Research on Business Model of Social E-commerce ---Take Little Red Book as an Example

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Abstract. Driven by the rapid development of information technology and the Internet, the identity of every Internet user is gradually changing, evolving from a single information acquirer to a content creator, from a one-way buyer to a personal media who can promote content. In this context, social e-commerce is also taking a unique advantage to realize socialized business monetization and gradually occupy the dominant position in the e-commerce market. Little Red Book is the company with the best development under this driving force, and its thriving "community + UGC" operation model is entirely worthy of reference and study. Therefore, this paper chooses Little Red Book as a research case, mainly discusses the development status of its business model from three aspects: value proposition, resource integration, and profit model, and then combines the SWOT analysis method to analyze its advantages and disadvantages, and further discuss the solution of the problem and the optimization strategy of the business model. The study found that although Little Red Book has achieved great success, there are still many internal problems, such as the dissemination of false information, misleading value orientations, and the imperfect quality control system of third-party products. By analyzing the reasons for these problems, this paper puts forward some suggestions for developing Little Red Book's business model, including strengthening the supervision and management of its platform, strictly controlling the quality of cross-border commodities, and optimizing logistics and after-sales service systems.

Keywords: Social E-commerce; Business Model; SWOT.

1. Introduction

1.1 Background

Traditional e-commerce based on commodities can no longer address the psychological demands of many people in the modern day due to the ongoing development of Internet information technology and the increase in national economic status. What follows is the social e-commerce that most platforms are preempting at present, which is a new mode of e-commerce that can integrate shopping, interaction, sharing, communication, and promotion. The shopping mode of social e-commerce is "discovery", which means that social platform users and e-commerce consumers gather in the form of a community with shared interests and values, so consumers' evaluation and support for products and brands become an important factor affecting the purchase. According to the report on the e-commerce industry, many traditional e-commerce platforms, such as Jingdong and Taobao, which used to make profits through the traffic support provided by the platform, have experienced slow development. The emergence of social e-commerce has occupied a highland in the almost formed e-commerce leading city, bringing new development opportunities to China's e-commerce market. However, there are still several issues with commodities, logistics, and after-sales support in the actual functioning of social e-commerce. This paper will carefully analyze the cases, discuss the problems existing in the business model of social e-commerce, and put forward targeted solutions to the existing problems.

1.2 Related Research

1.2.1 Business model

Timmers initially described a business model as a framework for products, services, and information flow, using a methodical methodology to characterize company operations and their
responsibilities, and the possible advantages and revenue sources of various business actors [1]. Then Weill and Vitale introduced consideration of the roles and relationships of market participants based on Timmer's definition, and starting with the concept of e-commerce, they decomposed the existing e-commerce business model into eight essential electronic Atomic E-business Models (AMEB) and systematically analyzed each model from four aspects: strategic goals and value propositions, revenue sources, critical success factors, and core competencies [2]. Similarly, based on the e-commerce market, Amit and Zott's research takes value creation as the starting point, considers the transaction relationship between participants, and opens up a new perspective on business model research. They explore the role of the business model in each step of creating corporate value and view the business model as a brand-new analytical unit that integrates multiple enterprise and strategic management theories [3]. The responsibilities of the participants, a comprehension of the value, and an awareness of how the market functions should all be part of an understanding of the business model, according to Magretta [4]. She also clarifies the differences between the notions of a business model and a management strategy, pointing out that the former covers the fundamental factors that influence performance, while the latter shows how the many components of a firm interact as a system.

1.2.2 Social e-commerce

Ickler et al. believe that new features, an increase in the number of users, and changes in user behavior on the web have contributed to the emergence of social networks. At the same time, this fact enables e-commerce to have a higher level of communication and interaction between customers and integration into business processes, forming social e-commerce [5]. Liang and Turban [6] gave a more direct description: the so-called social commerce is essentially a combination of business activities and social activities, usually using Web2.0 technologies, such as social networks and UGC (User Generated Content), to assist e-commerce transactions and activities.

