

Analysis of Advantages and Disadvantages of China's Online Trade Development - A Case Study of Pinduoduo

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Abstract. With the continuous development of Internet technology, the e-commerce industry has become more critical in the context of the information age. People are increasingly aware of the comfort and convenience brought by online shopping in their daily lives. From this, various business platforms have also contended, striving to compete for their world in the fierce market. When the e-commerce industry is in full swing, Pinduoduo stands out among many e-commerce platforms as a dark horse, quickly occupying a place in the e-commerce market in a short time. Such success is not accidental. It was after the Pinduoduo team comprehensively inspected the current e-commerce market situation in China and accurately judged various opportunities based on their advantages. This article thoroughly analyzes the basis of Pinduoduo's development, business strategy, the multiple options and challenges it seizes after entering the market, institutional innovation, and model innovation. In addition, taking the other two robust e-commerce platforms, Taobao and JD, as an example, the advantages of traditional e-commerce platforms and bottlenecks in the development period are analyzed. The rise of Pinduoduo has expanded the market size and space of e-commerce, highlighted the development potential of novel business models, and inspired other companies to break through the limitations of their mindset and strive for market-oriented innovation and transformation. In this context, this article takes Pinduoduo as the research object. By analyzing Pinduoduo, a successful case in the Internet enterprise market, we focus on how latecomers can innovate through business models and then come to the top in the fierce market competition. This paper's research conclusions and suggestions have specific practical guiding significance for the future development of e-commerce in China.

Keywords: E-commerce, Low price strategy, C2C mode, B2C mode, The consumer market.

1. Introduction

With the rapid development of China's economy, online trade, a novel trade model, is also developing, bringing sweeping changes to daily life. China's e-commerce industry has also opened a new chapter of development in full swing against this bright background. China's e-commerce industry began to develop in 1997 and has been developing for more than 20 years [1]. In recent years, the growing e-commerce giants are also increasingly coming into view. According to the 45th Statistical Report on the Development Status of China's Internet Report", China's current Internet industry is in full swing, and the number of Internet users in China has reached 904 million in 2019, an increase of 75.08 million over 2018. In addition, China's Internet penetration rate reached 64% by 2019, and the number of online shopping users reached 710 million. E-commerce, an essential part of China's economic development, continues to stimulate the expansion of the consumer market by promoting [2].

Internet companies have prominent market characteristics: First, the technology of the Internet industry is rapidly changing, and it isn't easy to accurately judge the technology development trend. Secondly, the development of the Internet industry has the Matthew effect. The strong are more robust, and the weak are weaker [3]. The process from emerging to dominating the market is concise for small new entrants, and it is crucial to grasp the right timing. In the world of rapid renewal of Internet companies, in addition to an innovative business model, correct choices and strategic positioning are needed to take place in the fierce competition [4].

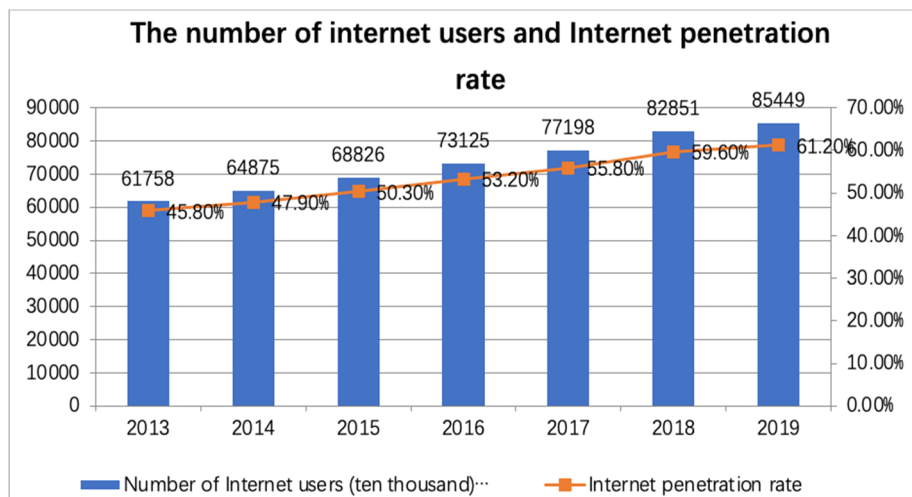


Fig. 1 The number of internet users and Internet penetration rate
 Photo credit: Original

In the fierce market competition, the rise of Pinduoduo has been very rapid, from its establishment to its successful listing in just three years. In the July 2018 U.S. IPO, Pinduoduo's market value stock price is about \$24 billion, leaping to become the third largest e-commerce platform in China after Jingdong and Ali [5]. Pinduoduo's amazingly rapid rise is closely related to its novel business model. Pinduoduo's business model differs from traditional e-commerce models in that its unique socialized e-commerce has both social and e-commerce functions. In addition to its unique business model, Pinduoduo has also adopted other competitive strategies: for example, it has adopted a low-price approach to sell more at lower prices and capture the sales market in third and fourth-tier cities; it has reduced intermediate links, allowing the supply side to connect directly to factories, specifying a customer-to-factory C2M reverse customization model to attract the attention of the general consumer community. In such fierce market competition, Pinduoduo has successfully opened up a world of its own by swimming against the tide [6].

