# Theoretical Perspectives on Social Shopping

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## INTRODUCTION

Social shopping combines product/service sales with consumer participation in a social network environment with a synergistic relationship between social networks, consumers, and local merchants (Lee et al., 2015). Social shopping intermediaries such as Groupon and LivingSocial not only provide information reach and richness to customers and participating merchants, but also make use of social networking. As social shopping grows, the impact on local small and medium-sized merchants is palpable. Most merchants engaged in social shopping are location-based service providers. Due to the experience-based immediacy of typical deals, customers are also mostly local to the regions where the merchants are doing businesses.

Considering the fact that most local merchants belong to the category of the small and medium-sized enterprises (SMEs), the implications of the potential growth of social shopping seem to be far greater than other technologies for SMEs. Small and medium-sized enterprises represent 99.7 percent of all U.S. employers, are responsible for about half of all private sector jobs, and generate about half of the private gross domestic product (GDP), which is the market value of all officially recognized final goods and services produced within a country in a given period (Small Business Administration, 2006).

Social shopping intermediaries allow local merchants to utilize Internet technologies and localized online advertisements in ways merchants were previously unable to (Lee & Lee, 2012). The market potential of social shopping is augmented with social networking sites such as Facebook and Twitter that allows merchants to quickly reach a large pool of potential customers, and various product or merchant reputation sites such as Yelp and TripAdvisor. On social shopping sites, customers are encouraged to post comments and reviews dubbed one form of "user-generated content" (UGC).

Despite the importance of electronic commerce in the economy, compared to large firms, small and medium-sized merchants have faced a number of barriers to the adoption of innovations and access to potential customers - mainly due to limited resources. However, the recent development of social shopping intermediaries now enables these merchants to tap into a large pool of local consumers. Social shopping intermediaries such as Groupon and LivingSocial not only provide information reach and richness to customers and participating merchants, but also make use of social networking. However, because social shopping is such a recent development, there is still a paucity of studies on the social, behavioral, economic, and managerial aspects of social shopping. This makes it very challenging for small and medium-sized merchants to make informed decisions in regard to social shopping promotions.

The main purposes of this chapter are to review business models and theories related to social shopping and to discuss advantages and disadvantages of social shopping. This study will also discuss merchant reputation in social shopping.

## SOCIAL SHOPPING AS A NEW BUSINESS MODEL

Social shopping brings buyers and sellers together in e-commerce where shoppers' social networking facilitates the shopping activities. Social shopping attempts use technology to mimic the social interactions found in physical malls and stores. Social shopping can largely be divided into two categories: (1) Group shopping sites and (2) Social shopping marketplaces. Group shopping sites group individual consumers to purchase products and services together from merchants at discount prices. Examples include Groupon, Gilt City, LivingSocial, and BuyWithMe. Social shopping marketplaces bring social shopping sites, merchants, and consumers together to connect and transact. The marketplace brings together independent buyers and sellers and creates a forum for them to conduct business transactions. Examples include Sttorenvy and Jasmere. Social shopping also encourages people to exchange information about products and services. The revenue sources include sales commission and advertising. Social shopping sites develop Android and iPhone-based mobile apps to provide location-based services.

The success of the social shopping sites depends on the customer satisfaction, customer loyalty, partner management, and quality policy, including refund policy. As the number of the social shopping sites grows rapidly, the competition intensifies and social shoppers' complaints increase about overbooking, poor product/service quality, and stockout. Participating companies usually pay a high rate of commission to social shopping sites. Many social shoppers are bargain hunters.

## THEORETICAL PERSPECTIVES ON SOCIAL SHOPPING

Among the theories relevant to the growth of social shopping, five theoretical perspectives are reviewed in the following: information asymmetry, price discrimination, shopper orientation, advertising, and network externality.

*Information asymmetry* is the difference in the information between two parties (Ba & Pavlou, 2002). Information asymmetry occurs in transactions where one party has more or better information than the other. Information asymmetry may give rise to opportunistic behavior such as misrepresentation of product quality (Akerlof, 1970). Since consumers usually cannot determine the quality of a product/service prior to consumption, merchants may attempt to defraud consumers of experience goods and services, such as wine, healthcare services, and software. In cases of information asymmetry, it is natural for consumers to assume that whatever the merchant is offering, it must be that the merchant is still selling the product for more than it is worth. Thus, many consumers may even avoid purchasing the product/service altogether.

Online intermediaries are known to decrease information asymmetry between merchants and consumers, since online intermediaries have expert knowledge on products (Duan, 2010). As an extension of online intermediaries, social intermediaries can reduce the information asymmetry between merchants and consumers. Social intermediaries make efforts to filter out misrepresented information and maintain information quality. Social intermediaries allow consumers to acquire information otherwise unavailable, such as information on merchant reputation. Social networking services, online discussion forums, and merchant reputation sites allow consumers to conduct pre-purchase research and help reduce the information asymmetry between merchants and consumers. In this way, products and services listed on social shopping sites turn into a search good with features and characteristics easily evaluated before purchase.

*Price discrimination* is a marketing method of differentiating price sensitive consumer groups from less sensitive customer groups and offering different prices for the products and services to each group. Price discrimination is common in practice, and has received careful analysis in the field of economics

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