Recent research has emphasized user behavior, decision making, and relationship building in social commerce. Research conducted by Kim and Srivastava [7] to examine the social impact on online shoppers indicated that previous customers' high-quality evaluations could directly and favorably influence prospective buyers' selections. E-commerce businesses may effectively leverage customer social influence to boost sales while spending less on marketing. Thus it can be concluded that social influence may be exploited to an enterprise's advantage in the e-commerce decision-making process, boosting the growth of the social e-commerce industry.

1.2.3 The business model of social e-commerce

The business model is crucial for social e-commerce websites and is critical to the company's success. Zhang took RunToShop Oy, a social e-commerce website, as the research object and compared its business model with its three competitors: YELP, Kaboodle, and Zlio. The study discovered that the four interconnected factors determining a company model's performance are finance, customer relationship management, infrastructure management, and product innovation [8]. Leitner and Grechenig selected 100 business models of B2C and C2C websites as research samples and focused on the collaborative shopping network model. The investigation demonstrates that social business applications and future buying trends are currently emerging phenomena. However, only a small number of currently available platforms can produce ongoing money, and successful apps must be distinctive, beneficial, and relevant to a large user base [9]. Some academics have also been interested in the economic models of social networks and user-generated content since they directly link to social e-commerce. For instance, Falch et al. described how Facebook, YouTube, and Twitter attempted to monetize their business strategies. The results show that advertising, application developers, and content providers can be regarded as the business models of social networks, but the basis of different revenue sources is related to the platform characteristics of social networks [10].

1.3 Objective

After a basic interpretation of the existing related research on the business models and social e-commerce, the second part provides an overview of the current development of the social commerce
industry and comparison among three typical business models. The third part takes Little Red Book as an example, firstly gives a brief introduction to its development, and then focuses on analyzing the three influential elements of the business model. The fourth part combines the SWOT analysis method to discuss the inherent advantages of Little Red Book's business model and what problems have hindered its development, and then find targeted countermeasures corresponding to the problems that arise. Finally, this article attempts to put forward suggestions and enlightenments for the entire social e-commerce industry from the case of Little Red Book.

2. Social E-commerce Industry

2.1 Description of Current Situation of Industry

The growth of social e-commerce is a result of the ongoing advancements in mobile Internet and information technology, which have made it possible for each of us to engage with others through network architecture and socializing. When social networks and e-commerce are combined, shopping information can be spread to people’s fragmented online life through social channels [11]. Users then learned about purchasing information from groups with much disposable income and shared interests, which helped them to develop their shopping habits. Finally, users share their shopping experience through social networks, stimulating subsequent shopping behaviors and forming a closed loop. Social commerce is a derivative model that assists in buying and selling goods through social interaction.

Users are an essential cornerstone for the advancement of social e-commerce. WeChat and other social media platforms have gradually increased their user bases, which has benefitted and increased the volume of social e-commerce transactions in China. According to Figures 1 & 2, in recent years, the user scale of the social e-commerce industry has maintained a growth trend. The number of social e-commerce users surpassed 850 million in 2021, a rise of 8.97% from the previous year. The transaction scale of China’s social e-commerce sector has also seen an increased tendency year over year, driven by the growth in user scale and the increase in consumption unit price. China’s social e-commerce market will transact more than 2532.35 billion RMB in 2020.

![Figure 1. User scale of China's social e-commerce industry [12]](image-url)
2.2 Business Models of Social E-commerce

For traditional e-commerce, users' purchase behavior is generally "search-based"; after users have shopping needs, they go to the e-commerce platform to search for the products they need. This process is targeted and planned, so users generally only browse the categories of goods they need, which is "run out". While the shopping mode of social e-commerce is "discovery", that is, sharing products in front of users and stimulating users' desire to buy through low prices, content, and other methods [13]. Therefore, this is an unplanned purchase behavior. It quickly promotes purchases through a trust mechanism, improves conversion efficiency, and stimulates users' willingness to actively share through an incentive mechanism to reduce customer acquisition costs.

