

Analysis of Community Group Purchase War Based on the Perspective of Government

Yuling Hu

School of Finance, Jiangxi Normal University, Nanchang, 330022, Jiangxi, China

Abstract: In recent years, the rapid development of community group buying, many domestic Internet giants with capital into the community group buying, a variety of group buying platform emerged. We seize business opportunities, rely on low prices and huge subsidies to seize market share, cultivate user habits. According to the Internet giant past routines, the community and will be the same big probability evolution paths of group purchase: the platform to subsidies to woo consumers, "their" drainage, guest, in turn, expand market share, and then the big fish eat small fish, constantly acquisitions, winner-take-all, such as a giant monopoly in certain areas, users become fish on the chopping board, Michael Jackson. Internet giants into the local community group purchase, fresh supply market competition has brought a huge impact on the stability of the market, will impact on the traditional supply chain. The community group buying model is not only a simple distribution service, but also a reconstruction of supply channels in a certain sense. Therefore, the competition between it and the traditional model inevitably leads to a life-and-death game of "who goes in and who goes out". Because of this, many people believe that the community group buying is competing with the vegetable market and small vendors for rice bowls. Indeed, such concerns are not redundant, relative to the giant solid capital, vendors and homes "small agriculture", behind the game ability is weak, can not stand capital the impact of the savage "price war", this kind of competition is extremely important, wide, interlock deeper influence to the social stability and broader social livelihood of the people. The same is true of group buying, online car-hailing and bike-sharing platforms. Therefore, in this case, the government should let the "visible hand" and "invisible hand" hand in hand, strengthen anti-monopoly and prevent the disorderly expansion of capital, stable market competition order, which is related to the people's "vegetable basket" battle, is crucial.

Keywords: community group purchase; the government; internet platform; antitrust

1. Case Introduction

In 2016, in Changsha, Hunan province, a then-unknown team, from the earliest QQ group selling fruit, established a company called "You, Me, you", targeting the community as the entrance to the family

consumption scene. The model is very simple: recruit community owners or community owners to become the head of the community as a unit, and create a wechat group of community owners controlled by the company; The leader releases and promotes group purchase products in the group, and consumers place orders through small programs; The next day according to the order quantity distribution to the leader of the community, consumers to the leader pick up the goods, the leader according to the sales of commission. This is the first time to truly define the community group buying, relatively mature business mode, community group buying mode is a lightweight asset route, giving people the impression that as long as we can recruit the "leader", pull and build several wechat groups, anyone can play their own attitude on the platform, and easy to copy and expand. As the retail end of the city, community stores connect one residential area after another like capillaries, and they are the closest place to consumers. At present, the Internet platform only uses 10% of the commission to replace the distribution, distribution, shelf and private area traffic of small stores [1]. If pinduoduo and Meituanlian recover the 10% of profits, the leaders may directly choose to direct the existing users to direct mail and direct distribution business. Therefore, the competitors of community group buying are not only peers, but also cooperative shops themselves, supermarkets and vegetable markets nearby [2].

The low threshold and no barriers make the industry competition in full swing, but it is not easy to play community group buying. Compared with other daily necessities, fresh food is a very "delicate" category. The platform needs to expand the product inventory richness, but also to ensure the freshness of products. In addition, the platform's control ability of supply chain is also tested, whether it is in the face of supplier's order purchase or the distribution of goods to the self-pickup point. Fire down several rounds of competition, therefore, including stay turnip, adjacent to the adjacent one, you and me you and squirrel spell spell midfield players not to stumble, is the final out, or, by the person to stay above such as optimization, ten hui group and with routine life head platform continues to hard to find, and even the external capital for community group also cold many, Among them, the financing amount of community group buying in 2019 shrank by nearly half compared to the same period last year [3].

The chaotic state of the industry was quickly cleared up

with the outbreak and spread of COVID-19 in 2020. During the epidemic, the demand to buy vegetables was forced to online, and community group buying unexpectedly became a daily necessity for residents, resulting in a sharp increase in the number of orders. However, with the success of epidemic prevention and control in China, the sales of community group-buying platforms have increased instead of falling, and the sales data of major platforms have continued to rise. Many enterprises that had previously suffered losses have turned into profits. All the vectors point to one indicator: community group-buying has returned to the C position. The corresponding physical mirror is that not only the community group purchase in Hunan, Hubei, Sichuan and other second - and third-tier cities, but also the WeChat group purchase trend in Beijing, Shanghai, Shenzhen and other first-tier cities.

