

Analysis of the Differentiated Competitive Strategy of Community + E-Commerce Platform Xiaohongshu

Yueguo Liu^{1, †}, Zehuan Yu^{2, †}, Zhenyu Zhang^{3, *, †}

¹School of Foreign Languages, Wuhan Huaxia Institute of Technology, Wuhan, China

²School of Economics, Guangdong University of Finance & Economics, Guangdong, China

³School of AIEN, Shanghai Ocean University, Shanghai, China

*Corresponding author: zzhang44@utas.edu.au

[†]These authors contributed equally.

Abstract. In recent years, with the development of information technology and the transformation of China's online economy, a large number of e-commerce platforms have emerged rapidly. Xiaohongshu, a community + e-commerce platform that allows young internet users to share and exchange information as well as make purchases, was launched. Relying on a differentiated competitive strategy, the platform has managed to accumulate a large amount of user traffic in a short period. This paper uses Xiaohongshu as a case study to analyze the differentiated competitive strategy of this UGC+ e-commerce platform. Through a comprehensive survey, summary, and induction, this paper provides a fine analysis of Xiaohongshu's differentiated competition and current competitive advantages in China and makes reasonable recommendations. Through the study, it was found that Xiaohongshu is deeply engaged in the UGC shopping sharing community, continuously integrating content community and e-commerce modules, strong word-of-mouth marketing, and unique product positioning to pave the way for its sustainable competition in the later stage. In addition, for this paper also the platform made two recommendations to enhance its competitive advantage in the future: continuously maintain the platform's innovation capability; develop a de-feminization strategy.

Keywords: competitive differentiation strategy; competitive advantage; de-feminization strategy.

1. Introduction

1.1 Research Background

With the increasing range of Internet services worldwide, the Internet has already had a significant impact on people's lives and business practices. One of the most important manifestations of this is the fact that more and more consumers are shopping online, which has led to the creation of e-commerce. To date, there are already many companies developing their e-commerce business.

Nowadays, there are a lot of homogenizations of similar businesses. For companies that use software to expand their customers and want to increase their product sales, differentiated product positioning and marketing strategies are more likely to attract users and increase their stickiness. Xiaohongshu, a Chinese company founded in 2013, has launched its App, which successfully blends UGC and cross-border e-commerce. Through its unique differentiation strategy, Xiaohongshu has now harvested a large number of monthly active users in China. The successful implementation of the differentiation strategy has enabled the platform to achieve consistently high revenues in the industry. Xiaohongshu's mission is to bring good living within reach. Users create content on the community platform, and through sharing on the platform, they invariably provide a product recommendation service to consumers. Xiaohongshu represents a new marketing strategy and has achieved significant results.

1.2 Research Significance

If a new company wants to enter a market and compete with other similar companies, achieving product differentiation can make the company more competitive. Implementing a differentiation

strategy is important for improving client loyalty, generating significant barriers to industry entrance, and raising the firm's marginal revenue. If implemented successfully, a differentiation strategy can help a company achieve a consistently high level of revenue within its industry as it creates a unique defensive position against external competitive forces. In this paper, we examine Xiaohongshu's competitive differentiation strategy and analyze how it is unique from other e-commerce platform models. These findings can serve as a reference for Chinese e-commerce companies.

1.3 Paper organization

The first section is the introduction, which explains the background, reasons, and significance of the research of this paper. The second section introduces the growth of Xiaohongshu based on the Internet era, and the main target audience of the platform. Data and charts show that the main users of Xiaohongshu are young women. The third section explains the network effect of Xiaohongshu. It has both positive and negative effects and illustrates the closed-loop effect of the platform with a positive feedback loop diagram. Sections four, five, and six are the main part of the paper. The paper presents a refined analysis of Xiaohongshu in terms of its product, marketing, and operational differentiation strategies. It summarises the platform's competitive advantages and competitive embodiment. However, it is Xiaohongshu's uniquely differentiated product positioning that has led to problems such as the quality of community content and the imbalance in the gender ratio of users. The article, therefore, concludes with recommendations for its future competitive and feminization strategies.