According to traffic acquisition methods and operation models, social e-commerce can be divided into three typical business models: membership, community group buying, and content [14]. Among them, the community group buying system and membership system are built on the acquaintance network inside the strong social relationship and direct users to carry out autonomous communication through price reductions, distribution awards, and other means. In contrast, content-based social e-commerce emerged from social groups with poor social relationships and used high-quality content to create a combination with items to entice people to buy.

3. Case analysis --- Little Red Book

3.1 Introduction of Little Red Book

Little Red Book was officially established in June 2013, with overseas shopping as the primary orientation. It adopts the content sharing mode in PDF format to share the experience of different overseas shopping users, including famous shopping malls, product recommendations, and discount information. Although many users have favored PDF sharing, it is challenging to achieve interactive information communication due to its static mode. Therefore, Little Red Book improved and launched a community platform called "Shopping Notes" in 2013. Users can share shopping experiences, view relevant information, and realize interactive communication with each other on this platform. After that, in 2014, Little Red Book's self-operated mall "Welfare Society" was launched. In terms of product categories, it can be said to be all-encompassing. For supply management, Little Red Book has signed cooperation contracts with several well-known brands to ensure the adequacy and quality of supply. In terms of delivery methods, bonded warehouses and direct mail are used for delivery. So far, for Little Red Book, its users are both sharers and consumers, and it can be regarded as a content-sharing platform, cross-border e-commerce, or a word-of-mouth database.
Since the company’s establishment, Little Red Book has been favored by capital. GGV led the B round of financing of tens of millions of dollars, and Ali led the D round, with an investment of over $300 million. As of November 2021, Little Red Book had completed a new round of financing of $500 million, with a post-investment valuation of $20 billion. According to the “2021 Top 100 Global Unicorn Investment Institutions” released by Hurun Report, Little Red Book was selected as the seventh among the top ten unicorns in China [15].

3.2 Development history of Little Red Book

<table>
<thead>
<tr>
<th>Time</th>
<th>Significant event</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>In June, Little Red Book was founded in Shanghai. In December, it launched an overseas shopping sharing community.</td>
</tr>
<tr>
<td>2014</td>
<td>In March, it completed a multi-million dollars Series A financing; In November, it completed a 10-million-dollar B round led by GGV. Round of financing. In December, it officially launched the e-commerce platform “Welfare Society”, upgrading e-commerce from the community and completing the business closed loop.</td>
</tr>
<tr>
<td>2015</td>
<td>In June, the self-operated bonded warehouse in Shenzhen began operations, and its region ranked second in the country for cross-border e-commerce.</td>
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<tr>
<td>2016</td>
<td>Little Red Book cooperated with third-party platforms and expanded brand merchants.</td>
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<td>2017</td>
<td>In June, Little Red Book’s users exceeded 50 million.</td>
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<tr>
<td>2018</td>
<td>In May, it announced the completion of more than $300 million in financial financing led by Ali, and the company's valuation exceeded $3 billion.</td>
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<tr>
<td>2019</td>
<td>There are more than 300 million users.</td>
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<tr>
<td>2020</td>
<td>Creator Center was officially launched.</td>
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<tr>
<td>2021</td>
<td>In November, it completed a new round of financing of $500 million, with a post-investment valuation of $20 billion.</td>
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3.3 Analysis of Little Red Book business model elements

Little Red Book adopts the content model and adds e-commerce to form a community shopping guide platform. Its unique community atmosphere and profound UGC content have promoted its development and confirmed the feasibility of its business model "community" + "C2B". This paper selects the three elements of value proposition, resource integration, and profit model to study the C2B business model based on UGC community marketing.

