Study of China’s online catering market under the booming of online group purchasing

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by

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Part One

Introduction

As China’s economy increases rapidly, the food and beverage business is booming. According to the China Statistic Yearbook 2009, the value of the food and beverage industry was 35.2 billion U.S. dollars (National Bureau of Statistics of China, 2009). In addition, the food and beverage business has maintained over a 10% annual growth rate for 17 years. Furthermore, Chinese Internet users number more than 420 million (China Internet Network Information Center, 2010). However, the online catering industry in China is only in its beginning stage. In the United States, the online catering business has developed well. The Web site opentable.com (Opentable) that support restaurant reservation became the leader in the online dining service industry. In addition, a new online business model created by Groupon.com is rising in the world. The combination of these online catering business models is a new opportunity for the Chinese online catering companies.

Purpose

The purpose of this paper is to display the feasibility of the U.S. online catering business model applied in China’s market. First, this paper will investigate the Chinese catering dining reservation market, examine the Chinese consumer’s behavior, and analyze the business models of U.S. online catering companies. Second, this paper will study the current Chinese online group purchasing market and Chinese online catering Web sites. According to this information, this paper will find how to
apply the well-developed U.S. online business model to the immature Chinese online catering market.

**Justification**

Since China commenced market economy in the 1980s, catering has been growing rapidly at a speed of 10% on average per year. According to the economic data on the first three quarters in 2010 issued by the National Bureau of Statistics of China, the revenue of catering is as much as 189.5 billion U.S. dollars among China’s social retail goods. It is predicted that the revenue of China’s catering will surmount 250 billion U.S. dollars in 2010. According to the researches of Bao (2010), China’s current online catering market shares take up less than 1% of the catering market shares of China’s 15 large cities. Additionally, in other hundreds of small and medium-sized cities and rural markets, the online catering market is still virgin ground. Fantong.com and dianping.com, respectively the copycats of Opentable.com and Yelp.com, have been expanding markets in Beijing and Shanghai respectively via different business models. Fantong.com profits by providing restaurant reservations for consumers and then collecting commissions from restaurants, while dianping.com is dedicated to establishing a consumers’ comment community that can cover the local restaurants in Shanghai as well as branch out into other daily service industries, such as beauty treatment and hairdressing. Fantong basically profits from advertising. These two Web sites both covered overhead in 2008 but have not yet made huge growing profits like opentable. With the foundation of Groupon, a new U.S. group purchase website, in November 2008, its unique business model won consumers’ and
business owners’ favor rapidly. Its model can be summarized simply: Only one type of discount products is provided each day, each person can only purchase once per day, discount products are mostly service products, services are regional, and the scale of offline sales teams are far greater than that of online teams. Specializing in service products has enabled Groupon to cut down on costs and not need to consider logistics management while realizing the great discounts which cannot be realized in physical commodities: 50% off to 90% off. This is particularly attractive to consumers.

Groupon principally profits from collecting trading commissions from businesses and this proportion is as high as 50%. This Web site managed to make both ends meet and profit in only seven months. Currently Groupon has 20 billion users with its market value close to 3 billion U.S. dollars. In the third quarter of 2010, as the two leaders in the American online catering markets, yelp and opentable each introduced their own group purchase discount coupons, just like Groupon, and the total sales after yelp’s first issue of such coupons in San Francisco exceeded those in Chicago, where Groupon is derived. In China, more than 1,000 copycats of Groupon came into existence in the twinkle of an eye in 2010. China’s online group purchase markets are expanding at a high speed.

**Constraints**

Compared to that of the United States catering market, Chinese consumers are not used to make reservations in advance before dining out. The online dining service in China is not as popular as in the United States. The Groupon purchasing model is booming in two years, and most of copycats in the world have set up in one year.
Most of the key data, such as revenue, are difficult to collect and the existing data, which came from news reports, may not accurate.

**Glossary**

Netizen: A person who is actively involved in online communities.

Copycat: A Web site who copies business model from another existing successful Web site.

Online catering business: In this paper, online catering business refers to the websites which are directed at consumers and provide catering services. Catering services come in the following varieties: providing the menus, prices, business hours and consumers’ experience in relevant restaurants and providing restaurant reservation services as well as the sales of restaurant coupons.

Online group purchase: Online group purchase is the behavior of organizing the consumers who have the same purchasing intentions via the channel of Internet and then conducting bulk purchase from manufacturers.

B2C: Business to customer (abbreviated B2C, also BtoC) is a category classified by trading objects and refers to an e-commerce model between enterprises and consumers. It principally specializes in online retail business and conducts online marketing activities with the help of the Internet.

C2B: Customer to business, abbreviated to C2B, belongs to types of e-commerce models. The core of the C2B model is forming a powerful purchase group by gathering
scattered but numerous users, thereby changing the vulnerable position of users’
one-to-one bids in the B2C model and letting users enjoy the benefit from purchasing
single commodities at wholesale prices.

The group purchase model of Groupon:

The Groupon purchase model was established by Groupon, which was founded in
2008. The businesses that sell commodities are mostly service providers, such as
restaurants and gyms. In particular, service providers have already had a great deal of
expenditure on fixed costs, so they can surrender a huge part of the profits of services
than physical commodities. Groupon usually sells these commodities at half price or
even lower prices via coupons, which is very attractive to consumers. Groupon makes
profits via collecting commissions from businesses.
PART TWO

Literature Review

Introduction

China’s online catering market started to take off in 2003. There are two famous online catering market Web sites in China. Dianping.com is a copycat of Yelp.com. It focuses on encouraging consumers to post their reviews for restaurants. Fantong.com is a copycat of Open Table.com. It focuses on supporting the online dining reservation business. In 2010, online group purchasing is booming in China and worldwide. This may bring new business models to the traditional online catering market in China.

This literature review would study China’s internet market and the young Chinese consumer for the Internet market. Then it would study the Chinese consumers in the urban catering market. At last, the three different online catering business models from the United States would be introduced and be compared.