2. Introduction to the Xiaohongshu platform

Xiaohongshu was established in Shanghai in June 2013, and in October of the same year, the "Xiaohongshu Outbound Shopping Tips" app was successfully launched, providing shopping tips for eight countries for the first time [1]. By initially developing community services, it improved the timeliness and effectiveness of users' access to product information and directly precipitated and accumulated huge user traffic. Since then, with the rapid development of multiple stages, Xiaohongshu has completed the perfect integration with foreign online shopping sharing communities and cross-border e-commerce, and established its own independent business closure loop. As of November 2021, it completed a new round of funding of \$500 million, with a post-investment valuation of \$20 billion [2].

More than 90% of the users of Xiaohongshu are girls, and the post-90s and post-95s are gradually becoming the main users in society, from traditional business activities to the current online industry, where girls are identified as the fashion leaders. Secondly, many celebrities are also the main users of this platform, and their recommendations on the online platform are a reference direction for most female consumers, who are leading the fashion trend, and celebrities are not to be ignored [2].

The main group of girls, but also here there are a large number of female college students, office workers, baby mothers, and other accurate payment user groups. The user group is young and attractive, 69% of users are close to the age of 18 to 30 years old; user characteristics three, strong spending power.

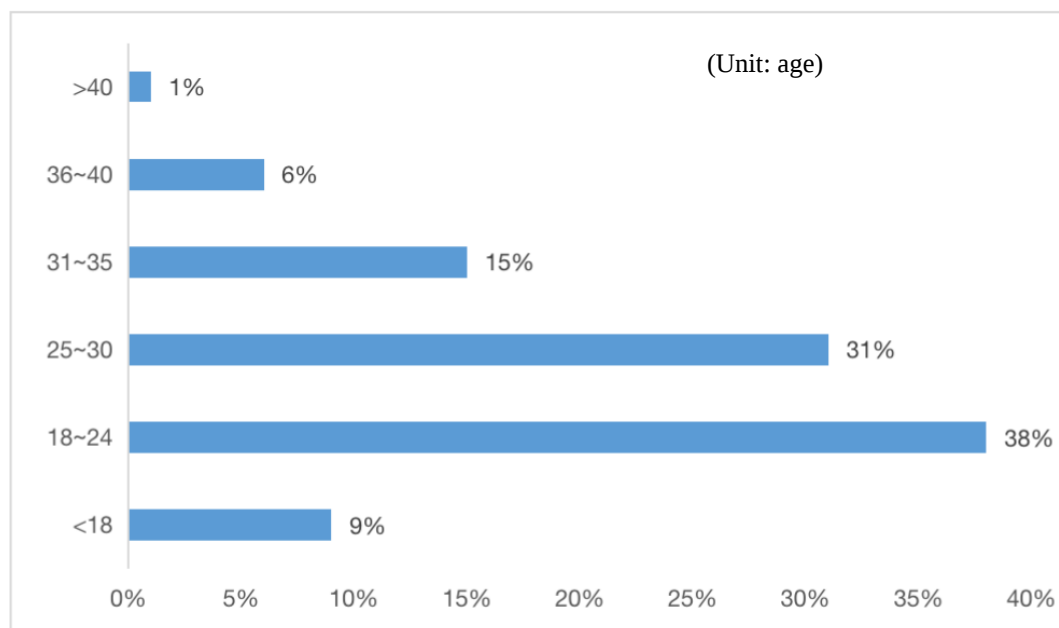


Figure 1. Age Structure of Xiaohongshu Users
(Data from: Rocket Data, Fishing Leap Experience Consulting, IFC Research Institute)