3.3.1 Value proposition

Little Red book provides personalized shopping information services for people with different needs based on interactive connections and consumer-centricity. Therefore, Little Red book takes community development as the top priority, creates a platform for users to obtain shopping information for free, and is committed to allowing more users to share notes on the platform, breaking the shopping information gap. In addition, to improve the conversion rate of products, it guides users to share their shopping experience with other users on the "Shopping Notes" platform through reward points and the title given. This process not only realizes the communication of product selling points and word of mouth but also increases user activity and cultivates users' sharing and consumption habits. At the same time, the platform grasps the consumer demand of users through extensive data analysis and then communicates it to third-party suppliers for cooperation. Therefore, third-party suppliers can know the demand level of a particular product based on data analysis and then accurately produce and supply to meet the consumption needs of platform users.

3.3.2 Resource Integration

Little Red Book's UGC community users are mainly female groups who need cross-border shopping, and this has also formed one of the important resources. In addition, big data analysis and a complete supply chain platform are also powerful resources. The former ensures the platform's
activity and lays a good foundation for product conversion, while the latter ensures delivery effectiveness.

First, developing and promoting products targeting women is a marketing model many modern companies pursue. The female user group of Little Red Book is mainly concentrated between 18 and 35 years old, and they have their own opinions on consumption, so the appearance of Little Red Book satisfies their shopping and sharing needs. Secondly, with the help of data analysis on the community platform, Little Red Book can accurately determine the category and quantity of incoming goods, thus forming practical support for the mall. Then Little Red Book adopts the method of bonded warehouse and perfect supply chain to realize the delivery of goods, which can connect with resource providers accurately and quickly and deliver the goods to consumers at the fastest speed.

3.3.3 Profit model

At present, there are two main profit models for Little Red Book. One is from consumer spending, and the other is from charging advertising fees and commissions from third parties.

Specifically, the income from consumers mainly includes the sales income and membership fees of the “Welfare Society” mall. Community platforms provide users with free channels to publish and share information to attract many potential consumers. Their shopping preferences and consumption characteristics will be reflected in the big data of the community. By analyzing this big data, Little Red Book can accurately distribute goods in the mall and effectively improve the conversion rate of products. Additionally, Little Red Book also makes money by providing membership services. Users can enjoy member privileges such as member-exclusive prices, free shipping, limited product purchases, and exclusive customer service channels.

In addition, third-party income is the second largest source of income for Little Red Book, mainly including advertising fees, guarantee fees, and commissions. To be specific, independent shops and brands must pay such costs if they need technical assistance and sales channels to advertise their goods. On the one hand, this cooperation method helps the third party improve its reputation and popularity; on the other hand, it helps its platform save operating costs, attract customers and increase sales.

4. Investment analysis based on SWOT and suggestions

4.1 SWOT analysis of Little Red Book

4.1.1 Strength

The word-of-mouth marketing adopted by Little Red Book is its primary internal strength. To improve the instant, two-way and sticky interaction mechanism between products and users, Little Red Book established a “Shopping Notes” community. Users may post a variety of information on the platform, including their shopping experiences and product reviews. While sharing, consumers also get new shopping information and diversified shopping experiences in both directions [16]. Therefore, under this UGC mode, the word-of-mouth community has formed a vast, comprehensive, and diversified data platform in which users and their actual consumption experience constitute the main body and content of word-of-mouth communication, respectively. At the same time, according to the frequency of searching keywords, the consumption trend of users is analyzed, and the products and services they are interested in are pushed to users of different ages and interests. Little Red Book's word-of-mouth marketing fills in some of the product experience gaps caused by internet purchasing while offering customers a fresh shopping experience.