China’s internet market

According to the latest research report conducted by China Internet Network Information Center [CINIC] (2010), up to June 2010, there were 420 million netizens in China, and each of them spent 19.8 hours on average surfing online each week. In terms of age structure, netizens between the ages of 10 to 19 take up a proportion of 29.9%, netizens between the ages of 20 to 29 take up a proportion of 28.1%, netizens between the ages of 30 to 39 take up a proportion of 22.8%, and netizens between the ages of 40 to 49 take up a proportion of 11.3%. Obviously, netizens born in and after
the 1970s take a higher proportion of the population of China’s netizens, over 80%. In addition, from the perspective of China’s netizens’ choices in network applications in the recent half year, the three most rapidly growing applications are online payment (increased by 36.2%), online shopping (increased by 31.4%), and online banking (increased by 29.9%). As regards to traditional popular network applications, news has increased by 7.2%, search engines have increased by 13.9%, and e-mails have increased by 8.9%. This indicates that China’s network business market has already entered into a stage of rapid growth. More and more Chinese consumers are purchasing the commodities and services they need via the Internet. However, this report hasn’t touched upon research into what specific commodities or services Chinese consumers purchase via the Internet.

The young consumers in China’s internet market

According to previous data from CINIC (2010), consumers born in the 1980s and 1970s constitute the two greatest consumer groups of China’s e-commerce market. There is not yet much literature on consumer behavior of young Chinese consumers. Particularly, research into consumers born in the 1970s is difficult to find. However, some research into consumers born in the 1980s can be found. Zhao (2010) has done some research into the consumption features of consumers born in the 1980s. He discovered that consumers born in the 1980s are more individualized and prefer unique products. Compared to the previous generation, they are inclined to purchase commodities with brands and are willing to purchase commodities sold at a premium only for brands. In comparison, the elder generations are apt to purchase cheap goods.
of higher cost-performance ratios with no brands. Meanwhile, consumers born in the 1980s have mostly just taken up an occupation and have lower incomes than consumers born in the 1970s and 1960s, but they have extraordinarily strong desires for consumption. Many consumers born in the 1980s have no or scarcely any bank savings. Moreover, consumers born in the 1980s are inclined to use credit cards or apply for personal loans so as to meet their current demand for consumption, and the proportions of consumption via loans of consumers born in the 1980s to their monthly incomes are evidently higher than those of consumers born in the 1970s and 1960s.

Furthermore, Zhou (2009) conducted a questionnaire survey into the dining out of 120 consumers who were born in the 1980s and are now residing in Beijing, China, and discovered that the three foremost motives for dining out are relaxing and relieving working pressure, experiencing new restaurants or new food, and meeting demand for social contact. Among several factors influencing choices between restaurants are restaurant service levels, prices, food quality, degrees of convenience of restaurants based on traffic, and restaurant atmospheres. The convenience of restaurants based on traffic is the primary factor for consumers born in the 1980s when they think over choices for dining. The second factor is food quality, and then the following factors in the order of priority are prices, restaurant service levels, and restaurant atmospheres. In Zhou’s (2009) opinion, consumers born in the 1980s are willing to pay higher premium prices for the convenience of restaurants with regards to traffic and restaurants of higher food quality. With respect to external information sources which influence their choices between restaurants, relatives’ and friends’ word of mouth is
the foremost factor. The second factor is TV food programs, and the next is Internet and newspaper publicity.

**Consumers in China’s urban catering market**

Since China is so vast a country, different regions are of different economic developmental levels and differ a lot in culture. Consumers in different regions manifest a lot of differences in preferences for dining out. Wu (2010) conducted a survey into the catering consumption of 300 urban consumers in Anhui Province, where economic developmental levels approximate to China’s average levels. Meanwhile, Han (2009) conducted a survey into 500 consumers in Shanghai, which is of higher economic developmental levels. Although the two surveys differ somewhat in contents and analyses, it is found that the consumers in these two places share some similarities and reveal some divergences. Wu (2010) and Han (2009) have both classified factors influencing consumers’ dining as brands, service, products, prices, restaurant atmospheres and geographic positions. According to the findings in the two studies, consumers in Anhui Province attach more importance to prices and products, followed by service and restaurant atmospheres. The last are geographic positions and brands. In comparison, consumers in Shanghai also lay the most emphasis on prices and products, but they considered geographic positions more than service and restaurant atmospheres. According to the comparison between them, in Shanghai, a developed city of severe traffic congestion, consumers attach more importance to convenience of travel because time spent in on the road is a vital factor along with the monetary cost of traffic. However, it is a pity that this research has not further
examined whether overall time spent is important to consumers or not, since one of the superiorities of online restaurant reservations is saving consumers’ time.

**The three business models of online catering**

*Open Table.com*

Open Table.com is a Web-based company established in 1998 and it provides free online restaurant reservation services for consumers. There are mainly two methods for profiting. One is that restaurants hire Opentable’s computer restaurant reservation system, which costs around 400 U.S. dollars per month. The other is that Opentable charges restaurants 1 U.S. dollar for each customer who has made restaurant reservations via this system. In terms of online restaurant reservation services, Lang (2006) carried out a study. Lang conducted a survey into 140 casual, quick-service and fine-dining operators and found that although only 26% of the restaurants have launched online restaurant reservation services, as high as 64% of the operators collect consumers’ comments from the Internet and 66% of them issue sales information via the Internet. In addition, 38% of the restaurants accept food orders online. Via the online restaurant reservation system, customers can concurrently obtain a reservation time at the restaurant, information about menus, and even other customers’ comments. They can also make restaurant reservations at any time of day, which traditional telephone restaurant reservations can hardly achieve. With regard to those businesses that adopt online restaurant reservations, especially those businesses that use Open Table, Open Table has not only ameliorated these businesses, but has also brought them valuable customer information records. Businesses can provide
first-rate and more customized services for different customers according to customers’ previous consumption records and comments. Businesses can also send their respects on festivals or anniversaries conveniently via e-mails to customers who once visited in order to increase business opportunities. Ross (2006, June 26) also carried out research into several Web sites, such as Open Table, Dinner Broker, Guest Bridge, and other similar Web sites, and interviewed some representatives from businesses that have installed these online restaurant reservation systems. Generally speaking, these several Web sites bear a resemblance to each other in methods for profiting, and the systems of Open Table are relatively more complete. For example, realizing the connection with the Web sites of restaurants has enabled consumers to click the button “restaurant reservation” on the free Web sites of restaurants and connect to the system of Open Table so as to finish reservations; reward systems of bonus points have been established, and consumers who often use Open Table systems are given meal coupons as gifts in return; and consumers are encouraged to comment on the restaurants they have been to so that potential customers can be provided with more valuable information on restaurants. According to Ross’ (2006, June 26) interviews with business representatives, they unceasingly praise the client data provided by online restaurant reservation systems, which have laid the solid foundation for them to offer more customized services and to send invitations to attend anniversaries. In the meantime, these users are pleased with the contribution which online restaurant reservation systems have made to increases their business during the off seasons.
**Yelp.com**