3. The Network Effect of Xiaohongshu

3.1 The Same-Edge Network Effect of Xiaohongshu

In the bilateral market of Xiaohongshu, the producers are mainly e-commerce sellers and note sharers, and consumers are product buyers and community viewers. For the same-side network effect, it exists more as a negative effect. As the number of users grows, the amount of content in Xiaohongshu becomes progressively larger, increasing the amount of low-quality content and making it difficult to remove. In addition, grey and black industrial chains are born. For example, sales falsification, seeding notes writing on behalf of others and brushing up the volume and selling fake products as well as false propaganda. Core interactions have been damaged to a certain extent and users struggle to be matched with high-quality consumer notes that meet their needs. This often leads directly to a decline in customer loyalty and many users being lost.

3.2 The Cross-Edge Network Effect of Xiaohongshu

Positive cross-edge network effect: For the bilateral market of Xiaohongshu, the value of users depends on the number of e-commerce sellers and note sharers, and the value of e-commerce sellers and note sharers depend on the number of users, with more demand and more supply, and vice versa, both of which reinforce each other.

Negative cross-edge network effect: However, the negative cross-edge network effect of Xiaohongshu is that if users have a bad buying experience and gradually reduce their use of Xiaohongshu, some users even switch to other platforms, while opinion leaders lose user support and lack social rewards, the enthusiasm of opinion leaders to create gradually decreases, and there are fewer high-quality consumer notes, resulting in negative network effect.

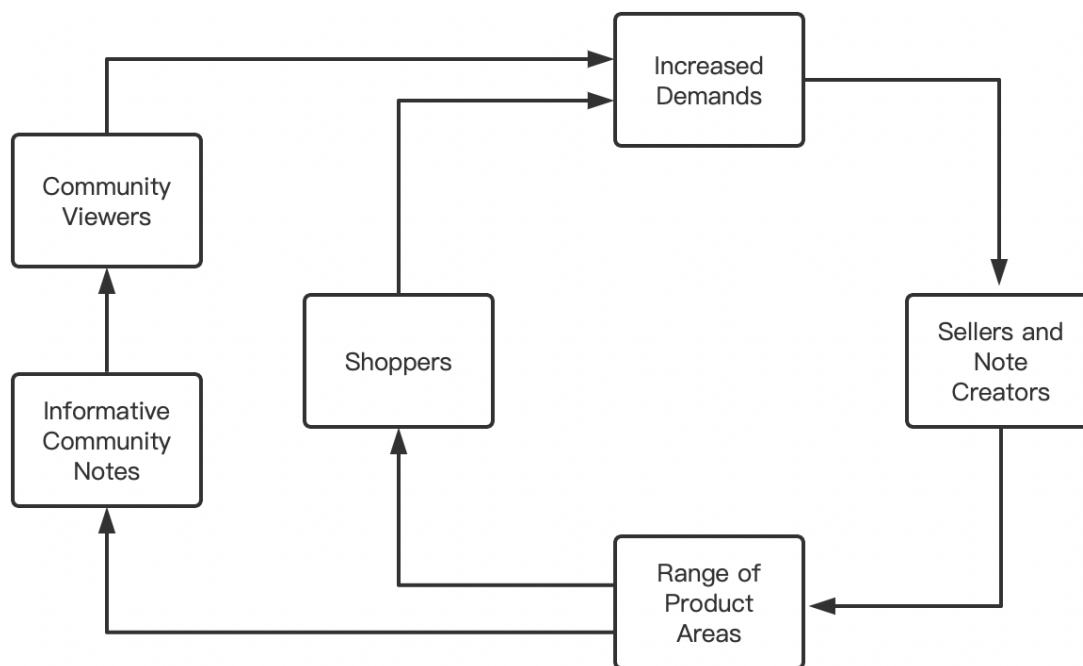


Figure 2. Positive Feedback Loop Diagram for Xiaohongshu

4. Differentiation Strategies of Xiaohongshu

4.1 Product Strategy for Xiaohongshu

In recent years, China's policy of encouraging imports and its strategy of opening up to promote mutual benefits. Online payment methods (Alipay, bank cards, WeChat, etc.) have become convenient and fast, making cross-border e-commerce a successful and popular industry in China. The Xiaohongshu platform has seized the opportunity to go live on major app stores with an app that positions its products as cross-border e-commerce. Its better use of imported resources to meet the people's demand for consumer upgrading. The increase in the level of consumption of the population has led to consumers being attracted by the new shopping mode of online shopping and their desire to shop [3].