The second internal advantage lies in developing Little Red Book from single to diversified, mainly in the diversification of communication content and promotion channels. The "Shopping Notes" community, initially set up by Little Red Book, aims to provide users with a platform to share overseas travel and shopping experience. Then Little Red Book developed from a single cross-border e-commerce platform to a diversified community content-based cross-border e-commerce. Nowadays, on the platform, people can not only learn about the overseas shopping experience but also discuss
topics such as make-up, food, emotion, wearing, and so on. As a result of its varied contents, Little Red Book has attracted a sizable number of unrecognized consumers. In addition, from the perspective of communication channels, users initially published their shopping lists on the platform in the form of words and images, but the introduction of video sharing disrupted this static presentation mode. Compared with words and photos, videos are undoubtedly more attractive to users and have a more decisive marketing influence on products [17]. Displaying public information in video has gradually become a trend, especially with the development of live broadcast platforms. Keeping pace with the times, Little Red Book launched the video-sharing mode in time, attracting a considerable user base.

4.1.2 Weakness
Firstly, the full realization of fan economy in Little Red Book is facilitated by word-of-mouth marketing in the form of "community + e-commerce," but it also has some drawbacks, such as the platform's inability to determine the veracity of the information given by users. Because of the rising profits from community marketing, some suppliers have "crooked brains" and hire writers to create shopping notes that direct customers to certain stores even when those writers have never really utilized the goods. As a result, the platform's brand and its standing among users are badly harmed by content adulteration and plagiarism. Similarly, the social attribute of the platform has led to people's psychology of "showing off their wealth" and "attracting attention" in certain situations. As a result, the disseminated content becomes less targeted and effective, making it more difficult for users to obtain credible and valuable information.

Secondly, the quality control of third-party products has become another weakness of Little Red Book. The reason why cross-border e-commerce can flourish is that consumers' trust in sellers plays a significant role. Little Red Book's cross-border e-commerce platform "Welfare Society" adopts B2C self-operated form, directly cooperates with top international brands, and ensures that self-operated products are genuine through overseas direct sales. However, many brand merchants also operate on Little Red Book through third-party platforms. Regarding non-self-operated products, Little Red Book cannot guarantee whether the products sold through third-party platforms pass the customs. Therefore, the current disadvantages of the Little Red Book platform lie in ineffective quality control of these products and the lack of a solid after-sales service development system. How to effectively solve the problem of third-party product quality control is the key to the future development of the Little Red Book platform.

4.1.3 Opportunity
The regularization of cross-border electronic commerce and the preferential treatment of cross-border e-commerce by customs policies have brought potential development opportunities to Little Red Book.

With the implementation of the new e-commerce law, the tax authorities have solved the problem that it is challenging to master the transaction information of both parties in the cross-border electronic commerce platform and implement adequate supervision. The regularization of cross-border e-commerce will be a long-term trend in the future. It is worth noting that in the consumer market, whether the price is affordable is the focus consumers consider when purchasing goods. With the advantages of information asymmetry, tax loopholes, and price differences in different markets, Daigou (a syndicated organization of exporters from countries apart from China that buys goods for clients in China) has gained considerable profits and seized some target consumer groups of cross-border e-commerce. However, with the implementation of the new e-commerce law and the normalization of e-commerce development, purchasing has been hit hardest, allowing consumers to move closer to the cross-border e-commerce platform more effectively.

In addition, introducing relevant customs policies has reduced cross-border e-commerce taxes, shortened export processes, and improved customs declaration efficiency. The preferential treatment of cross-border e-commerce by customs policy has greatly enhanced Little Red Book's competitive advantage and promoted the development of overseas shopping areas.
4.1.4 Threat

At present, the threats faced by Little Red Book mainly come from the tax supervision of cross-border e-commerce platforms and fierce competition in the same industry.

Tax supervision is still a global issue with the rapid growth of cross-border electronic trade. Cross-border e-commerce has been significantly hampered by the inability of tax authorities to adequately capture both parties' Internet transaction information and monitor taxpayer behavior [18]. Nevertheless, now that the new e-commerce law has been passed and put into effect, it is clear that government agencies are paying more attention to the growth of the e-commerce platform. Additionally, the industry will be subject to stricter and more precise legal regulations. As a unicorn enterprise in social e-commerce, Little Red Book should base its operations on ethical business practices and tax compliance, and it should be flexible in its approach to adjusting to new circumstances and overcoming problems.