Yelp.com was established in the Bay Area in 2004. Yelp is designed to let consumers comment on local restaurants, barbershops, spas, retailers, and so on, so that consumers can share their comments on businesses with each other. Besides, Yelp is committed to making itself a platform for social contact on which consumers can find appropriate Web sites with which to expand their interpersonal networks. Compared with Open Table and Groupon, Yelp has not yet established a steady business model by which long-term profit can be fulfilled, but its numerous members and powerful influences on communities and businesses have enabled Yelp to find investors so the Web site can go on developing. Comb (2010) discovered that Yelp has exerted pressure on businesses to an extent, especially small restaurants and small retailers, because Yelp is committed to commenting on businesses, and consumers mostly believe in each other’s opinions and experiences. For instance, a retailer complained that among 40,000 customers, there would definitely be a few discontented customers, and those discontented customers were more inclined to complain to people about their discontent. On the contrary, only a few of the contented customers expressed their content. In the meantime, some shills may make fictitious comments on businesses, thereby achieving the purpose of calumniation. It is a problem how to sift and manage effectively, which Yelp needs to face seriously.

**Groupon.com**

In comparison with previous group purchasing Web sites, Groupon has greatly attracted consumers by very favorable discounts, and its method of providing one type
of discounted products each day has saved lots of time users spend in judging and choosing among numerous discounted products. In addition, users can somewhat expect and imagine what the new type of discounted products is on the next day. By virtue of its unique model, Groupon has developed multitudinous members and has been profiting rapidly. According to Rey’s (2010, April) research, although Groupon can bring masses of customers to businesses in a short period, businesses also need to make preparations correspondingly. One important concern of businesses should be whether they can afford huge discounts or not. Discounts provided for consumers by Groupon are nearly all greater than 50%, and Groupon will extract around half the turnover of businesses although businesses may pay by installments for the turnover. Furthermore, some businesses are complaining that Groupon protects users’ privacy and doesn’t provide consumers’ contact information, specifically e-mails, to them. As for businesses, what Groupon brings are mostly new clients and businesses hope to go on sending messages via e-mails in order to attract more regular customers. Therefore, businesses, especially fitness clubs, restaurants, and so forth, are supposed to provide new customers with satisfying experiences while conducting sales promotions, thereby catching hold of precious opportunities in order to attract these customers to visit again. This requires businesses’ further improvements in their reception capabilities, as they are not supposed to lower service levels or product quality for short-term benefit. Underwood (2010, October) has noticed that Groupon has encountered lots of copycats worldwide. Because the discounted products provided by Groupon are of great regionality, Groupon intends to enter into international markets
by means of acquisition strategies in other countries like Germany, France, and Russia, although Groupon is still expanding actively in the United States. Underwood has pointed out that it is a good strategy if Groupon purchases overseas copycat Web sites promptly, but it has to pay attention to the features of different countries. For example, Chinese consumers prefer numerous commodities to choose from and bright and colorful Web sites, while German consumers are fond of single products.

*Online Group Purchasing*

Analyzed from the view of consumer, online group purchasing is an approach of online shopping (Wang, 2009). Compared with traditional B2C and C2C e-business, in fact online group purchasing is a model of C2B. Masses of consumers are aggregated, and perform negotiations and transactions with Trade Company. During this progress, group purchasing website plays an important role. Online group purchasing is not only suitable for the party having products, i.e. they can sell commodities in batches, but also for the group having common requirements, i.e. they will collectively purchase goods and enjoy deduction.

Analyzed from the view of business, online group purchasing is a marketing method (Wang, 2009). The cost can be reduced during transaction link, which let consumer obtain commodity with lower price and then attract consumer continue to purchase. Analyzed from the view of business, online group purchasing is not only suitable for introduction of new products, but also for clearance sale of leftover stock. Meanwhile, it is one of the brand marketing methods for business.
Structure of Online Group Purchasing

Online group purchasing mainly involves three parts of business, group purchasing website, and consumer; meanwhile, SNS website and search engine supply advertising service, paying facilitators supply online payment service, and logistics supply transport service. During the progress of online group purchasing, group purchasing website is located in leading position. On the one hand, it is needed to contact business and arrange group purchasing goods; on the other hand, it is needed to spread information of group purchasing activities, attract consumer to pay close attention to the website, and participate in group purchasing.

Groupon Pattern Analysis

The main preponderance why Groupon group purchasing develop so rapidly lies in only selling one product (or service) per day, and the price usually not more than half of the original price. Groupon attracts a certain number of purchasers using the model of updated daily and goods with cheap price, and then 50% of the transaction from supplier is received in return; if the number of group purchasing is leas than a minimum number, transaction is cancelled. Only opening webpage or checking Email, can consumer understand what pleasant surprise is waiting for you in your city on that day: delicious food, body-building, SPA, and other specific information of living, and to encourage friends around to purchase with SNS, Email, and other network approach. Another advantage is that there is no need to consume cost of large number of stocks and logistics distribution induced by a variety of
products bought by consumer, but by service oriented. It can be said that it is a typical assets-light company.

