



# Consumer benefit creation in online group buying: The social capital and platform synergy effect and the mediating role of participation



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## ABSTRACT

Drawing upon social capital theory and the platform synergy perspective from systems theory, this study develops an explanatory model to explain how social capital, platform synergy and active participation affect consumer benefits in an online group buying (OGB) context. Data gathered from OGB consumers through a large-scale online survey is used to test the hypotheses. The conceptual model was validated using the partial least squares (PLS) technique. The results show that (1) the consumer benefits created by engaging in OGB are contributed collectively by social capital (i.e., social interaction ties, trust, and value of sharing), active participation and platform synergy; (2) the social capital enhances consumer benefits by increasing consumers' active participation; (3) the OGB platform synergy has a positive impact on social capital, active participation and consumer benefits. Our findings highlight the important role of active participation in mediating the effect of social capital and platform synergy on OGB consumer benefits. The results provide insights into (1) how OGB platform developers can provide synergic functionalities that are compatible to OGB activities to enhance consumers' capabilities and the efficiency of OGB processes; (2) how OGB managers and initiators can leverage platform synergy to enhance social capital and the mediating role of OGB consumers' active participation in exchange resources within the OGB community, thereby leading to effective consumer benefit creation.

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## 1. Introduction

Today, the booming e-commerce and network economy has driven rapid development in emerging business applications and created noteworthy market opportunities that are characterized by the elimination of time and spatial limits (Bharadwaj et al. 2013, Shiau and Luo 2012). Various new styles of e-commerce business models have significantly changed our daily lives. Numerous modern firms have transformed their business operation paradigm from brick-and-mortar to click-and-mortar because of the opportunities created by online business (Wu and Hisa 2008, Zott et al. 2011). Traditional consumption styles have also changed. Specifically, the popular trend in online group buying (OGB) has experienced significant growth in recent years. The OGB websites proffer a social commerce platform in which people with the same interests in buying particular types of products/services can

interact to share information and knowledge and engage in social interactions (Jing and Xie 2011, Pentina et al. 2008, Song and Walden 2007). It is the nature of social commerce and the set of information and resources embedded within the specific interpersonal networks that sustain such OGB websites (Huang and Benyoucef 2013, Liang et al. 2012, Zhou et al. 2013a,b). This new type of web-based consumption has become popular with the emergence of OGB websites such as ihergo in Taiwan from 2007, Groupon in the US from 2008 and Juhuasuan in China from 2010.

In recent years OGB has gained significant prominence all around the world. For instance, the OGB market leader, Groupon (i.e., <http://www.groupon.com/>), had more than 500 markets in 44 countries in North America, Europe, Asia and South America with 39.5 million active customers in 2012 (Shiau and Chau 2013). According to Taiwan e-commerce YearBook 2013, the total transaction value of the OGB market is projected to reach NTD\$ 1340 billion (US\$44.76 billion). This OGB market is expected to steadily grow by an annual average of 14–15% over the next three years. In China the transaction scale of its OGB market grew to RMB\$ 21.6 (USD\$ 3.58 billion) billion with a growth rate of ten

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times from 2009 to 2011 (Qian and Su 2013). In addition, according to the China e-commerce market report 2013, the turnover of China's OGB market grew to RMB\$ 35.88 billion (USD\$ 5.94 billion) and the number of Chinese OGB consumers reached 71.23 million in 2013.

OGB is becoming more popular and successful in today's e-commerce environment (Edelman et al. 2011). Incentives for saving money are more likely to characterize the major concern of consumers' engaging in OGB (Kauffman et al. 2010a,b). In such an OGB community, online consumers with the same interests and value perceptions actively interact and establish trust with each other as well as share the resources embedded within the social networks that facilitated by an IT platform can jointly create their benefits. For instance, the OGB platform can accumulate large volumes of consumers and empower consumers' information processing capability to facilitate the efficiency of OGB processes. Thus, it is important to understand how the OGB platform facilitates integrated functionalities to help OGB consumers to take advantage of his/her own social networking resources and furthermore to share benefits with friends and aggregate buying power to gain better deals or large discounts through OGB. In addition, through the active engagement in OGB processes, consumers can thus enjoy hedonic shopping experiences and strengthen interpersonal connections (Tsai and Pai 2013, Wang and Chou 2014, Zhang et al. 2014, Zhu et al. 2010). Yet, given the rapid evolutionary e-commerce environments and complicated ties of social networks, the factors affecting consumers to actively engage in online buying groups are becoming a critical and multi-dimensional research topic. OGB is a new business model that has not been fully investigated. For instance, prior research focused mainly on issues regarding OGB shoppers' behavioural intention (e.g., Cheng and Huang 2013, Shiau and Luo 2012, Tsai et al. 2011) and the functionality and usage of group buying systems (e.g., Tan et al. 2007, Wang and Chou 2014, Zhang et al. 2014) as well as the influences on consumers utilitarian and hedonic benefits (e.g., Chiu et al. 2014, Lim 2014a,b, Shiau and Wu 2013).

