-3); this supports the notion that consumers participating in online group buying are more prone to purchase under unexpected and unpremeditated circumstances.

Groupon approves all participating companies and service providers' offers before they are posted, ensuring value-added experiences for consumer satisfaction at an appealingly low price. The tourism provider and seller also benefits from using Groupon or other like group buying sites in the creation of new business and the opportunity to reach new markets. Hsu, Chen & Ting (2012) evaluated the overall effectiveness of Groupon for tourism providers by comparing their incurred costs for using the site with its subsequent revenue and profits. As a representative example, the cost incurred by one Chicago-based hotel in running an offer on Groupon was compared with the gained profit and return on investment from use of the site. This comparative analysis determined that "total revenue [was] higher than total cost" and, although short-term profit was not overwhelmingly large, the "long-term profit and return on investment [was] significant" (Hsu, Chen & Ting, 2012, p. 525) solely in part of the company's use of Groupon and highly beneficial to the expansion and profitability of their business.

Conclusion and Future Research Areas

The use of Groupon – and, consequently, the use of any other similar group buying, coupon-based Internet marketing website – to advertise travel deals to various locations can increase the sheer number of customers and overall financial benefit to a firm; concurrent use of these sites by consumers minimizes their expenses while maximizing their utility by offering attractive, value-added travel experiences at an beneficially cost-effective rate. Online group buying websites used coupon-based promotions to mutually appeal to sellers, attempting to broaden their customer base and brand awareness, and buyers, both consciously and subconsciously searching for attractive offers that will offer them a uniquely beneficial experience at a low cost.

Future research should be conducted regarding online group buying and its impact on the tourism industry with frequency, as the growth and expansion of this intermediary, especially in the international context, will influence its popularity as well as consumer propensity to use these sites for both unplanned and planned excursions. As the nature of online group buying sites and coupon-based Internet marketing evolves and develops, its potential to change the way the travel and tourism industry currently exists will become more evident. Segmentation studies could occur, allowing research results to provide specificity in an “understand[ing] of market variability [in relation to coupon promotion responses] and diversity of online group buyers,” (Erdoğan & Çiçek, 2011, p. 315). Consumer demographics and behaviors can also be more closely examined to determine results and factors from a larger based of respondents that will be more applicable with the opportunity to be generalized to all tourism consumers. Online group buying is still a relatively new phenomenon, and as these sites and methods increase in importance and prevalence throughout the nation and the world, its direct implications on the future of the travel and tourism industry will become more evident.

References

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