With its slogan 'Mark my life', Xiaohongshu covers a wide range of areas, including fashion, beauty, personal care, and more. The content of Xiaohongshu is sourced from UGC, PGC, and PUGC, and focuses on creating a community atmosphere [4]. The UGC platform it has established invites celebrities and celebrities to become its users, bringing huge traffic to Xiaohongshu.

Xiaohongshu focuses on information transmission from user to user, and its technique strives to minimize information loss between disseminations. Video has a natural advantage in inter-temporal communication between individuals as a multi-dimensional information carrier, therefore Xiaohongshu has built a social network using video notes, allowing product information to flow around the network.

In terms of the user experience, Xiaohongshu makes it simple to screen information by labeling search results pages. By executing systematic pushing based on monthly activity and the UGC article review mechanism, Xiaohongshu overcomes the problem of fragmented information or poor content quality. Besides that, the app system of Xiaohongshu has developed smoothly to ensure that the functions can run smoothly. Users can share their shopping experiences or posts with others in the community and will use Xiaohongshu to send shopping URLs to their friends and relatives.

It is the platform's unique UGC + e-commerce product differentiation that has been achieved through the late deepening of the shopping sharing community and the continuous integration of e-commerce modules to segment its competitive track.

4.2 Marketing Strategy for Xiaohongshu

4.2.1 Activity Marketing for Xiaohongshu

Xiaohongshu officials usually organize several types of events every year to get its name into the limelight through an online and offline approach. Officials chose to operate on current events within the life circles of younger groups. For example, in September 2015, Xiaohongshu used the school year to capitalize on its success by launching a schoolboy express campaign at 12 colleges around China, sparking a stir among the student population [5]. This method is both relevant and fascinating to the target audience, as well as ideal for online communication, which may quickly start a wave of communication. During the early stages of the campaign, the Red Friday search index exploded.

In addition, the platform hosted the "66th Anniversary" event in 2019, which is Xiaohongshu's major e-commerce promotion of the year. To be eligible for the platform's 66th-anniversary event, a pre-sale item must be less than 10% off the lowest-paid price of the item on the platform in the previous 30 days, and a non-pre-sale item must be less than the lowest-paid price of the item on the Xiaohongshu platform in the previous 30 days [6].

Xiaohongshu also takes advantage of traditional Chinese holidays to organize events. For example, the platform released the Omelette Hour (Ege Hour) campaign in February 2020, which is an official global flash mob initiative under the concept of cooking for love. It proposes that on the day before New Year's Eve each year, from 9:00-10:00 pm local time, all male bloggers, live-stream an omelet for their loved ones, recording their love for their significant other, parents, or children in the form of an omelet [7].

4.2.2 Word-of-Mouth Marketing Strategy for Xiaohongshu

The word-of-mouth marketing approach of Xiaohongshu is based on real feedback, releasing brand campaigns around official accounts, and building a well-established account matrix in the form of brands and service industries [8]. In addition, the platform can regularly publish content plans that address consumers' pain points. Most people check others' reviews before buying a product, which is a great resource for individuals who have never bought anything before.

