

A Study On Online Discount Couponing Industry In India

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ABSTRACT

There has been a lot of buzz and activity in and around the discount couponing industry in India for the last couple of years. Though couponing has already taken the form of a revolution in the developed world, the developing nations in the likes of India are yet to catch up with the development. In this connection, the paper is an attempt to study the Indian discount couponing industry in terms of its modus operandi, competitive structure as per Porter's framework, business potential and growth. The results of the primary survey conducted in the paper reveal that the individuals' attitude to use discount coupons was skewed towards weekends and special occasions rather than on daily usage. It was also observed that the couponing sites have target audiences across geographies, ethnicities, gender and generations. Thus, the manufacturer of products and services are using the new success phenomenon of selling distress inventory to value conscious consumers. As the industry is in the stage of nascence, therefore, the players also need to map their own success stories rather than following a proven track.

Keywords: Discount Couponing Industry, E-Commerce, Porter's Five Forces Model

INTRODUCTION

Internet and telecommunications have changed the face of communication and business processes globally in the 21st Century. For a developing economy like India, rapid penetration of the internet and telecommunication into the masses has led to faster growth in all spheres of life, especially in business development, communication, education and infrastructure, among others. E-Commerce, which is a major outcome of this development, is the buzzword of the online business revolution. There seems to be a positive relationship between the level of internet development and potential E-Commerce development (Curry et al., 2002; Wang and Hou, 2003).

According to the ITU [1] database of 2007, the developing nations have already overtaken the developed world in terms of the number of internet users. Therefore, it can be assumed that the scope of online businesses is increasing rapidly in the developing nations. India, being the second fastest-growing economy after China, has definitely been impacted due to this development. Studies reveal that as telecommunication infrastructure development bears a direct impact on the development of E-Commerce, and with increased penetration of latest technology enabled mobile phones in the Indian economy, more and more consumers are accessing the internet through their mobile phones, tablets and iPads (Bhatnagar, 2005; Purohit and Purohit, 2005; Ernst and Young, 2011).

One of the recent developments in the E-Commerce space is the introduction of discount couponing. Discount coupons can be defined as the price offs offered by E-Commerce portals to the user to avail the discount on a wide range of products. The major discount couponing companies in India are Snapdeal, DealsandYou, Buzzintown, Sosaasta, Koovs, Dealivore, Taggle and Mydala. The main motive behind these discount coupons is to sell out the distress inventories in various services and products.

With this background, the paper attempts to have an in-depth study of the discount couponing industry in India. In other words, the major objective of this study is to have an insight into this newly developed discount couponing industry in India. The study is expected to bring into focus the new avenue of buying pattern among the consumers in India.

REVIEW OF LITERATURE

Research on the issue of discount couponing industry has proliferated recently. The major attributes of such research is

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that it is mostly qualitative or descriptive in nature. Globally, the online shopping industry is growing at eight to ten per cent annually; however, its growth in India is approximately 30 per cent annually (Sharma, 2011). In 2010, the volume of E-Commerce market in India was worth around ₹ 1,200 crores. By the end of 2012, it is predicted that the 3G subscriber base in India will reach 41 million, and the 3G-enabled handsets will dominate the device category with 80 percent market share [2]. The use of financial services by the middle class has also increased significantly. Since the growth of credit and debit cards has ballooned over the last several years, this has had a strong impact on the growth of E-Commerce in the country. According to IAMAI [3], India's E-Commerce market was expected to grow to ₹ 46,000 crores in 2011, up from ₹ 31,598 in 2010. One of the probable reasons for this is the increase in disposable income of the middle class section. The rise in this type of group buying has been propelled by the increase in spending power of the masses.

Amin and Amin (2010) argued that online shopping has grown in India like a mushroom, and it is well accepted for different products and services like computer products, automobiles, travel products, investment products, clothing, flowers, books and music. The wide-spread use and reasons for increased online shopping includes technological advances, changed perceptions of the corporate world, convenient and customized offering by companies, availability of better navigation software as well as various search engines.

Nair (2011) explained the concept of group buying as where different websites offer products and services at a significant discount so long as the deal has a minimum number of buyers. Though it was an unknown concept a year ago, nowadays, it has become quite well-liked among the affluent middle-class families. At present, there are around 20 group buying sites in India, and almost half of them are operational in multiple cities. However, a majority of the sites focus on a single city with a hyper-local model. Interestingly, the sites are mainly looking at India's rapid growing retail sector, which became almost double between 2005 and 2011. It has grown from ₹ 7,700 billion to ₹ 13,542 billion during the last six years. International companies like Google, Groupon and Living Social have also started investing here. According to industry experts, a lot of consolidation will take place in this sector in the next few years. There is a possibility that the smaller players will be wiped out or will be acquired by the leaders.