Many Groupon businesses are service provider, such as SPAs, hair cuts, and restaurants. As far as they are considered, additional customers do not bring too much cost, especially in their non-peak business hours. Groupon has the chance to sell COUPON greatly discounted for numerous consumer (For example, original price $ 80 is sold at $ 30). Of course, only purchaser reach a certain quantity, can it be become valid. These businesses obtain very good earnings with Google, Facebook, and other advertisements bought by Groupon as well as marketing style with public praise of more than ten million registered users. At the same time, their own brand awareness of Groupon has been also improved and reached win-win for best results.

As far as consumer is considered, Groupon grasps the mentality inspiring users’ desire to buy in order to get great discounts, additionally with setting threshold for numbers of group purchasing customers, return of a certain amount during recommendation of purchasing each other, and other methods, makes consumers perform effective interaction online so as to reach low limit of group purchasing number determined by business with voluntary organizations. Once the number of participated people has been increased to a certain degree, can Groupon improve its ability of negotiating price to business, and let more customers trust service or product produced by Groupon.

One of the important characteristics of Groupon model is that the service sold
with great discount is only in force on that day, and becomes valid after certain
numbers of customers decide to purchase. Such shopping pattern setting a time limit
promotes customs to spontaneously spread each other with MSN, SNS, and other
ways so as to accomplish limit number of purchasers. During this way, public praise
spreading is effectively formed, and its web impact as well as customers’ loyalty is
continuously increased. On the aspect of customer maintenance, Groupon promotes
that if the customer invites one friend to register and conduct a deal during 72 hours,
he/she will obtain $10 cash as encouragement from website; in addition, the customer
will receive vouchers, awards, and other special returns supplied by Groupon.

The core of earnings for Groupon lies in accepting great number about
30%-50% of transaction commission from business, and the period of payment is 2
months, i.e. settlement of 1/3 of accounts on the day at the end of activity, settlement
of another 1/3 of accounts on month latter, and settlement of the remaining 1/3 of
accounts two months later. Such rapid return of funds and profits realized implement
profit and rapid expansion at the same time.

All the businesses promote such concept of “Group Discount”, i.e. great
discount owing to more people. Besides, promotion performed in business non-rush
hour is approved as a marketing method for lots of businesses, for example, happy
hour of business non-rush hour in numerous restaurants. Groupon conducts effective
promotion to local consumers for businesses, fully mobilizes desire to purchase of
local consumers, and brings a large number of customer flow for businesses.
However, localized products and services of Groupon also result in a characteristic and even a shortcoming. It can not quickly duplicate to every city because of strong regionality. Therefore, it is needed to assign salesmen to re-open up the market in order to develop a market for each.

But sales of products by Groupon also have a great excellent feature, i.e. without logistics, which induces fast development with fewer funds compared with traditional online shopping website, such as amazon.com.

Sinclair (2010) indicates that many customers can be attracted with Groupon. However, restaurants only obtain about 25% of gross income in normal times. As for financially stable restaurants, this is a good promotional platform, but it should be considered whether they can bear higher promotional costs for the restaurants with poor cash flow. Thus, Sinclair proposed some suggestions. Restaurants can sell some "Extra" products, for example, suggest customer waiting seat drinking a cup of cocktail to bar counter. Limiting duration of service of coupon is also important. For example, define coupon only used from Sunday to Thursday, even limited in lunch. Because numerous coupon customers appearing in peak time reduces earnings space of restaurant, more importantly, too many customers will reduce service quality of restaurant. Besides, large part of customers using coupon are new customers, low quality of service may affect the will that they will come again for dinning. In order to conduct effective management for customer flow, Sinclair suggests businesses using Opentable system and performing Coupon sells during spotlight of Opentable. Spotlight is a product imitated Groupon promoted by Opentable as well as a Coupon
sells with low price limiting time and people number. Considering Opentable has had a mature set of ordering system, customers can purchase Coupon as they make an appointment. In addition, Groupon’s users are sensitive with product price, so they are interested with dinning-self. As far as restaurant is considered, as for new customers, the customers from Opentable have more opportunities of coming again compared to that of customers from Groupon. Therefore, group coupon promotion of Opentable is a better choice for business. This explanation proposed by Sinclair gives a very good direction for the websites engaged in food grouping market.

Vacanti (2010) reports Yelp also promotes coupon group sold similarly Groupon. Yelp performed the first activity of group purchasing coupon (a massage in San Francisco) on Aug. 31. Service with original price $110 was sold with group price $49. Yelp sold 1616 products with the total value of $79,184. On the same day, Groupon’s three deals in San Francisco sold the total of $67,398. Vacanti considers that huge customer base originally owned by Yelp is a solid foundation for group purchasing coupon. Besides, Yelp also owns numerous comments for businesses and their products as well as services from customers, which are also practical information for customers and help them to decide whether the production and service from this business is their real required. Vacanti considers that viewing on long terms, the development of group purchasing Coupon promoted by Yelp is better than that of Groupon.

**Conclusion**

From the information about Chinese consume in urban catering market and the
whole internet industry in China. We can found the great opportunity in the combination from the catering market and online business. With much more consumers will be used to pay online, the online catering market will increase quickly.

From the comparison between the literatures above, it is obvious that the business models of Open Table are based on long-term cooperation with numerous businessperson, and Groupon provides businessperson with one or several opportunities of sales promotion with great discounts. Some differences in details can reflect the distinctions between them. For example, Open Table provides customers’ e-mails for businessperson so that businessperson can communicate with customers for long.

Combined with the idea of Sinclair and Vancanti, it maybe has a conclusion that group purchasing dinning sold online is performed, at the same time restaurants supply more valuable information and services for customers. It can be said from another aspect that the website insists doing internet business aiming directly at food industry, supplies information and services for customers and businesses, and promotes business of group purchasing Coupon.
Part Three

Case study of China Online Catering Websites and Online Group Purchasing websites

Existing Chinese Online Catering Websites

Fantong.com (fantong) is a Chinese catering website that provides free restaurant reservations. Fantong was established in Beijing in 2003. Its operational modes resemble those of opentable.com in America. Before the establishment of fantong, there had been other catering websites in China which could help make restaurant reservations thus bringing restaurants business. As for consumers, the functions of fantong are mainly inquiries about catering information and the services of seat reservations in restaurants. As for restaurants, fantong is a method by which restaurants advertise themselves and attract consumers to dine. For the moment, fantong possesses around 100 thousand catering customers in China and the website can basically make both ends meet.