Furthermore, by giving the necessary incentives, note writers will promote good word-of-mouth in the way that Xiaohongshu intends, and surfing users will re-disseminate it. When note writers are looking for community postings and are ready to buy, they will naturally get word-of-mouth information. When word-of-mouth communication happens, the consumer's financial needs are met, and they also receive some little benefits. This incentive technique not only increases customer satisfaction and loyalty at a low cost but also motivates consumers to spread the word about Xiaohongshu. In the age of e-commerce, a strong reputation is a long-term strategy that a company should pursue.

4.2.3 Advertising Marketing for Xiaohongshu

To be able to further increase its visibility by fully attracting the attention of young consumers, in January 2018, Xiaohongshu inserted its logo and host's dictation into the show, while inviting contestants participating in the show to become Xiaohongshu users and opened a voting channel in the app. On 21 April of the same year, another talent show co-hosted by Xiaohongshu, Creation 101, went live [9]. Viewers of the online variety show happened to be potential users of Xiaohongshu, and the precision placement of the variety show enabled the platform to successfully introduce this group of potential users, a strategy that attracted many quality users for Xiaohongshu.

On July 12, 2021, Xiaohongshu announced that it has become the official partner of China's national women's football team as well as a special strategic partner of CCTV's occurrence [10]. It established a broad public awareness and created the groundwork for the precise reach that would follow with its inclusion in the Olympic Games. From July 23rd to August 8th, the percentage of Olympic-related short videos on Xiaohongshu was 46.95% and the waistline mavens created 72.55% of video notes for Olympic-related brand collaborations [11]. To fuel the discourse and effectively exploit social momentum, Xiaohongshu relied on bloggers in the waist and above. Xiaohongshu's

brand is also to reach more consumers through full-scene marketing, from the basic placement of the brand to the exact reach of many single scenes.

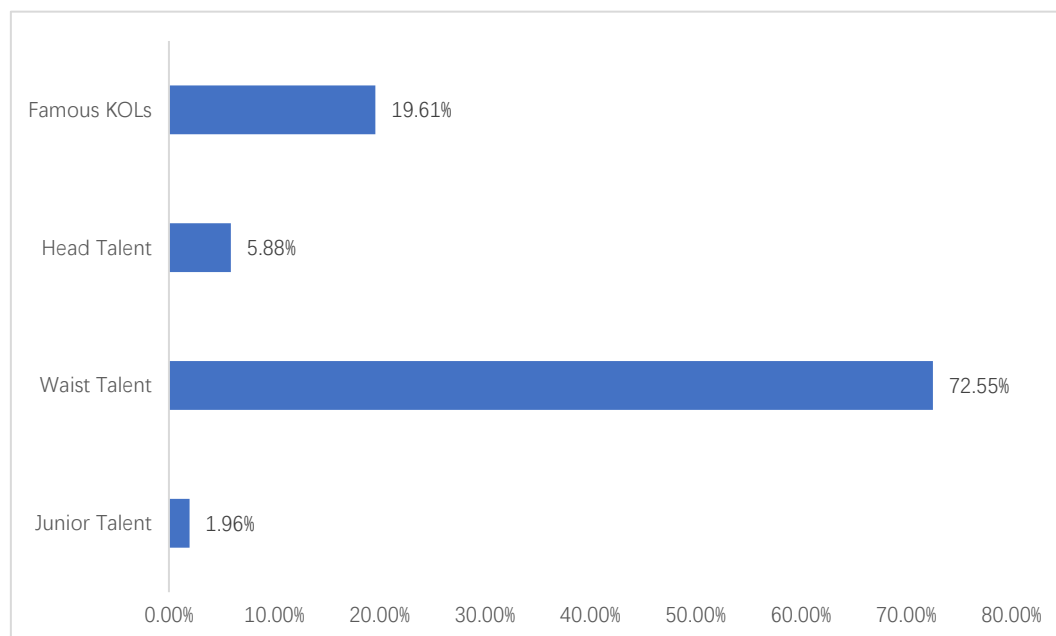


Figure 3. 23 July - 8 August 2022 Distribution of video note takers in Olympic-related brand collaboration notes
(Data from: QIAN-GUA DATA)

Additionally to this, in January 2022, Xiaohongshu announced Ailing Gu as the spokesperson for the brand. Before the opening of the 2022 Winter Olympics, Xiaohongshu released a micro-documentary "A Letter from Gu Ailing" in collaboration with the Xinhua News Agency client. According to Xiaohongshu, in January 2022, the number of notes posted on Xiaohongshu with the keyword "skiing" increased by 232% year-on-year compared to January 2021, and by about 8.3 times compared to January 2020.