Jai et al. (2011) mentioned about customers' preference for discount coupons. According to them, the customers want to avail these coupons because they get a discount of upto 90 per cent of the maximum retail price (MRP) of the product. The services are mainly in the area of restaurants, hair care, beauty and grooming services, among others. Sometimes, the customers also get upto 90 days to redeem the coupons, and at times, they get additional coupons as well on referrals. On the other hand, merchants use this facility of discount couponing because they are assured of a steady customer flow, and they need to worry less about distress inventory. The discount couponing sites, which act as an intermediary between the customer and the merchants earn a commission on the deal, and hence, build on revenue generation without the physical ownership of the product or service.

An overview of the discount couponing industry in India is presented in the next section.

OVERVIEW OF THE DISCOUNT COUPONING INDUSTRY IN INDIA

This section is divided into three parts. The first part gives a brief idea about the discount couponing industry in India followed by the working of discount couponing websites in the second part. In the last part, the mode of revenue generation is discussed.

❖ **India's Discount Couponing Industry** : The concept of discount coupons is gradually becoming widely popular in India, though it is in a stage of nascence. It is one of the fastest growing E-tailing [4] businesses in India. The most effective way of promotion in this industry is Word of Mouth. Satisfied customers act as evangelists and propagate the concept among their peers. The awareness is much more among individuals who have access to debit or credit cards and net banking as any of these facilities is required to complete the transaction process.

Snapdeal, the leader in the industry, is controlling 70 per cent of the market share (Julka, 2011). The product portfolio and pricing strategy of Snapdeal is unique in nature. In general, the couponing industry caters to the service sector, wherein the provider of discount coupons need not own the inventory of the products. However, the concept of including products in the offering basket was first launched by Snapdeal, which is a radical stride in this sector. Therefore, the other players in the industry also tried to follow the suit.

Since the barrier to entry is low in this industry, it has attracted a large number of players. With many new entrants, it became essential for respective brands to differentiate themselves from the rest. In other words, product differentiation

plays a key role in the industry.

❖ **Business Model of Discount Couponing Websites :** Each site hosts a series of exciting offers pertaining to a particular city. The users are provided with various discount offers across retailers of the city. This gives customers the choice of exploring the city in a much easier and exciting way in terms of products and services just by using a computer or operating a smart phone. The main idea behind these offers is to sell the excess inventory through discounts. The discount coupons are much more popular in the service industry over product industry. This is due to the fact that services are perishable, and cannot be stored for future use. Each deal is active for a limited period of time, so there is a sense of urgency among the customers. The problem of variable demand over weekdays as compared to weekends and holidays or off season as compared to peak season can be addressed effectively by profitably selling discount coupons (Saha, 2011).

The consumer has a wide range of offers to choose from, ranging from restaurants to spas and merchandise to movie tickets. If the registered user is interested in the deal, the individual needs to buy the discount coupon and fill in few details, such as, required quantity, email address, contact details and mode of payment. The user can also avail an additional discount by using a 'promo code' or promotional code. In the next part, the user is taken to the payment gateway, and once the payment is made, the transaction is complete. The site sends a note of confirmation, and the unique coupon number is sent via email or short message service (sms) or both. Now, the customer can walk into the retailer and avail the discount by redeeming the unique coupon which he purchased from the discount website. Referring friends enables the user to earn additional discount coupons for future use. This is an extensive practice in the industry for new customer acquisition.

❖ **Pattern of Revenue Generation :** The moment the site sells a 'deal' in each of its supported cities by offering significant savings for local restaurants, service providers, gymnasium activities and memberships, it gets a commission from the parent company. As revenue flows in, most of these are converted into pure profit because the company does not hold any physical inventory and its customer acquisition costs are also very low. By combining the social web and virility with hard-to-replicate deals, the companies have created a network-effects business for commerce that makes the model highly attractive. With the price and value savvy Indian consumer, the option to compare different products on various parameters can really improve the buying experience and result in better conversions, and thus look for higher margins in the long run.

❖ **Funding Model :** Majority of the e-commerce sites are start-up ventures. Since this industry is often referred to as technology oriented high growth industry, therefore, there is always a higher potential return on investment. Interviews of some of the entrepreneurs of this industry revealed that as this industry has higher risk, venture capital firms and angel investors are not much supportive of these companies during the beginning of their operations. However, for expansion, funding is often aided by venture capitalists. Therefore, bootstrapping [5] is a rampant practice in the industry. Once a sustainable customer base and brand image is built up, the venture is susceptible for acquisition by a larger player, or it may merge with another site in the discount couponing space.

