

Thrill of the deal

Why you can't resist that group buy

DAHLIA KURTZ, SPECIAL TO QMI AGENCY

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Why are so many people enjoying the group buy? According to marketing professor Laurence Ashworth, "people often think of a discount as a gain. They feel they are gaining money." (Shutterstock.com)

Would you like to indulge in a luxurious scalp massage treatment, haircut, colour and style at a high-end salon you typically could not afford? What if you could get it at 90% off? All of your friends are buying it. Quantities are limited. You must decide.

True, you don't need it. But, at \$35, it is a great deal, and you don't want to miss out. All you have to do is click "Buy Now."

What do you do?

Laurence Ashworth, a marketing professor at Queen's University, thinks most people would grab it.

"People often think of a discount as a gain. They feel they are gaining money. And that can lead you to make irrational kinds of decisions."

Today, group buying sites are banking on this - literally.

An ever-growing number of online destinations offering discounts generates hundreds of millions of dollars. Though numbers are not readily available in Canada, according to eMarketer.com, the industry brought in over \$870 million in the United States last year, and is expected to hit \$1.25 billion in sales by the end of 2011.

Of course, this also saves the consumer money. The biggest deal of these sites, Groupon, claims to have more than 40 million subscribers who have saved over \$800 million so far.

Also known as social buying, group buying has a simple and simply effective model.

A website promotes a too-good-to-be-true discounted item from a local business. A minimum number of people must click to make the purchase. Once that threshold is reached, the deal is on, and more people buy in until quantities are sold out, or until the fleeting time limit runs out.

"Simply by checking your email, you may find a deeply discounted service at your favourite spa or book your next vacation at a five-star resort that you may have never been able to afford previously," says Mike Ambrose, president of StealTheDeal.com, Sun Media's group buying partner company. "If today's deal isn't really for you, you need only wait 24 hours before you're presented with a brand new deal."

You can also rely on your friends.

"Specifically, [group buying sites] reach out through online advertising and the power of referrals - the tendency for people to inform others about great deals - particularly if they benefit from the referral," says Steven Ekstein, the co-founder of cheep.ca, an aggregator of social buying sites, which provides a particular city's deals in one place.

So not only do these coupons trend, but they have also become trendy.

While some may have looked at the Entertainment Books as the cheapskate's tool, social buying has changed society's view on discounts.

"This is primarily due to the new medium in which they are delivered, and the fact that an abundance of cool deals are being offered through this format," says Ekstein.

The psychology behind this practice is key to this newfound cool-factor and thus its efficacy.

"It's kind of like the perfect storm psychologically," says Ashworth.

Once you have a friend who does something, Ashworth explains, that legitimizes the action for you in a subconscious way. Accordingly, deal sites have established a pretty good set of conditions for ensuring they continue a certain set of behaviours.

By leveraging the Internet and social networks, a herd mentality is used to establish social norms. And that herd mentality is one that goes viral, because of the way group buying sites have set up their incentive system.

For instance, by instituting a minimum policy, consumers are pushed to encourage friends and their social networks to join the deal. Even if the minimum is already reached, consumers are still pushed to encourage others, as they are also rewarded for referrals, with a point system that could pay for future purchases.

This is word-of-mouth - on steroids. So how do you avoid making impulsive decisions?

Ashworth recommends asking yourself one question before you click "Buy Now."

For the final cost of whatever it is I'm buying, what else could I do with that money?

And remember, there will always be more deals in the group buying sea.

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