Fantong profits from advertising and charging fees on reservation, among which reservation fee collection adopts methods similar to those of opentable and the businessperson who have joined fantong is charged 140 US dollars for the annual fees. Each restaurant reservation from fantong is charged from 0.5 to 1 US dollar or 5% of the consumption as commissions. However, due to the differences between Chinese markets and American markets, approximately 70% of the reservations from fantong is realized over the phone, because Chinese consumers, especially senior consumers are not accustomed to making reservations via Internet but prefer talking to customer service personnel over the phone. What’s more, opentable is possessed of abundant
fine dining restaurants as customers. By contrast, American consumers have been accustomed to making reservations of fine dining restaurants over the phone since a long time ago. Nonetheless, in China, there are not so many restaurants that can be called fine dining restaurants; or rather, there are scarcely any cases that it is difficult to acquire dining opportunities without reservations in advance in China. Chinese consumers are not much too accustomed to the consumption model of making reservations in advance before dining out. Therefore, the development speed and business scale of fantong is very inferior to those of opentable.

According to Opentable, Inc, Announces First Quarter Financial Results (2010), opentable installed restaurant base as of March 31, 2010, totaled 11,487. It seated diners totaled 14.1 million in first quarter, 2010. According to calculation, there are around 156,667 diners having dinner via opentable on average each day. The number of diners/the number of restaurants=13.6. According to the reports from Wang (2009), fantong possesses around 9,000 catering customers in Beijing, its largest market. Fantong receives about 4,000 reservations each day. Based on the calculation that there are three diners in each reservation on average, the number of diners/the number of restaurants=1.3. Even if a greater numeral is set, i.e. there are 6 diners in each reservation on average, the number of diners/the number of restaurants=2.7, which is still very inferior to the ratio of opentable.

Fantong can develop by adopting the models of opentable. However, in view of the features of the Chinese markets, fantong can hardly succeed like opentable’s triumph in America by merely emulating the business models of opentable.
Dianping.com (dianping) is a platform for netizens to share daily service information. Its information is essentially consumers’ consumption experiences, i.e. their comments on businessperson such as restaurants, SPAs, haircuts, etc. Dianping was established in Shanghai in 2003 and initially emulated zagat.com in America thus collecting consumers’ comments on restaurants and encouraging more netizens to make comments. With the establishment and rapid development of Yelp.com in America, dianping has started to more emulate the models of yelp and to pay attention to the construction of network communities. In addition, its comment objects have branched out from restaurants into various kinds of daily service providers such as haircuts, SPAs, etc. Since Chinese consumers are not willing to pay membership fees for website services, dianping is free for consumer members. Dianping principally profits from advertising as well.

Current situation of Chinese Online Group Purchasing

After rapid development of Chinese internet from 2000, the phenomena that some websites organized netizens to perform group purchasing activities was also appeared, especially there were more successful cases shown aiming at purchasing hardware. However, Chinese group purchasing websites are not paid much attention because of short of clear and innovational business model. Considerable copycats occur in China until the occurrence of American Groupon model.

In 2010, about 1000 copycats like Groupon suddenly appear in china. With the spring up of larger number of group purchasing websites, their advertisements are filled with every portal, SNS community, and local category websites in the internet.
A large number of news reports are followed in traditional medias, such as newspaper and TV. Chinese netizens start to be familiar with such websites supplying products with great discount in a short time. At present, Chinese group purchasing websites with more members and well-known include Lashou.com, meituan.com, nomi.com, manzuo.com, Ftuan.com, 24quan.com, aibang.com, tuanmei.com.

The business activities of such group purchasing websites in China basically concentrate in large cities. According to a investigation (2010) from CNNIC, at the end of Aug, 2010, the most popular cities divided based on visiting users’ source by Chinese online group purchasing enterprises in order are Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Chengdu, Wuhan, Nanjing, Tianjing, Xian, Changsha, Chongqing, Shenyang. Lashou.com has been set in over 100 cities, basically covers Chinese middle and large cities. Registered users break through million people, and the average amount of consumption of customers reaches 4,000,000 yuan per day at present. Meanwhile, based on the network flow analysis of Chinese each group purchasing websites by CNNIC, Lashou.com is undoubtedly the group purchasing website with the first flow capacity in China, however, Lashou.com does not locate in the first place in each big city of China. For example, nuomi.com has the first flow capacity in Beijing and tuanmei.com has the first flow capacity in Shanghai, suggesting that now Chinese group purchasing websites include both focusing in development of local markets and based on national market.

Product composition of online group purchasing

Because now many products from online group purchasing enterprises are
coupon in fact, they will not undertake logistics and stock costs, which expend less money compared with that of traditional E-commerce businesses such as B2B, B2C and C2C. It can be understood that the products supplied by online group purchasing enterprises is essentially a service rather than physical product. As for restaurants, Karaoke bars, movie tickets, SPAs, hair cuts, and Gym clubs, online group purchasing website is a promotion chance which supplies to obtain customer base. There are some other websites engaged in transaction of physical commodity, for example, majority products of meituan.com are cosmetics. According to analysis by Fang, during the products of online group purchasing in China, the most popular is restaurants, Karaoke Bars, movie tickets, and skin care.

Capital requirements

Although it seems that it will take fewer funds to establish a group purchasing websites in China, synthesized with the present news reports, it can be found that all the Chinese famous group purchasing websites start to find large investment institutions for capital registering one by one. In addition, their scales are above 1 million US dollar, in which, Lashou.com obtained capital registering of 10 million US dollar on Jul. 2010. Thus, if entering Chinese online group purchasing market, a certain threshold of funds exists.