❖ **Profit Mechanism :** According to economic theories, margin or profit (interchangeably used in the paper) is a function of price, customer value and operational cost. However, it can vary across products and services. The margin can also depend on the categories of the products. For example, it is well known that products such as electronics, beauty and health services, food and beverages, etc. have a much higher and better margin than that of other essentials. In case of the discount couponing industry, the equation is much simpler as compared to that of products. An example is provided to illustrate the mechanism that works to get a good margin or profit. Suppose the maximum retail price or MRP of a restaurant buffet is ₹ 2000. Now, a couponing website offers a discount of 90 per cent for the same. Therefore, the customer value generated is ₹ 1800. However, the customer buys the coupon by paying only ₹ 199. This is a classic example of psychological pricing, wherein the customer perceives the value worth ₹ 2000 in lieu of ₹ 199 only. Now, the discount couponing site will bag in 10 per cent to 30 per cent of the customer value, which is generated (here, it is ₹ 1800). Therefore, the margin depends on the popularity of the category, demand pattern, competition and exclusivity. For products, the discount is generated by sacrificing on the manufacturer's warranty. The manufacturer's warranty is replaced by the seller's warranty. Manufacturer's warranty is generally for a period of 24 to 36 months, whereas, the seller's warranty spans for a period of generally 6 months. Seller's warranty promises a repair and back service as compared to product replacement in manufacturer's warranty. Thus, value is generated in the supply chain by tweaking

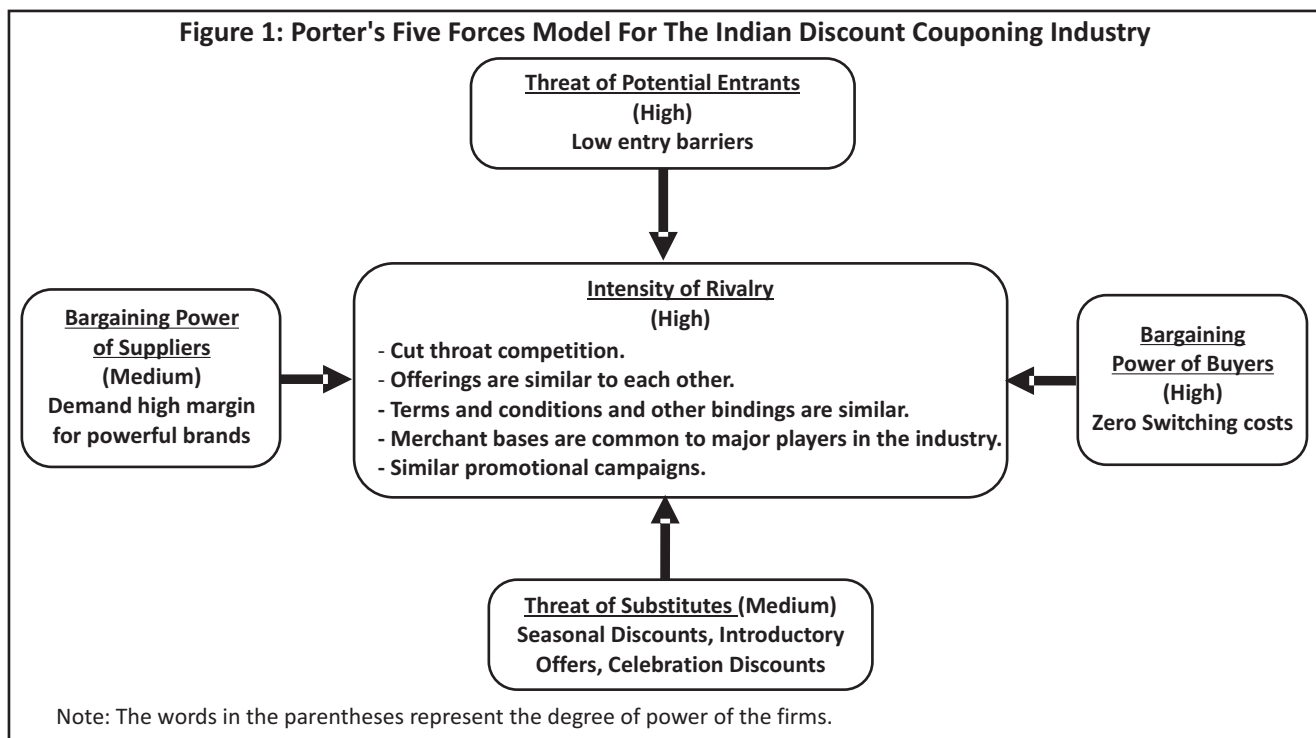
after sales support. This value is passed on to the customers in the form of discounts. As the couponing website company is not holding any inventory, the ownership of product rests with a third party trader. The manufacturer is also not in line of the discount couponing as it will erode the brand equity in case of such an association.