2. Pinduoduo's business model

2.1 Social function + e-commerce model

"Pinduoduo" has increased due to its new e-commerce model - social e-commerce. Social e-commerce can be defined as a new derivative model. According to the "White Paper on China's Retail Service Industry," the marketing cost of acquiring new users on the head e-commerce platform has been increasing, with 2016 being the critical tipping point for e-commerce marketing costs, with the average cost of acquiring new customers online exceeding \$200, even more than the cost of acquiring customers offline [7]. Because online customer acquisition costs are gradually increasing, all e-commerce platforms are trying to develop new customer acquisition channels. Pinduoduo opened up the market quickly, just a few years after entering it, without its new e-commerce model. It bundles the social function of the social software with the shopping function of the e-commerce platform and uses the social position to spread the goods. In this shopping process, Pinduoduo not only meets the consumer psychology of sharing but also gains vast traffic [8].

2.2 Efficiency Business Model

Companies mainly achieve efficiency-based business models by business model innovation, which can significantly improve transaction efficiency and reduce transaction costs. In the business model of Pinduoduo, the platform-oriented model of recommending products is mainly used to guide consumers in shopping. It weakens the function of consumers to search and shop by themselves and creates explosive products through low-cost group shopping to increase traffic and sales volume [9].

In the grouping mode, the platform will directly connect to the factory, reducing the intermediate links and thus saving intermediate costs. At the same time, merchants, through the grouping mode, form a mass production, which is conducive to saving production costs and reducing the price of goods. This efficiency-based business model is very competitive in the current e-commerce industry [10].

The C2B model is a new business model of e-commerce from consumers to enterprises. This model is different from the traditional e-commerce model. It changes the conventional e-commerce model and the relationship between consumers. The C2B business model is based on the above, which can be used in the transaction process. Reduce the barriers of space and time, including some communication barriers, so that the transaction costs are reduced [11].

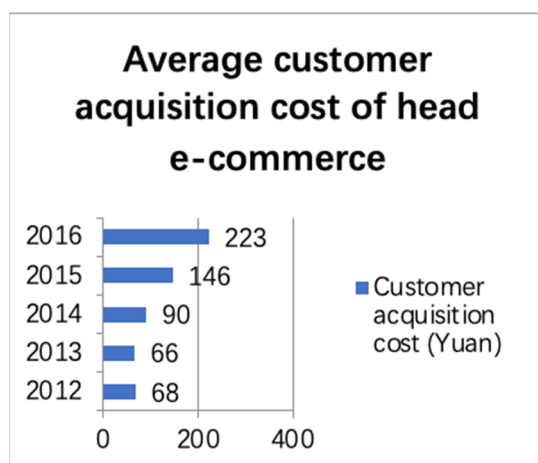


Fig. 2 Average customer acquisition cost of head e-commerce
 Photo credit: Original

2.3 C2B Model

The C2B model is a new business model of e-commerce from consumers to enterprises. This model is different from the traditional e-commerce model. It changes the conventional e-commerce model and the relationship between consumers [12]. The C2B business model is based on the above, which can be used in the transaction process. Reduce the barriers of space and time, including some communication barriers, so that the transaction costs are reduced [13].

2.4 Differentiated Market Positioning Model

Differentiated market positioning model Pinduoduo's business model adopts a differentiated market positioning model, targeting low-income people in small cities. This is because before Pinduoduo entered the e-commerce industry, the market of higher income groups in big cities had already been divided more thoroughly. Pinduoduo chose to target low-income consumer groups in small towns in this context and launched related products according to their income and consumption demands [14]. Pinduoduo's differentiated and segmented business model has helped Pinduoduo save a lot of upfront costs. Pinduoduo's business model adopts a differentiated market positioning model, targeting low-income people in small cities. This is because before Pinduoduo entered the e-commerce industry, the market of higher income groups in big cities had already been divided more thoroughly. Pinduoduo chose to target low-income consumer groups in small towns and launched related products according to their income and consumption demands [15]. Pinduoduo's differentiated and segmented business model has helped Pinduoduo save a lot of upfront costs.