So while traditional community group-buying platforms are overjoyed by the rise of the industry, they are also alarmed by the presence of tech startups on their turf. Up to now, in addition to Didi and Meituan respectively established "Orange Heart Optimization" and "Meituan Optimization" two major hit products in the field of community group buying, Pinduoduo, which is extremely good at group buying business, has also formed a strong "Duoduo Buy dishes" phalanx under its name. At the same time, Alibaba's "Taobao to buy vegetables" business has also been online, JINGdong JINGdong preferred to press the restart button, and Bytedance and Kuaishou are reported to enter the game [4].

Internet giants step into the community group buying arena in unitary fashion. In addition to directly expanding the number of industry platforms to more than one hundred, it is more important to make the community group buying camp and formation have a deep fission and restructuring from the supply side. On the one hand, the industry competition is no longer the arm wrestling and confrontation between start-up companies, but the wrestling and competition of mature enterprises, and all are equipped with unique skills, each is not short of money, business experience is equally equal, it is completely unrealistic for any side to try to put the other side down quickly in hand-to-hand combat; On the other hand, the business hosts of community group buying are often intertwined and connected with newcomers in the industry. For example, Tencent has invested in Xingsheng Optimization, Ali has invested in Huituan, JD has invested in Meijia Maicai, and Xingsheng Optimization is a shareholder of Meituan, Pinduoduo and Didi. This very clear team mode will make the community buying war become more subtle, not only positional warfare will continue to upgrade, and protracted war will become normal [5].

For e-commerce or investors, low-price dumping competition is not a good thing, there is a lot of risk. The history of marketing tells us that money burning games inevitably produce a lot of losers, usually the more money burning, the more noisy, the more losers, the loser. In the end, a lot of enterprises will not be able to

withstand, faded, leaving a chicken feather. The community group-buying market is in danger of repeating the lessons of costly subsidies and low-price competition that have been taught in the past, such as bike sharing and ride-hailing. In fact, the market has to the community group of price war made the immune response, Hebei Cangzhou Huahai Shunda cereals, oils and spices co., LTD., Henan Luohe City Purple Forest WeiLong trade co., LTD., Shanxi Vinegar Industry Co., LTD., and other suppliers have issued a notice to distributor, said it would stop supply "serious low price" group-buying community platform [6].

At present, the community group purchase low price dumping and other problems are still in the initial stage, controllable stage, market supervision force timely intervention, can achieve better market effect and social effect with lower administrative cost [7]. If we wait until the unfair competition of community group buying develops to a certain extent and produces harmful consequences before we intervene, we need to pay higher administrative and social costs [8].

2. Case Analysis

But in the real economy, competition will lead to the emergence of concentration, and even monopoly. The existence of monopoly will greatly reduce the efficiency of market allocation of social resources. In order to prevent such consequences, the government should take corresponding policies and measures.

Monopoly enterprises will bring the following disadvantages:

2.1. Deadweight Loss

Assume that a product has a downward-sloping industry demand curve D and a horizontal industry supply curve S (also an industry marginal cost curve, reflecting the constant returns to scale of all enterprises, its marginal cost is equal to the average cost and does not change with the change of output).

Let's assume the industry is perfectly competitive. So its price P_c and output Q_c are determined by the intersection C of the demand curve D and the supply curve S . In this case, the size of consumer surplus obtained by all consumers is ΔACE area. The economic profit of this industry is zero (normal profit only).

Now suppose the industry is controlled by a monopoly. The monopoly will pursue the maximum profit so that $MR=MC$, as shown in the figure, the price and output of the monopoly will be set at P_m and Q_m respectively. In this way, the price of a monopoly (P_m) will be higher than that of a perfectly competitive market (P_c); It can get excess profit, its size is the area of quadrilateral $FBGE$; Its yield (Q_m) is lower than that under perfect competition condition (Q_c). The consumer surplus would be reduced to ΔABF . This shows that the monopolies hurt the interests of consumers by raising prices and restricting production. More importantly, the reduction of consumer surplus exceeds the excess profits of the monopolists, thus reducing the total economic welfare benefit of the society. The amount of reduction is equivalent to the area of BCG ,

which is called deadweight loss in economics.