OGB occurs in an online community where consumers with the same interests share information, resources and/or knowledge with each other via an OGB platform and exhort other consumers to participate to gain an expected price discount. In this context, social capital, active participation and information technology (IT) assets (e.g., OGB platform) are productive resources that play key roles in facilitating social interactions and OGB operations. However, there have been no studies that have systematically explored the impacts of social capital, active participation and platform synergy on consumer benefits including utilitarian, hedonic and interpersonal benefits. Although these critical factors are especially salient in the OGB context and crucial for OGB marketers seeking to create their own customers' benefits, our focus is on elaborating our understanding of how these factors can facilitate consumer benefit creation. Two research objectives are proposed to examine (1) how consumers' benefits are influenced collectively by OGB consumers' social capital and active participation and platform synergy; (2) how consumers' active participation mediates the positive effect of social capital and platform synergy on their benefits.

Given our objectives, we draw on the social capital theory and the perspective of platform synergy from systems theory to develop an integrated model explaining OGB consumers' benefit creation in the OGB platform. Our findings provide strong support for the integrated perspectives of social capital and systems theory in that social capital and platform synergy affect consumer benefits through OGB consumers' agency through active participation. Greater social capital increases consumer benefits by enhancing active participation and that platform synergy has a partial mediation effect on consumer benefits via active participation. These

findings have many implications for (1) how OGB platform developers can provide synergic functionalities that are compatible with OGB activities to enhance consumers' capabilities and the efficiency of OGB processes. (2) How OGB managers and initiators can leverage platform synergy to enhance social capital and the mediating role of OGB consumers' active participation in exchanging resources within OGB community, thereby leading to effective consumer benefit creation.

## 2. Theoretical foundations and model development

### 2.1. Online group buying

Online group buying refers to a kind of social or collective online shopping community where products or service items can be purchased at a significantly reduced price contingent upon a critical mass to buy (Cheng et al. 2012, Klein and Bhagat 2010, Shiau and Luo 2012). The main idea of OGB is to recruit online consumers with the same interests to leverage their collective bargaining power to negotiate with sellers for a better product price. At the same time, sellers can also create leverage to diminish the cost of recruiting customers (Kauffman et al., 2010a,b, Li 2012, Wang et al. 2013). The greater the number of aggregated consumers interested in a product, the stronger the bargaining power of an OGB group with sellers. Consequently, OGB enables sellers to reduce costs to attract consumers and enables consumers to purchase desired products more cheaply. The OGB business model characterizes a novel e-commerce shopping paradigm, where consumers can obtain products or services at a very low price due to demand aggregation and sellers can magnify their customer base and promote total sales performance.

The types of OGB processes can be either marketer-initiated or consumer-initiated transactions (Klein and Bhagat 2010, Sharma et al. 2008). In a marketer-initiated OGB context (e.g., Groupon), consumers are collectively engaging in a marketing exchange on the OGB platform which would provide each with a substantial discount on a per capita basis than obtainable individually from the same or other sellers. For example, sellers may provide substantial quantity discount rates for a product on its website exhorting consumers to aggregate a short-term voluntary buying group. If the number of consumers reaches or exceeds a pre-determined critical mass, all members of the buying group get the product at a superior price (Klein and Bhagat 2010). On the other hand, in a consumer-initiated OGB site (e.g., ihergo-Taiwan), the transaction processes are originated by the consumers' self-organizing to increase value for themselves in the marketing transaction (Bhagat et al. 2009). Consumers actively share information, resources and/or knowledge with each other via the social networking sites or collaborative online shopping tools provided by the platform (e.g., member blog, chat room, OGB bulletin board, discussion forum, etc.) and exhort other consumers to participate to gain an expected price discount (Zhu et al. 2010).

Take the ihergo-Taiwan (hereafter ihergo) as an example. It provides a well-established consumer-initiated platform for OGB and has more than eight thousand tribes (i.e., a collective buying group). Each tribe consists of one initiator and members. Among these tribes, 108 tribes had more than 1000 tribe members and the biggest tribe had 7153 tribe members in 2012. A tribe initiator can search for a good product, bargain with sellers to get a good price rate from sellers based on the quantity and call for OGB to recruit like-minded consumers. As for a tribe member, he or she can browse or search the discount information on the ihergo platform or even tribe webpages to find other consumers with the same interests and needs for specific products. More frequently in some cases, while deciding to participate in a specific tribe, a

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