



Analysis of the Five Forces Model in the Community Group Buying Industry and Development Strategies: A Case Study of Duoduo Maicai

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Abstract

Community group buying is a purchasing model initiated by group leaders in physical communities, leveraging online social tools for "online ordering + offline self-pickup." The year 2010 witnessed an explosive development of group-buying platforms, marking the embryonic stage of community group buying. It wasn't until 2016 that community group buying entered the public eye. Since 2020, the COVID-19 pandemic has altered consumer habits, propelling community group buying into a phase of explosive growth. By the year 2022, the market size of community group buying in China had reached the billion-dollar level, showcasing tremendous growth potential. However, the industry is currently facing various challenges. This paper focuses on the emerging industry of community group buying, using Duoduo Maicai as a case study. Through the application of the Five Forces model analysis, effective strategies are proposed to promote its healthy and stable development. This has significant implications for fostering industry growth and addressing livelihood issues.

Keywords

The Community Group Buying, the Five Forces Mode, sales channel

1. Community Group Buying Operational Model

Community group buying, focusing on fresh products as its entry point, capitalizes on the familiarity inherent in offline physical communities. Through online social networks, it attracts consumers with low prices and convenient services. Rather than overturning the underlying logic of traditional group-buying e-commerce, community group buying strengthens its social attributes within a specific geographical area, innovating sales channels fixed within specific scenarios. From an operational perspective, community group buying is a close integration of "scenario + group buying + social + C2B2B2C2 retail."

In this context, "scenario" not only refers to the physical community area but also includes the creation of online consumption scenarios, such as WeChat groups and mini-programs. The group-buying platform (S) centrally provides goods, supply chain, and after-sales service guarantees. It recruits individuals from the community, such as "group leaders" (B), who leverage their social abilities and trustworthiness to act as distribution channel managers. They are responsible for publishing pre-sale information, coordinating orders, and addressing issues within WeChat groups. The platform and "group leaders" collectively serve consumers directly and indirectly (C). The us-

er-demand-driven "sell to purchase" model reflects the characteristics of C2B retail.

Consumers can easily place orders through WeChat groups or mini-programs, choosing to have their preferred products delivered by the "group leader" or opting for self-pickup at a nearby location. This model ensures that consumers enjoy safe, reliable, cost-effective, and convenient services within the framework of the familiar community economy. In summary, the basic operational process of this model includes community targeting, recruiting "group leaders," establishing WeChat groups and determining pickup points, product information dissemination, WeChat group/mini-program group-buying pre-sales, order consolidation by "group leaders," unified shipment by the platform, community consumers picking up goods/"group leaders" delivering, and WeChat group feedback and evaluation.

2. Analysis of Porter's Five Forces Model in Community Group Buying

2.1 Existing Competitive Forces in the Industry

Currently, Duoduo Maicai and Meituan Youxuan remain at the forefront of the community group buying industry, maintaining stable dominant positions, with Taocai Cai and Xingsheng Youxuan closely following.

The segmentation strategies of these platforms exhibit differences. Duoduo Maicai pursues "ultimate cost-effectiveness," while Taocai Cai and Meituan Youxuan strategically position themselves around providing a "good user experience" in terms of products, fulfillment, and group leaders. They aim to maximize meeting users' demands for high-quality products at low prices.

Meituan Youxuan, while sharing similarities with Taocai Cai in product selection, boasts a more extensive range of product categories. It reduces product subsidies, controls the proportion of large items, collaborates with suppliers to test a point-based deduction system, explores PC processing warehouses, encrypts central warehouses, grid warehouses, and group points, expands the SKU range and quantity, and ensures fulfillment quality and user experience.

2.2 Supplier Bargaining Power

Duoduo Maicai's supplier channels primarily include franchisees, local suppliers, national sources, and brand collaborations. The bargaining power of suppliers significantly impacts the platform's pricing strategy for the products it sells. Duoduo Maicai offers a diverse range of products, mainly consisting of fast-moving consumer goods such as food and daily necessities. The bargaining power of suppliers varies based on the type of product.