2.2. Rent-Seeking

Rent-seeking behavior refers to that monopolists are always willing to pay a certain price in order to obtain and maintain their monopoly profits. As long as the cost is less than the monopoly profit, it can get monopoly benefits from it. The use of resources to seek and maintain monopoly profits is called rent-seeking. All monopolistic enterprises will have interest drive to engage in rent-seeking activities [9].

Rent-seeking behavior will lead to two consequences. First, it will cause the loss of social and economic welfare mentioned above, because it consumes social resources and is an unproductive activity that does not increase the quantity of products and services produced, so it does not create any new value. The amount lost should in theory be smaller than monopoly profits, but competition among so many rent-seekers makes it possible that the total loss could eventually exceed monopoly profits. Second, it will lead to low efficiency and injustice in government work [10]. Rent-seeking behavior may make some government officials become tools for rent-seekers to seek personal or individual group interests, so that the government cannot play a correct role in the allocation of social resources.

As in this case, Internet platforms are willing to spend a lot of money using the well-known traditional formula of subsidizing traffic, and one very important reason is that it is completely profitable. At present, the popular products on the community group buying platform are mainly vegetables and fruits and other fresh products, which are not only just needed by the public, but also purchased frequently and are the most easy to drain. On the other hand, according to the report released by iResearch consulting, in 2023, the market transaction scale of China's fresh electricity business industry is expected to exceed 800 billion yuan, in the research report of Everbright Securities, the community group buying platform can achieve 3% net profit, so visible returns for any Internet giants have an irresistible charm.

3. Conclusions and Recommendations

3.1. Summary

In fact, the price war for temporary market share is false, quality goods and services in exchange for long-term reputation is real. Instead of selling at a low price, community group buying companies should think more about how to keep customers and turn them into loyal fans, which can not be achieved by simply relying on low prices. In the long run, what Internet platform enterprises need to carry out community group-buying business is supply chain and service. Only by effectively connecting both ends of supply and demand, reducing commodity costs and improving circulation efficiency, can consumers get real benefits.

Internet platforms besides should insist on fair competition, also should take on more should have social responsibility, can't hold a candle to the pursuit of monopoly platform and channel, compete with the

people, but should be based on the model, and create value for society, for the survival and development of more people to create better conditions and opportunities, such as community group should also put more vendors such as bottom into the pattern of a living fusion, Not a single latitude "substitution." At the same time, Internet giants do not only think about the flow of a few bundles of cabbage, a few jins of fruit, competition to pick the soft persimmon pinch, should be in scientific and technological innovation to bear, use their own advantages to chew hard bones, so, in the country at the people is "two benefits".

Modern market economy requires competitors to compete on the premise of fairness, justice, openness, equality and order, that is, to follow the principle of fair competition. The principle of fair competition means that all competitors should stand on the same starting line, compete on an equal footing and by fair and reasonable means, and the survival of the fittest should be carried out. Fair competition is relative to unfair, unreasonable, improper competition, it is in accordance with the norms of social conduct, laws and ethics under the premise of competition.

To develop a market economy and promote free and fair competition does not mean that the state can give up its hand. In today's world is not a market economy is the government fully was beyond the market, the government also shoulder the organization market, cultivating market and the task of supervision market, especially unable or difficult to bear the market play a role in terms of construction and the coordination task, and left the government regulation and management, to realize social fairness and market free competition, it would be impossible.

3.2. Suggestions

Because of the disadvantages of monopoly enterprises, most governments in the world take legislative measures to oppose monopoly and protect competition. The Us government mainly prevents and opposes monopoly from the following aspects, which our government can learn from:

1. Break up monopolies
2. Prevent the creation of monopolies
3. Block mergers that undercut competition
4. Prevent collusion

The Anti-Monopoly Law of the People's Republic of China was approved by the Standing Committee of the National People's Congress on August 30, 2007 and will come into force on August 1, 2008. Proceeding from China's national conditions and realities, the Law draws on the useful experience of international anti-monopoly practices and establishes a legal system for opposing monopoly and protecting competition that is compatible with the socialist market economy and the stage of China's economic and social development. It stipulates that three kinds of behaviors belong to monopoly, namely: (1) operators reach monopoly agreement; (2) Abuse of dominant market position by operators; (3) concentration of business operators that has or may have the effect of

eliminating or restricting competition.

