Group Coupons: Interpersonal Bundling on the Internet

Tianle Zhang, The Hong Kong Polytechnic University

Abstract

Sellers sometimes offer goods for sale under both a regular price and a discount for group purchase if the consumer group reaches some minimum size. This selling practice, which we term interpersonal bundling, has been popularized on the Internet by companies such as Groupon. We explain why interpersonal bundling is a profitable strategy in the presence of demand uncertainty, and how it may further boost profits by stimulating product information dissemination. Other reasons for its profitability are also discussed. We provide sufficient conditions for interpersonal bundling to dominate separate selling, and identify factors that determine the size of its profit advantage.