Now, to understand the competitive structure of the industry in a better way, Porter's Five Forces Model is applied in the next section.

APPLICATION OF PORTER'S FIVE FORCES MODEL IN THE DISCOUNT COUPONING INDUSTRY

More than three decades ago, Professor Michael Porter suggested some driving forces, which could help to analyze the attractiveness of any industry/sector as well as its competitive positioning. This framework is widely used and is known as 'Porter's Five Forces'. Professor Porter invented this model in 1979, and this was published in his book in 1980 (Porter, 1980). Whether the business is service oriented or physical goods, there are always competitive forces in any competitive business environment. This holds true also for the discount couponing sector in India. The model attempts to address key strategic issues in a wider scope. Many of the issues mentioned in the model, including the forces and the management of those forces, are relevant to the discount couponing sector as well as any other service-oriented business (Gabriel, 2006). The results, which will be obtained by the application of this model, should be given the value of the time of the analysis and that a continuous review is necessary in order to avoid being myopic or obsolete with the results. Figure 1 explains the application of Porter's Five Forces Model with respect to the discount couponing industry in India.

The main features of the model related to the discount couponing industry in India are discussed further in this section.



❖ **Intensity of Rivalry** : In traditional economic models, competition among rival firms drives profits to zero. However, competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. This is applicable for the discount couponing industry also. There is intense rivalry between the firms and there is not much of a difference in the offering from one portal to another.

❖ **Bargaining Power of Buyers** : The power of buyers is the impact that customers have on a buying process of the

products. In this industry, the cost of a switch over from one portal to another is absolutely free because there are no registration charges. Therefore, the level of brand loyalty is low and brand switching is practiced rampantly by the users. So, the buyers have a very high bargaining power.

❖ **Bargaining Power of Suppliers** : In the discount couponing industry, though sometimes the powerful brands try to demand higher margins on the deal, but the problem for them is they also have the motive of selling their inventories as quickly as possible. Thus, it can be inferred that the bargaining power of the suppliers is medium.

❖ **Threat of Potential Entrants** : It is not only incumbent rivals who pose a threat to firms in an industry, there is always a possibility that new firms may enter in the industry and increase the competition. Since there is not much of initial investment required, therefore, for potential entrants, the entry barriers are very low. The E-Commerce need not hold any physical inventory of goods. The risk element is also reduced in this format. This makes it an attractive avenue for investment and thus, results in a clutter in the industry.

❖ **Threat of Substitutes** : A product's price elasticity is affected by substitute products, i.e., as more substitutes become available, the demand becomes more elastic since customers have more alternatives. The competition engendered by a threat of substitutes comes from products outside the industry. Seasonal discounts by established retailers like end of season sale, independence week sale, etc. is sometimes considered as a threat to the discount couponing industry.

To access the current situation in the discount couponing industry in India, a small survey was conducted in Bengaluru city. Though the survey was limited to a single city, but it can give an idea about the knowledge among the people about this industry.

THE SURVEY

The data was collected from a targeted segment in Bengaluru and its suburbs between the age group of 18 - 32 years to check the awareness about the discount coupon sites. This particular age group was taken into account for the survey because previous studies by other researchers revealed that globally, the trend is that majority of the online shoppers fall in this age category (Harn et al., 2006; Rastogi, 2010). Bengaluru was chosen for the study because it is considered to be one of the most happening cities in India as it has become a major hub for techies. The time frame of the primary survey was between April and June of 2011. A convenient sampling technique was followed with the criteria that the respondent should at least have a credit or a debit card or have an access to net banking facility because either of the two is the minimum requirement for making any transaction in the discount couponing industry. A pilot survey was also conducted among 10 people to pre-test the validity of the well structured questionnaire. The sample size for this survey was 200 respondents, and the questionnaires were collected through individual interactions only.