Recently, the State Administration for Market Regulation and the Ministry of Commerce jointly organized an administrative guidance meeting to regulate the order of community group buying. Six Internet platform enterprises including Alibaba, Tencent, JD.com, Meituan, Pinduoduo and Didi attended the meeting. The meeting called for strengthening pricing behavior and anti-unfair competition supervision in community group buying in accordance with the law, regulating the order of the community group buying market, maintaining a fair market environment for competition, and ensuring that people's livelihood is effectively guaranteed and improved. The meeting stressed that Internet platform enterprises should strictly regulate the operation of community group buying and strictly abide by the "nine prohibitions". Internet platform enterprises should strictly regulate the operation of community group buying and strictly abide by the "nine Prohibitions": First, they should not abuse their independent pricing power by means of low-price dumping, price collusion, price gouging and price fraud. In addition to cutting prices in accordance with the law to dispose of fresh, seasonal and overstocked goods, it is strictly prohibited to dump goods at prices below cost for the purpose of crowding out competitors or monopolizing the market. Second, it shall not illegally reach or implement any form of monopoly agreement, such as fixing prices, limiting the quantity of production or sale of goods, and dividing the market. Third, abuse of dominant market position such as predatory pricing, rejection of transactions and tie-in sales without justified reasons shall not be carried out. Fourthly, the concentration of business operators shall not be carried out illegally to eliminate and restrict competition. If the concentration of business operators reaches the declaration standards set by The State Council, they shall declare in advance, and no concentration shall be implemented if they fail to declare. Fifth, unfair competition, such as commercial confusion, false publicity and commercial slander, shall not be carried out to harm the market environment of fair competition. It is strictly forbidden to fabricate or spread false information or carry out misleading business

propaganda, damage the business reputation and commodity reputation of competitors, deceive and mislead consumers. Sixth, data advantage shall not be used to "kill", harm the legitimate rights and interests of consumers. Seventh, technological means shall not be used to impair competition order or impede the normal operation of other market entities. Operators on the Platform shall not use service agreements, trading rules, technology and other means to impose unreasonable restrictions or attach unreasonable conditions on their transactions on the Platform, transaction prices and transactions with other operators, or charge unreasonable fees to operators on the Platform. Eight is must not collect illegally, use consumer personal information, bring safety hidden trouble to consumer. Ninth, it is forbidden to sell fake and shoddy commodities, which will endanger the safe and assured consumption environment.

Reference

- [1] Fang, Q.J. "Nine Shall not" Draw competition Red line for Community Group Purchase. *Shangqiu Daily*, 2021-01-06(005).
- [2] Shen, G.H. Community Group-buying should not be "familiar" with big data. *Minsheng Weekly*, 2021(01):7.
- [3] Ran, Y. "9 Shall not" From the source of community Group buying chaos. *Changchun Daily*, 2020-12-29(006).
- [4] Eagle. Community Group Purchase "Nine Not allowed" Conforms to the interests of all Parties. *China Business Times*, 2020-12-28(003).
- [5] Wang, Y.Z. Community Group Buying can't destroy fair competition with low price dumping. *Modern Logistics*, 2020-12-23(A02).
- [6] Li, Y.F. Community Group Buying: Orderly Competition to achieve stability and Zhiyuan. *Jiaying Daily*, 2020-12-16(002).
- [7] Xue, S.J. Community group purchase, "Racing horse enclosure" for what? *Henan Daily*, 2020-12-15(006).
- [8] Fang, Q.J. "Nine Shall not" Draw competition Red line for Community Group Purchase. *Shangqiu Daily*, 2021-01-06(005).
- [9] Luo, K.Y. Community group purchase envisioned by Internet Giants. *China Quality Travel*, 2021; Volume 01, pp. 73-74.
- [10] Guo, J.L. Where are the big boys flocking to neighborhoods to fight fresh groupon? *Housing and Real Estate*, 2020; Volume 31, pp. 8-11.