5. Competitive Advantage and Competitive Embodiment of Xiaohongshu

5.1 Competitive Advantages

The operation model of Xiaohongshu is a closed loop. Users can purchase good products in the community, and this process can be completed directly within the app, without having to transfer to other e-commerce apps for purchase, which is a relatively smooth experience for users. For users, when they enter Xiaohongshu, the first thing they see are the real shares from celebrities or ordinary users, which creates the desire to spend, and then they can go to its shopping mall to make purchases. On this platform, users can complete the closed-loop shopping process of 'swiping notes - generating consumer demand - shopping; and after receiving products, users will make notes on their feelings of use and feedback to the platform [12]. Therefore, it not only sells the products but also gets the input from the traffic and word of mouth, forming a closed-loop word-of-mouth marketing.

Consumers may simply screen product-related information, the content of their collected notes, and their preferences through Xiaohongshu's personalized recommendation method, which allows them to effortlessly filter information through the online community. As the content of Xiaohongshu's shopping notes is tagged with categories and regions, it allows customers to filter the information more effectively.

Xiaohongshu's content consists of UGC, PGC, and PUGC. In terms of PGC, professionally produced content, it has opened official accounts covering various fields, with the aim of the platform

grasping the direction of guiding internet fads. The marketing objectives of Xiaohongshu have a guiding effect on marketing behavior. It takes advantage of the fact that the targeting user collective is predominantly female, and the characteristic of this consumer collective is uncertainty in browsing products. Therefore, for this reason, the Xiaohongshu homepage will appear on a variety of topics to stimulate users' desire to purchase.

5.2 The Embodiment of Competitiveness

In contrast to other e-commerce platforms, Xiaohongshu is integrated into every aspect of the public's life in a digital community manner. The data collected by Xiaohongshu is integrated and converted into a unified standard data format for targeted product design, iteration, and operation.

Xiaohongshu is tearing down existing labels such as beauty and women, with pan-knowledge and pan-entertainment content growing rapidly and the platform's content becoming increasingly diverse. The platform's logic for attracting creators is to use traffic to attract creators, in addition to nurturing native creators. By establishing a healthy reward mechanism, they are kept around and a virtuous cycle is established. Community is the basic plate of Xiaohongshu, and its intention is all about making the community deep and practicing long-term.

Xiaohongshu has received six rounds of fundraising, with the most recent round taking place on November 8, 2021, with a post-investment valuation of more than \$20 billion (approximately RMB 126.7 billion) [13]. Temasek and Tencent led the charge, with Ali, Tiantu Investment, and Yuan Sheng Capital following closely behind [13]. According to 36 Kr statistics, the number of notes uploaded in the Xiaohongshu life records category increased by 684 percent in 2021; Hobby, Education, Sports & Fitness, and Technology & Digital all had year-over-year increases of 267 percent, 213 percent, 202 percent, and 128 percent, respectively. As of July 2021, the average daily usage time of mobile users in Xiaohongshu has reached 50 minutes/day.