Analysis of model of Chinese online group purchasing websites

Groupon business model is clear, simple, and direct. But simple business model is easy to be imitated. During just several months, “Groupon model” flourishes on a large scale in China. At present, main trend model of group purchasing websites
are different in China, and they can be divided into 3 models based on service category they supply.

1. **Group purchasing model of service for life and information**

   This model is mainly based on regional market to supply service, choosing high quality business for customers, and showing a service extremely favorable of the high quality business in the website per day to attract customers to experience. The products sold mainly are coupon of restaurant, Karaoke Bras, and other non-physical products, for example, lashou.com.

   Advantages: low cost; without logistics and stock cost for selling non-physical goods; although group purchasing is failure, it is just an internet marketing show. In addition, brand recognition can be improved and brand influence can be extended during SNS an Email typical in group purchasing website among users.

   Disadvantages: such model decides that it is needed to combine in-line and off-line, it can be broken through. Thus, it is needed for group purchasing websites to have customers’ resources or businesses’ resources, or fund required for generalization. Although it takes fewer costs for group purchasing websites at initial starting, as for group purchasing websites without capital advantage, it needs enough business personnel on off-line to expand high-quality business. Moreover, based on the characteristic of regional markets, it will cost huge funds. When the websites develop into a certain scale, and own more customers’ resources and businesses’ resources, it is needed to investigate capital so as to maintain these resources.

2. **Group purchasing model of physical products**
Compared with group purchasing model of non-physical products, this model is not only based on regional markets but also faced to national market. However, this kind of websites need to bear logistics cost of products. For example, Tuanmei.com specially selling skin cares. At the same time, such kind of websites usually belongs to B2C website operating one or several kinds of products. In fact, group purchasing physical goods as a promotional model exists.

Advantage: wild regional range covered. Because such website aims at some certain product, the consumer group is specific with strong target, and customer loyalty is higher. Thus, such website has better bargaining power.

Disadvantage: because of operation of physical products, such website needs to throw into lots of funds on logistics. In addition, physical products have limited space of reducing price, and it is difficult to give 50% off like restaurants and karaoke bars. So it has lower attraction for customer, who is sensitive to price.

3. Group purchasing model of navigation

Such model gathers information of group purchasing in each group purchasing website everyday; customers receive the latest information in each group purchasing website with this website. And then they perform group purchasing after comparison. This model also can promote their own information of group purchasing. The typical businesses are goutuan.net and 54tz.com.

Advantage: wild information range covered, with the function of comparing shopping, is the group purchasing in group purchasing; such website maintains the steady growth of the user depending on very low cost; it can be promotion and
Disadvantage: this model is easy to be duplicated, and customer loyalty is very low. With the spring up of such model, customers may be divided, which makes the negotiation ability of cooperation between such websites and group purchasing websites weaken.

Profit model of Chinese group purchasing website

1. Commission income

This model is also a main profit model of Groupon. Online group purchasing enterprises initiate group purchasing activity with business cooperation, customers spend money on product coupon, and then group purchasing enterprises receive a certain portion of commissions. Based on media reports (2010), with continuously emerging of online group purchasing enterprises considering Groupon as the prototype in China, compared with 30%-50% of high commission extracted by Groupon, the average commission extracted by Chinese online group purchasing enterprises is only about 10%. In order to race to control market, many enterprises do promotion freely even operate at a loss so as to win the business identity, which makes short-term profitability space rapidly reduce for industry market of group purchasing.

2. Advertising income

Advertising income is almost one of the income approaches for all the websites. Business not only enhances their popularity, but also obtains the expected number of
users with paying fixed cost of advertising. However, as for small group purchasing websites newly established, they have low ability to bargain with business, so this part of income is limited.

3. **Join income**

At preset, parts of group purchasing websites have established a certain brand, however, based on the characteristic of strong regional, and it is needed to expand towards other cities in order to expand their business space. Joining in chain-store operations is one way to expand. The work expanded by local businesses is outsourced to the outsourcing team with local resources, network platform and technical support are provided for franchisees using the form of substation authorized to join, and the size and influence are expanded while the join fee is obtained.

**Characteristics of Chinese online group purchasing**

- **Trading number limited:** precondition of group purchasing transaction established is the purchasing number reaches the minimum quantity; so logistics problem exists for physical products, while problem of reception capacity exists for non-physical products, such as Karaoke bars. Therefore, usually maximum number will be set for group purchasing activity.

- **Low price discounted:** one of the aim of group purchasing transaction is to obtain lower price discount with purchasing collectively.

- **Time limited:** group purchasing transaction belongs to commercial promotion activities in stage rather than continuing strategy. So group purchasing activity usually has time period. Especially for restaurants and Karaoke bars, there is peak time.
Promote sales is necessary in off-peak period.

Small payments: now the amount involved in domestic online group purchasing transaction is small payments. Large payment transaction such as houses and cars has not been developed. It may be relative with decision factors of shopping.

High product gross profit: group purchasing activity itself belongs to promotion activity, the aim is to attract repeated consumption for customers. Only low marginal cost of merchandise production or high level of gross profit, can low discount sales be supported.

According to the data on network flow provided by the website of Alexa, up to November 10\textsuperscript{th}, 2010, the percentages of the global daily pageviews are as follows respectively:

(Based on the average data of one week’s time previous to November 10\textsuperscript{th}, 2010)

Yelp.com 0.0177\%, Opentable.com 0.0025\%, Groupon.com 0.0064\%
Dianping.com 0.0152\%, Fantong.com 0.0011\%, Lashou.com 0.0069\%

(Based on the average data of one month’s time previous to November 10\textsuperscript{th}, 2010)

Yelp.com 0.0174\%, Opentable.com 0.0025\%, Groupon.com 0.0064\%
Dianping.com 0.0152\%, Fantong.com 0.0011\%, Lashou.com 0.0043\%

(Based on the average data of three month’s time previous to November 10\textsuperscript{th}, 2010)

Yelp.com 0.0175\%, Opentable.com 0.0024\%, Groupon.com 0.0064\%
Dianping.com 0.0135\%, Fantong.com 0.0011\%, Lashou.com 0.0028\%

According to the data above, we can discover that the Chinese copycats have all achieved relatively fine performance. However, there is a striking gap between the
pageviews of opentable and fantong, the Chinese copycat. The reasons have probably been mentioned previously in the text: there are not so many fine dining restaurants in China and Chinese consumers are not accustomed to making restaurant reservations. Dianping is able to acquire pageviews close to its original American model and its pageviews are far greater than those of fantong. However, dianping profits principally from advertising and fantong may rely on commissions from restaurants. Moreover, the rapid development of lashou in the recent half year in China has indicated that China’s online group purchase markets have demonstrated great development potential.