For suppliers of vegetables, fruits, and daily household goods, the platform faces a multitude of suppliers, leading to a situation of homogeneity in the products and services provided. Consequently, the bargaining power of these suppliers is relatively weak. On the other hand, when selecting suppliers for high-end or branded goods, suppliers with higher market recognition have more significant bargaining power due to the greater acceptance of their products by end consumers. The platform has more flexibility in negotiations with these suppliers.

Achieving economies of scale through large order quantities and high delivery density is crucial for enhancing the platform's bargaining power in the upstream supply chain and reducing logistics costs. Duoduo Maicai, as a leading platform in the community group buying industry, employs a "sell to purchase" model that aggregates regional user demand. The platform's substantial order quantities attract the interest and attention of suppliers. This not only strengthens the platform's bargaining power in the upstream supply chain but also contributes to reducing inventory losses and achieving a near-zero inventory, providing a significant boost to the platform's overall efficiency.

2.3 Bargaining Power of Customers

The users of community group buying platforms are predominantly residents living within or near local communities. The products purchased often include essential household items such as food and daily necessities. Users exhibit limited purchasing power, and their consumption patterns are dispersed over time. Given the low entry barriers and the ease of replicating operational models in the community group buying industry, it is common for multiple platforms of the same type to concurrently operate within a neighborhood.

The prevalence of these platforms simultaneously entering a community is driven by the industry's characteristics, such as low entry barriers and easily replicable operating models. The majority of consumers are

price-sensitive due to the homogeneity of products sold across platforms. In their pursuit of cost-effective options, consumers frequently compare prices between platforms before choosing to place orders on platforms with higher subsidies and lower prices.

Additionally, some consumers may explore purchases on other platforms out of curiosity. Faced with the dual pressure of competition among similar platforms and external competitive forces, changes in consumer shopping habits, and the zero-cost, random switching of purchasing methods, even Duoduo Maicai, backed by robust capital, struggles to bind consumers and maintain loyalty. The lack of user stickiness is evident, highlighting that consumers dominate this consumption behavior, and their bargaining power is relatively strong.

2.4 Threat of Substitutes

Community group buying platforms face various challenges from emerging models in the fresh e-commerce sector, including traditional e-commerce, O2O platforms, front warehouse models, and the "in-store + home delivery" e-commerce model. Simultaneously, the coexistence of these platforms with offline retail channels such as supermarkets and local markets is expected to persist. Compared to other fresh e-commerce channels, community group buying platforms generally offer lower overall product prices than the market average.

Operating under a "pre-sale + next-day delivery + self-pickup" model, these platforms streamline the logistics and delivery processes, thereby reducing fulfillment costs, customer acquisition costs, and operational expenses to a certain extent. Offline markets and supermarkets struggle to meet evolving consumer demands, and their operational costs are relatively high. In comparison to the traditional promotion methods of local markets and supermarkets, community group buying efficiently reaches users through community interactions, messages in social circles, and platform notifications, prompting them to place online orders.

2.5 Threat of New Entrants

Due to the low entry barriers, easily operable marketing models, and replicability, community group buying platforms have been emerging rapidly. The outbreak of the COVID-19 pandemic in 2020 has further intensified the demand for online shopping, attracting various capitalists and major e-commerce players to enter the community group buying sector, thereby escalating industry competition. JD.com's community group buying platform, Jingxi Pinpin, officially launched on January 1, 2021. Leveraging JD.com's robust supply chain system and the support of its extensive product flow, Jingxi Pinpin not only achieved a diverse and high-quality product selection but also led the industry in precise inventory allocation, logistics resources, and cold chain equipment systems.