Competition in the cross-border e-commerce market is becoming fiercer. Since 2014, cross-border electronic commerce has developed rapidly, and various business giants have entered the cross-border e-commerce industry. Since all cross-border e-commerce businesses are founded on information platforms, commodity pricing is often transparent, allowing customers to quickly identify and compare commodity prices using search engines and then select cheaper items of the same quality. For Little Red Book, besides Alibaba, the market pioneer, other social networking sites have also begun to seize the community e-commerce market. For example, Tik Tok launched "Tik Tok Shop" and "Tik Tok Window", relying on online star celebrities to sell goods by e-commerce, and the WeChat platform launched "Good Things Circle" and other good things sharing communities. Rich shopping types and channels make the migration cost of consumers between platforms approach zero, and users' loyalty gradually decreases, making Little Red Book's market competition increasingly fierce.

4.2 Suggestions

Given the illusions and vanity concept of money worship on the platform, the platform should prioritize it to maintain its hard-won reputation and reputation. The platform should enhance the audit mechanism, increase the building of the content supervision system, and set up ideal norms and regulations. Implement relevant incentive measures for bloggers who spread positive energy and actively share original content. On the contrary, the platform should promptly remove any content that could harm users' values to preserve the platform's sense of community and users' experience [19]. Simultaneously, pertinent subjects may be discussed to assist users in establishing the correct values, transforming Little Red Book into a content e-commerce platform with a correct value orientation.

Consumer trust has historically been based on product quality, so e-commerce platforms have prioritized growing their platforms. To succeed in the cross-border e-commerce sector, Little Red Book must uphold product quality, stress the uniqueness of goods, and then take advantage of favorable market conditions to grow its market share. On the one hand, Little Red Book should strictly control every link from collection to transportation in the supervision of self-operated products to avoid the inflow of fake goods. At the same time, rigid packaging and inspection of goods are carried out to ensure product quality. On the other hand, it is required to establish an effective mechanism to strengthen the oversight of the items offered by third-party platforms, such as mandating these platforms to make deposits to guarantee the authenticity of the products.

Logistics is the service that clients focus on the most and believe may require better since it covers the import and export of goods. To increase the total logistics speed, Little Red Book should optimize its own logistics system and set up a flawless industrial chain and storage location following users' needs. Additionally, the after-sales servicing of goods poses another significant risk to international electronic commerce. Since there is currently a flaw in Little Red Book's feedback system and no institutional framework to address it, customers cannot take advantage of the after-sales care offered by physical stores when purchased items have issues. To enhance the quality of its after-sales service,
Little Red Book should adequately staff its online platform with the necessary professionals to promptly address users’ queries and rapidly examine consumer returns.

5. Conclusion

To sum up, the cross-border business model based on UGC plus community marketing is relatively novel in the current development of e-commerce. As a member of the cross-border e-commerce platform, "Little Red Book" has seized the opportunities of the times, has become the leader in today's cross-border e-commerce platforms through word-of-mouth marketing and diversified development methods, and has embarked on a unique development path. This paper studies the business model, strengths, and weaknesses of the Little Red Book community e-commerce platform and puts forward suggestions for existing problems. First of all, the elements of its business model mainly cover the value proposition that meets the individual needs of consumers, the integration of big data technology and supply chain resources, and an effective profit model. These elements together constitute the successful model of Little Red Book, which has vital learning and reference value. There are indeed some problems and deficiencies in its development process, such as management of shopping notes, incomplete product categories, etc. Based on the above analysis and existing problems, the following strategies for the future development of Little Red Book are proposed: strengthen the supervision system and guide the establishment of correct values, improve platform functions and services, and improve user satisfaction. Therefore, Little Red Book should actively improve the problems in the future development process, use its advantages to strengthen its competitiveness, realize fundamental traffic realization, and promote itself to develop into a larger e-commerce platform.

References