The group purchase business which yelp in America has just launched has achieved fine performance and the group purchase business launched by opentable is more attractive than the group purchase organized by Groupon. Therefore in China, dianping, the copycat of yelp and fantong, the imitator of opentable will demonstrate huge potential if they introduce products for group purchase. This is because dianping and fantong have already possessed great consumer and businessman resources after developing for five years. Furthermore, they can provide consumers and businessperson with the accessorial services which other pure group purchase websites cannot provide. For example, comments on the products for group purchase which are introduced by certain businessperson can be searched and found on dianping thereby assisting consumers in making more rational decisions. Fantong can further assist businessperson in managing the huge customer flows brought by group purchase. Besides, the consumers from these two websites especially from fantong are
more likely to become frequent customers for businessperson in the future.

**Conclusion**

As for the operators determined to enter into China’s online group purchase markets or China’s online catering markets, carrying out group purchase of catering is still a choice for consideration aside from the dedication to the professional services of online catering. Compared with physical commodities, discount coupons for catering are of more gross profit and there are more price-off opportunities. Therefore discount coupons for catering are one of the products that are the most suitable for group purchase. For the moment, the discount coupons for catering take the greatest proportion of the products of group purchase websites. There will be more development potential if the business of discount coupons for online catering and the services of online catering can be improved, such as restaurant reservations and restaurant promotions. Nevertheless, the business of catering websites like dianping and fantong and group purchase websites like lashou and meituan is mostly concentrated in China’s large cities. Hundreds of China’s small and medium-sized cities have demonstrated greater development potential. In view of the strong feature of regionalism of catering and China’s current chain catering services being inferior to those of America, new operators can actively launch business and race to seize markets in China’s small and medium-sized cities.

**Business Plan**

It is assumed that there will be investments in a medium-sized city in China at the end
of 2010 and Ningbo City, which is located in Eastern China, is selected. Ningbo is located in Zhejiang Province which is relatively economically developed with a population of around 2 million and the GDP per capita of 8013 US dollars. In 2009, the catering consumption in Ningbo amounted to 1 billion US dollars. A catering website named Laichi.com is constructed and laichi means dining out in Chinese.

**Website planning:**

The website adopts the business model of “Groupon+Yelp+Opentable” and pays special attention to the local catering market in Ningbo. For the moment, the three models above in the local catering market of Ningbo is still virgin ground. Therefore Laichi website contains great development potential. It is good if Laichi can develop into the biggest website in the local catering market in Ningbo before dianping and fantong enter into the market there. The primary business of Laichi falls into three parts. The first part is online catering group purchase, in which coupons of local restaurants are sold just like the model of Groupon. The target customers are white-collar workers and young people who are fond of online shopping. The second part of business is the network community just like the model of Yelp, in which the users can share dining experiences. It strives to cover over 30% of the restaurants in Ningbo in two years’ time. Thirdly, it will develop franchised restaurants actively and launch the online restaurant reservation business for these restaurants, which is similar to the model of Opentable. In view of many Chinese consumers’ habit of making restaurant reservations over the phone, telephone hotlines are being used for restaurant reservations consequently for the moment. Consumers dial the telephone
hotline of this website which starts with 400 and then this website notifies restaurants of reservation information. Fees are charged according to the number of diners.

**Profit models**

**Incomes from commissions from group purchase commodities**

Online group purchase commodities are one of the core products of this website. The website can obtain some commissions of a certain percentage every time it sells a set of group purchase products. In consideration of the fierce competition in Chinese market, it is reasonable that trading commissions take a proportion of 10% to 15% of the prices written in coupons, since this is a new group purchase website.

**Incomes from restaurant reservations**

Restaurant reservation hotlines are to be established to make restaurant reservations for franchised restaurants so as to replace consumers’ work. Consumers can be attracted to use this website as the restaurant reservation system if the consumers can be provided with bonus points as encouragement. When consumers’ bonus points have reached a certain amount, they can convert these points into consumption vouchers that equal to certain amounts of money. The income of this model comes from franchised restaurants according to the number of diners.

**Advertising costs**

The incomes also come from offering the advertisements for the website for sale to restaurants or other enterprises by means of utilizing the cumulative popularity and brand awareness of the website. This is the primary income of various kinds of catering websites in China currently as well.
Established in Ningbo, this website has managed to promote group purchase products at great discount rates relying on a sales team that is familiar with local restaurants and by giving priority to negotiation with newly opened restaurants. Meanwhile, the website organized a customer service team for telephone restaurant reservations, by which local consumers can make restaurant reservations via the telephone hotline of this website. The telephone hotline starting with 400 is adopted and is gratis for local consumers. 400-telephone customer service number is ready for consumers from 8:30 to 20:00 all week long.

Target consumers

Occupational features: office workers in enterprises, proprietors of SME, civil servants and undergraduates;

Industry features: involving many industries with inconspicuous industry features;

Age features: white-collar workers in companies who are aged between 24 and 40; undergraduates aged between 18 and 24;

Income features: monthly incomes between 400 US dollars to 3,000 US dollars;

Psychological features: having high work pressure and life pressure and needing to relax;

Life appeals: pursuing succinctness and fashion; emphasizing life quality.