The establishment of a fresh supply chain and distribution service platform enabled full-process digitization and traceability. This not only reduces end-stage cost investments but also ensures the safety of food products, enhancing the overall shopping experience for users. Jingxi Pinpin's advantages in areas such as delivery and supply chain undoubtedly pose a significant threat to Duoduo Maicai. In the vast and competitive market, aside from formidable competitors like Jingxi Pinpin, Duoduo Maicai faces competition from local group buying platforms, necessitating proactive efforts in business optimization and the exploration of new growth opportunities.

In this challenging landscape, Duoduo Maicai must remain vigilant and seek continuous business improvement to stay competitive against strong contenders like Jingxi Pinpin and other local group buying platforms.

3. Strategies for the Development of Community Group Buying

3.1 Precision Operations

The competition in investment trend products typically involves three stages: the first stage is rapid expansion, the second stage focuses on operations, and the third stage is centered around big data (Hu, L., 2020). Having experienced the explosive growth of the initial expansion phase, the second half of community group buying clearly needs to secure victory through precision operations.

To begin with, it is imperative to precisely identify the target market. In the context of intense competition in first and second-tier cities, the "outer Fifth Ring" is gradually becoming a new focus for incremental growth (Qu, Y. R., 2021). To gain a competitive edge, adjustments in sales channels must involve further penetration, reaching into well-developed county-level cities, and tapping into the potential consumer base. Consumers residing in third and fourth-tier cities constitute the core demographic for mid-to-low-end community group buying platforms like Duoduo Maicai.

The age groups of 30-39 and 40-49 are pivotal for platforms like Duoduo Maicai in mid-to-low-end community group buying. Implementing a grid-based segmentation strategy within the target market, utilizing technologies such as 5G and big data, enables the profiling of consumers in the same city or community. Analyzing their online purchasing behavior, including the timing, frequency, and product preferences, allows for precise marketing strategies and optimization of product placement strategies.

3.2 Offering Differentiated Product Services

Community group buying operates as a typical stock competition business model rather than a traffic-oriented one, serving a fixed community population. The key to attracting repeat customers in this context lies in providing high cost-effectiveness, high-quality, and diverse goods and services (Geng, S. S., 2020). The ultimate goal of community group buying is to achieve a stock monopoly in community business by increasing repurchase rates through offering diversified content.

Tailoring strategies to the specifics of each region involves analyzing the strengths and weaknesses of the target market. By organizing activities such as new product trials and tastings, closely observing market responses, conducting market research on regional users, and aligning with regional advantages, suitable products can be recommended for sale (Geng, S. S., 2020). Introducing new products based on user characteristics, enriching product categories, and optimizing product combinations provide users with more choices, helping establish brand superiority, enhancing brand recognition, and cultivating user dependence on the platform.

Drawing inspiration from the successful practices of platforms like "Meituan Youxuan", encouraging leaders and users to independently innovate in sharing content such as home-cooked recipes and life hacks, supplemented with product links, strengthens the trust value of social connections, stimulating the desire to make purchases. Collaborating with other community businesses, such as property management, courier services, and housekeeping services, creates a comprehensive community business ecosystem, reinforcing competitiveness. By accumulating loyal users, breaking away from homogeneity, and avoiding price wars, platforms can emerge successfully.

3.3 Fundamental Quality Control

Conducting thorough investigations into upstream suppliers involves considering a range of factors, including product quality, service levels, geographical location, transportation conditions, and logistics. Supplier selection is based on a comprehensive evaluation of these factors to ensure the intrinsic quality of the products, addressing the root issues related to product quality. Additionally, implementing random sampling inspections on dispatched products helps identify and eliminate substandard products and weed out inferior suppliers.

Initiating and establishing operational standards for each stage of the supply chain in various product categories from the retail end is crucial. Creating a traceability system for fresh products helps control product safety issues rigorously, ensuring that consumers have access to fresh products with safety and quality guarantees (Cao, Y. L., 2021). Establishing third-party quality control organizations based on logistics points is essential. Statistical random sampling is employed to inspect products, and error analysis is conducted by comparing the product standard values in the product database. The findings are then presented in a testing report, which is selectively distributed to the source units and consumers, instilling confidence in the safety and quality of the products.