ANALYSIS AND INTERPRETATION

The observations were based on the data collected for the survey, which was an integral part of the methodology adopted. To begin with, the demographic profiling of the respondents was done. Occupation and age were chosen as the major demographic variables because they reflect the operational variables like buying behaviour and frequency of discount coupon usage. The majority of the respondents were students (36.5 per cent), followed by employees (33 per cent) and self-employed (14 per cent), among others.

The discussions with the respondents and perusal of the data and documents revealed some important observations:

❖ It was observed that 77.9 per cent of the respondents had a tendency to shop online, and they were aware of the discount couponing industry.

❖ Respondents having access to net banking facilities comprised of 69.2 per cent of the total respondents, while 80.8 per cent of them had access to either credit or debit cards.

❖ Among all the respondents, only 10.6 per cent of the respondents used discount coupons on a daily basis. Interestingly, around 37.5 per cent of the respondents used the coupons on special occasions.

❖ However, though a major chunk of the respondents were reluctant in using the discount coupons, but they had the willingness to use it during the weekends.

❖ The statistical analysis in Table 1 shows that the attitude to use these coupons was skewed towards weekends and on special occasions rather than on daily usage.

Table 1: Chi Square Test Statistics		
	Occupation	If you use Discount Coupons, What is the frequency of usage?
Chi-Square (a, b)	22.231	32.096
Df	3	2
Asymp. Sig.	.000	.000
a 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 26.0.		
b 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 34.7.		

❖ Occupation turned out to be the determining variable in the frequency of discount coupon usage at 95 per cent level of confidence.

In short, the survey revealed that a small portion of the sample was using the discount coupon on a daily basis. However, it is also noticed that this usage of the coupons increased significantly during the weekends. It is observed that a majority of the respondents were aware of this discount couponing industry.

GROWTH PROSPECTS

It is well established that the Indian consumers are very quite value conscious. Therefore, a majority of the consumers always looks for the price reductions or discounts offered in different products. Again, the service industry in India is mushrooming. However, there also exists high levels of distress inventory. As most of the services are perishable, so the discount coupons can act as a savior to the service providers. In other words, the discount couponing companies act as a bridge between discount-looking customers and sellers who wants to sell off their unwanted inventories. Hence, discount coupon providers bag a certain percentage of the deal as a commission, without any physical ownership of the product or service infrastructure. Thus, it is a win-win situation for the trio. This forms the basis of performance marketing in which the merchants allow the discount coupon companies to make money, when they themselves make money. With the global recession and inflation affecting budgets, the discount couponing industry can take advantage of the situation as people are inclined to save in every possible way.

MAJOR CHALLENGES

The major challenge a discount coupon company has to counter to operate effectively is as follows:

- (a) The relation with the merchant stores will bear a detrimental effect of the sustainability of the brand.
- (b) For a customer, switching costs are zero. The customer just needs to register online with the new discount coupon provider to switch over.
- (c) The direct marketing strategies often offend the target customers as it may be treated as spamming the mailbox or flooding the inbox of mobile connections.
- (d) The veracity of the sites in terms of anti - phishing credibility is a matter of question.
- (e) The availability of internet and online payment facility is a must for a prospect to become a customer.

CONCLUSION

The Indian Discount couponing industry is at a nascent stage. A lot of consolidation is expected to take place in the industry. During the times of economic blues, a lot of unsold inventory exists in the market place. As services are perishable in nature, so the service provider is willing to offload the distress inventory at rock-bottom prices. The players in the couponing business must take advantage of the recessionary times so as to establish an entrenched position in the industry. The peripheral infrastructure development in the likes of internet penetration, e-banking will have a pivotal role in shaping the future of the industry. The availability of extensive and current information is the

most important factor which is driving Indian customers to online shopping. In the physical market, information gathering is a costly and time consuming affair. This proves to be the competitive edge for online discounting over offline channels. However, the concern about security is a major hindrance to online discount couponing in India (Banerjee et al., 2010). The survey observed that a majority of the respondents were aware of this discount couponing industry. However, the study was conducted based on the data acquired from the residents of Bengaluru only and the findings may not be applicable to other cities of the country because of socio - cultural differences.

END NOTES

- [1] ITU (International Telecommunication Union) is the United Nations specialized agency for information and communication technologies (ICTs).
- [2] Accessed from <http://www.telecompaper.com> on November 10, 2011.
- [3] IAMAI implies Internet and Mobile Association of India.
- [4] E-tailing or electronic retailing is the selling of retail goods through the internet.
- [5] A situation in which an entrepreneur starts a company from personal finances or from the operating revenues of the new company. The financing can also be provided by friends and relatives.

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