Strategies for website promotion

These strategies are only directed at local users in Ningbo. The promotion is conducted using a method of combining online services and offline services. Hierarchical consumption mechanisms are introduced: the higher grades a consumer
is of, the greater discounts he or she can enjoy. In addition, regular customers are paid more attention to. “Dormant” regular customers are awakened via e-mails and SMS and are guided to make the second purchase. For instance: Your No.XXX coupon has been successfully through consumption, the system has returned a rebate of XX yuan to your virtual account, and this can be used for your next purchase as deductions from your payables…Hello, Mr. XX. Laichi website will join XX Hotel this Wednesday and promote XX buffet table d'hôte at an amazing price. We’re expecting your presence…Hello, Mr. XX. The special activity of customer feedback of Laichi website in May has already been launched, and you can acquire XXX gratis if you have collected 10 used coupons.

**Technical proposals for website design**

With respect to website design styles, the dominant hue is orange, and other matching colors are black, white and blue. Orange symbolizes harvest and hope. Black brings people prudence, blue gives people liveliness and white offers people freshness. With respect to web techniques, PHP language, Linux operating system and the Apache web server are used thereby guaranteeing that the website is possessed of powerful expansion capabilities and fine transplanting capabilities.

**Promotion schemes**

1. Online promotion

Using news release, releasing news release in local web portals (some nationwide web portals are appropriately selected), and releasing advertorials in traditional paper media. Conducting advertising promotion of pay per click in google
and baidu. Issuing advertisements in popular local community websites.

2. Offline promotion

Conducting advertising promotion on buses, in taxis and at bus stations and broadcasting advertisements in proper TV media. Printing exquisite bookmarks with the brand image, the site URL and the serial numbers of coupons of the Laichi website attached. Conducting promotion in major local office buildings at regular intervals. Putting up the posters of Laichi on conspicuous positions of restaurants. Preparing gifts for regular customers who claim for prizes, or attracting new customers. The prizes include shopping bags, T-shirts, hats, umbrellas, key rings, notepads, pens, reticules, magnetic stick-on trinkets, stamps, post-its, drawing boards, desk calendars, wall calendars, corporate mascots, etc.

**Promotion phase**

Preliminary phase (2 months): Target of this phase: disseminating extensively so that customers may know us:

Promotion gives priority to online promotion:

1) News release

Releasing corporate news release related to franchising, expanding locally, business models, etc in local web portals (some nationwide web portals are appropriately selected) and developing the preliminary market;

2) Online advertising

Broadcasting advertisements in local web portals by means of advertisement alliances and direct cooperation;
3) Paid reviews

Making topics relevant to platforms or products being sold recently, boosting popularity and guiding customer flows.

Reinforcement phase (4 months)

Target of this phase: improving ourselves regardless of others and letting customers appreciate us;

Promotion methods (giving priority to online promotion supplemented by offline promotion): optimizing and perfecting all kinds of promotion methods in the area and increasing conversion rates according to the summary of the promotion of the first phase;

1) Making some exquisite gifts and coupons on which the website logo is printed to use in the sites of activities and choosing office buildings or parks where target consumers are densely populated;

2) News release: enhancing and quickening brand communication and extending it to website popularity, activity sponsorship, etc;

3) Online advertising: enhancing the broadcast of online advertising and improving accuracy and effectiveness.

Stationary phase (6 months)

Target of this phase: letting customers trust in us by means of brand effect;

Promotion methods (giving priority to online promotion supplemented by offline promotion)

Sorting out and solidifying the relevant promotion methods and rules and conducting
sustainable promotion according to the summary of the promotion of the previous two phases;

1) Conducting more offline promotion methods continuously and covering more workplaces where there are many offline target customers;

2) News release: giving priority to the dissemination of the development of the public brand image of corporate financing, public services, first-rate services, etc, thus making the brand image take root in consumers’ hearts and then consumers can pass it from mouth to mouth.

3) Making full use of the historical data models of the website, carrying out precision marketing, and striving to improve repurchase rates and revisit rates of regular customers.

**Expected Target**

Short-term target (the 1st year)

Group purchase websites can develop very rapidly and basically they can begin to take shape in around three months and start to profit within half a year.

The preliminary construction of this website was finished in mid-October 2010 and then the trial operation started. Within two months, this website has got into normal operation and the preliminary dissemination has been done. There are around 3,000 page views on average per day and there are at least 50 newly registered members every day. In 2010, the number of the cumulative registered members of the website has exceeded 5,000 and there are no fewer than 80 orders transacted on average per day.
In the first half of 2011, the website will enter into an aggressive phase of dissemination and promotion, disseminate and highlight its own features and superiorities, and establish its brand influence. The number of the registered members of the website will exceed 50,000 and there will be more than 6,000 page views on average per day. In addition, this website will strive to be among the top 100,000 websites, there will be over 300 orders on average per day, and the actual turnover will be greater than 2 million yuan. The website will profit and there will be over 800 franchised restaurants.

In the second half of 2011, this website will enter into a phase of more intensified effort. It will enhance its brand influence by dissemination and the number of the registered members of the website will exceed 80,000. Besides, this website will strive to be among the top 50,000 websites, there will be over 1,000 orders on average per day, and the actual turnover will be greater than 2 million yuan. It will endeavor to increase its market share to 10% or more and there will be over 2,000 franchised restaurants.

Mid-term target (from the 2nd year to the 4th year)

Through the previous one year’s operation of the website, this website will enter into a phase of rapid development. The mid-term target is to realize greater profit and to develop new-type website business functions. Furthermore, the market competitive strategies will change from offense to defense, the website will break away from the strategy of which late-comers just follow and get into a phase of brand innovation and construction. In the meantime, it will develop in urban areas. By the end of the 4th
year, the website will have become relatively mature with a market share of over 50% and more than 5,000 franchised restaurants. If the website can operate successfully, merging other websites of the same trade can be put into consideration thus quickening the expansion of the overall scale of the website.

The Schedule for Two Years’ Projected Investments in Expenditures

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<th>Phase 2 (4 months)</th>
<th>Phase 3 (6 months)</th>
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Reference