3.4 Enhancing Training for "Leaders"

The pivotal role of "leaders" in the distribution network of community group buying is self-evident, and the industry consensus is to vie for "leaders" with high commissions. Given that "leaders" are often part-time individuals, such as mothers or owners of convenience stores in the community, their focus, personnel qualifications, and management experience are often compromised due to involvement in multiple platforms for increased income. Therefore, there is a need to intensify the training of "leaders," providing independent contracts and imparting professional skills such as product promotion, merchandise marketing, after-sales management, and content creation (Cao, Y. L., 2021). This training aims to incubate top-tier "leaders," fostering a mentorship system where experienced leaders guide new entrants. Through hierarchical levels, the objective is to guide "leaders" towards professional and specialized development, contributing to the professionalization of their roles.

3.5 Optimizing Promotional Strategies

Enhance advertising and media promotion. Increase investment in advertising, utilizing multiple channels to pro-

mote platform ads. Emphasize the effectiveness of investment and choose advertising formats and media with a broad audience base, maximizing the promotional impact to attract more consumer attention and purchases. Utilize media such as posters in office buildings, residential hallways, elevators, etc., placing platform advertisements on vehicles with promotional ad wraps. Sponsor popular TV channels and place platform ads in suitable positions on high-traffic websites. Incorporate QR codes for the Duoduo Maicai mini-program on promotional materials to facilitate instant user engagement.

Collaborate with influencers on short video platforms like Douyin, leveraging their large following to promote "community group buying + live-streamed sales" activities, supporting poverty alleviation and agricultural assistance while fulfilling corporate social responsibility. Diversify marketing and promotional activities, automatically distributing new user coupons to first-time registrants with discounted prices or exemptions for their first orders. Encourage impulse buying and prompt decision-making through a login-based roulette wheel reward system, providing users with rebates within a 24-hour time frame.

3.6 Optimizing Tangible Display Strategies

To meet user demands for experiential scenes and physical shopping, Duoduo Maicai can transition from an online-only model to a combined online and offline operation. Strategically open physical stores equipped with display cabinets, refrigerators, freezers, oxygen pumps, and other necessary equipment (Peng, B. T., 2020). Organize the placement and display of products, such as vegetables, fruits, meats, poultry, eggs, and fresh seafood, based on their specific storage requirements. Arrange products neatly, with fresh and visually appealing items positioned prominently. Include product names and codes on external packaging for aesthetics and user convenience, attracting users who may not have purchased products through the platform to make in-store purchases.

Allow users to scan QR codes shared by group leaders in customer groups, providing information about specific products. Implement augmented reality (AR) and virtual reality (VR) technologies for an immersive experience of selected products within scenes that combine reality and virtual elements (Peng, B. T., 2020). Collaborate with professional advertising companies to design a logo that aligns with the company's cultural philosophy. Distribute clothing and badges featuring the company logo to group leaders, specifying that they must wear them while providing on-site services. Tailor the packaging design for different product types and imprint the company logo on external packaging to better promote the corporate culture.

4. Conclusion

Community group buying, as a novel sales channel, holds tremendous development potential. This study, utilizing Porter's Five Forces model and taking Duoduo Maicai as a case study, reveals that the platform faces weaker bargaining power from suppliers. However, buyers possess strong bargaining power due to intense industry competition and a significant threat from substitute products. To maintain a competitive edge and promote the healthy development of the industry, Duoduo Maicai should focus on detailed operations, offer differentiated product services, enhance the training and management of "group leaders," and proactively respond to policy calls while leveraging the advantages of being a market leader. These measures are essential for sustaining the platform's advantageous position amid competition and fostering the overall growth of the industry.

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