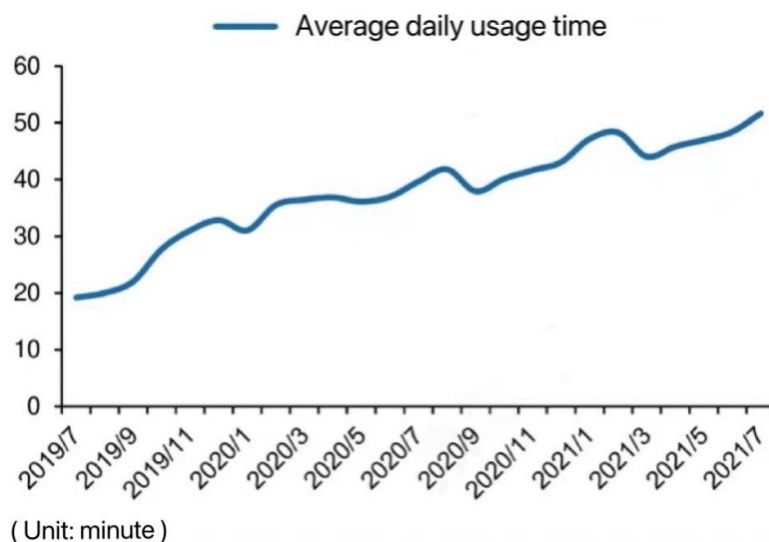


Figure 4. Average daily usage time of Xiaohongshu mobile terminal users
(Data from: Questmobile, Guangfa Securities Development Research Center)

6. Suggestions

6.1 Continuously maintain the innovation capacity of the platform

In the differentiated rivalry with the same industry, Xiaohongshu should maintain its advantages. Its competitive approach has yielded great outcomes. The crucial component of Xiaohongshu's development is that it is customer-driven, always meeting the expectations of its customers, modifying its strategy as they change, and considering changes in the company's external

environment. The platform needs to use innovation to differentiate its goods, improve inimitableness, and raise competitive advantage and barriers.

The Xiaohongshu platform is currently relatively well developed internally, but it is also facing a complex market environment with increasingly competitive cross-border e-commerce platforms, an expanding e-commerce platform layout, and a wealth of overseas product types, so today's strategic limitations need to be further broken [14]. For example, the current strategy of advertising, promotion and attraction for male users. It is also necessary to improve the loss of users due to poor post-sales experiences. Effective competition is about expanding users while maintaining user loyalty.

6.2 Developing a de-feminization strategy

In recent years, as large numbers of young people have joined internet community platforms, more and more of them have begun to focus on demographic alignment. In China, the community with more male users is probably HuPu, which is niche and vertical but fits the shape of a community tailored to already existing needs and is born out of male users' preferences and focus on games and ball sports. Xiaohongshu is also steadily expanding its circle, continuing to explore vertical content and interest tags for men.

With the potential for male seeding, Xiaohongshu's male spending power is being tapped, but the measures are not enough. Men are typically found on forums for digital products, tech peripherals, and gaming devices, where they can be seen seeding and pulling weeds from each other. Men's natural rational thinking and belief in professionalism allow them to share their expertise on performance and value for money in the process of planting and unplugging, along with a clear intent to buy, making male consumption simpler and more brutal [15]. However, the reason why China's male pan-interest community is not growing fast is that there are too few daily increments of quality pan-interest topics, and it is very difficult to tap into new male interest tags.

Xiaohongshu could expand its user base by implementing a de-feminization strategy. The 'his economy' must remain a unique content section of the Xiaohongshu app, and its capacity to identify user demands makes it easier to layout for male users today. Xiaohongshu's de-gendering method is intended to attract long-term male members to the community. To attract male users, the kind of community material must also be changed to contain male or gender-related tags. Finance, digital, sports, outdoor, and information, for example, have all been prominent consumption categories among male internet users. Produce high-quality material that appeals to men to encourage them to visit Xiaohongshu. At the same time, it can break out of its old limitations by partnering with sporting events and e-sports companies. As Figure 5 shows, Xiaohongshu has now reached 20% of its male users, increased investment to implement these initiatives is necessary.

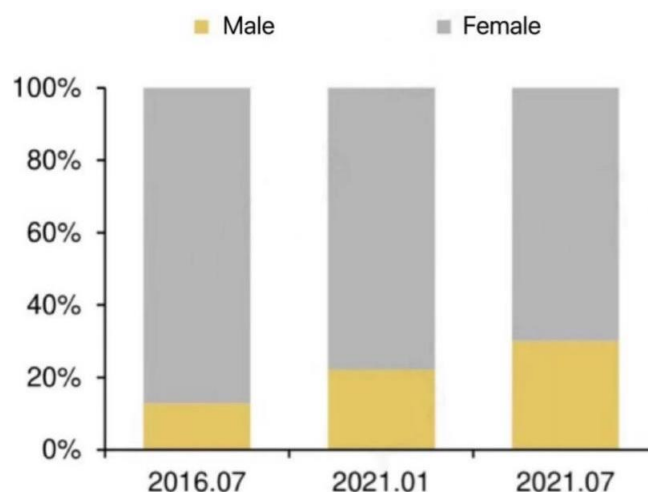


Figure 5. The changing gender ratio of Xiaohongshu users

(Data from: Xiaohongshu, Yi Guan Qian Fan, Ai Media Network, Guangfa Securities Development Research Center)

7. Conclusion

7.1 Key findings

Through the collection of a large amount of relevant literature, this paper presents a comprehensive analysis of the positive impact of Xiaohongshu's operation model, product positioning, event marketing, word-of-mouth marketing and advertising marketing on the platform's dominance in the Chinese e-commerce market.

The research finds that Xiaohongshu has gradually generated a positive platform effect in the Chinese e-commerce market by relying on its unique differentiated marketing strategy and UGC+ e-commerce product positioning. The platform can make it easier for users to experience internet services under the UGC model. Xiaohongshu has been able to adjust its strategy in response to changes in users and the external environment and has been committed to making users' lives better through UGC itself. Xiaohongshu's product strategy has successfully achieved the integration of two seemingly weakly related modules, enabling the product logic to be self-consistent and user behavior to form a closed loop within the product. Understanding the product - viewing reviews - purchasing and paying - logistics and delivery - posting personal buying tips, through this closed loop of content to e-commerce, makes it easier and more trustworthy for users to buy products.

In addition, the research has found that Xiaohongshu attracts a lot of traffic to its platform through marketing campaigns, conducting online and offline activities to create hot topics, and signing up celebrity endorsements. Xiaohongshu's word-of-mouth marketing approach is based on real feedback, releasing brand campaigns around official accounts and building a well-established account matrix in the form of brands and service sectors.

In its experienced product strategy and marketing strategy, Xiaohongshu has been implementing strategies around the content side of the community. Leveraging advertising, word-of-mouth and other strengths to maximize the diversity of community users has been an important foundation for its solid position. The size of Xiaohongshu's user and creator ecosystem has achieved a systematic and disciplined growth from the wild growth of its early days. The growing number of users and the increasing number of content creators are a reflection of the infinite possibilities of the Xiaohongshu community in the Internet age.

7.2 Future studies

Xiaohongshu also faces a challenging market environment, with increased competition from cross-border e-commerce platforms, evolving e-commerce platform layouts, and a plethora of international product categories, all of which require additional refinement. The UGC+commerce model needs to remain stable, and the community content needs to be diversified and innovative. Based on the current marketing channels of Xiaohongshu, consideration can be given to expanding sales channels, for example, into the field of travel services. The platform should also not overlook the fact that after-sales service is extremely important for brand trust and strengthening the customer relationship management system usually helps to increase the loyalty of Xiaohongshu's customers.

In addition, Xiaohongshu needs to focus on developing its male audience. It is essential to develop a large number of quality male pan-interest topics and tap into new male interest tags. Adjusting the gender structure of users can be one of the goals of Xiaohongshu in the future.

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