3. The competitive advantage of Pinduoduo

3.1 Applying the "Long Tail Theory"

Pinduoduo applies the extended tail theory to explore potential markets. The long tail theory is a concept in the era of online trade, which means that many small markets can be aggregated to generate significant demand [16]. According to the QuestMobile and Aurora Big Data survey, the proportion of female users in the Pinduoduo e-commerce platform is higher. The ratio of users in small cities and below is also higher than in other integrated e-commerce platforms [17]. Overall, Pinduoduo is attractive to atypical e-commerce users and very accurately and quickly captures the needs of a large number of long-tail users. The most profitable part for Pinduoduo is not the advanced consumers at the head but the consumer market with a large population and low-income level. According to the long-tail theory, this part of the market has vast potential.

3.2 Reduction of intermediate links

Pinduoduo reduces redundant intermediaries and, therefore, additional costs. Pinduoduo provides merchants with an information-rich and transparent platform [18]. Merchants have access to the information they need about their users on the platform, such as the number of orders through a grouping campaign. When the grouping is completed, the charge is sent to the merchant. The merchant can ask the factory to produce the goods according to the actual quantity and sell them directly to the intended users after production [19]. This model can reduce all kinds of costs, and secondly, it also meets the consumer's consumption needs. At the same time, direct sales can reduce the expenses related to storage costs of warehouses, store rental fees, and other expenses. This business model reduces costs while increasing user satisfaction. This virtuous cycle model can attract many repeat customers and open up the market.

3.3 Attracting a large number of merchants

Pinduoduo attracts a large number of merchants. Pinduoduo has used strategies related to reducing commission, the free home page, or lowering the entry threshold to attract merchants. Pinduoduo gives desirable offers to attract many merchants to the Pinduoduo platform. In addition, the introduction of relevant policies also supports small and medium-sized merchants' development [20]. In addition, the low threshold criteria for entry also attract many merchants to enter. It is easy to become a merchant of Pinduoduo, and it only takes a few minutes to complete the relevant registration. Therefore, under its strategy of attracting a large number of merchants in the early stage, Pinduoduo has attracted millions of active merchants [21]. The rich type and number of merchants is also an advantage for the Pinduoduo platform to attract consumers.

3.4 Simple operation process

Pinduoduo focuses on the simplicity of the software interface and operation process. The Pinduoduo platform reduces the complexity of shopping, with only four links from the shopping to the final payment stage. Therefore, the reduced difficulty of operation is conducive to attracting older users who are not skilled in cell phone operation. In addition, Pinduoduo recommends products that consumers may want to buy directly on the platform's homepage [22]. And because of the accurate recommendation through big data, consumers can complete the purchase with fewer clicks. In addition, there is no shopping cart, so consumers can pay directly for the products to reduce their hesitation time [23]. Third, all products on the Pinduoduo platform are shipped. This sales strategy is desirable to consumers who are interested in price.

4. The Problems and challenges of Pinduoduo

4.1 Low product quality

The quality of Pinduoduo's products still needs to be improved. Because of the low-price strategy, there is a problem of inferior product quality. The quality of the products brings many negative comments to Pinduoduo, leading to its decline in its reputation [24]. The issue of product quality in Pinduoduo mainly lies in two aspects: the lack of creditability of merchants and the lack of product supervision. First of all, regarding the lack of creditability of merchants, some merchants keep lowering their prices to attract traffic, triggering price wars. This lower pricing will reduce the cost of goods input and thus lead to the quality of goods is not good. In addition, the Pinduoduo platform's system is not yet perfect [25]. It's early to attract more consumers and merchants to move in, Jindo provides preferential policies, but the later design is not coordinated development. All things considered, if Pinduoduo wants to build a good brand image, it must improve the quality of its goods.

4.2 Service still needs to be improved

Pinduoduo needs to improve the service level of the platform. In the fierce market competition, the quality of goods is not the only decisive factor. Merchant services also have a significant impact. Improve the quality of service, including after-sales service, logistics services, and so on. Brand service is an essential part of merchandise sales. It can intuitively affect the customer's return rate and satisfaction [26]. Although Pinduoduo is improving the platform service, the completion of the service in practice is not high. Therefore, if Pinduoduo wants to enhance its service further, it should introduce relevant management systems and regulations, improve disciplinary mechanisms, and strive to provide perfect after-sales service to give consumers a better shopping experience.

4.3 Merchant reputation problem

The merchants of Pinduoduo need to establish a good reputation and brand image. As a critical factor in online shopping transactions, merchant reputation plays a crucial role in the whole online shopping process. It affects the relationship between consumers and the e-commerce platform and determines whether consumers will become repeat customers [27]. A good merchant reputation can bring more profit and traffic to the Pinduoduo platform, while a poor reputation can make the forum many customers. If the merchant's reputation is damaged, the merchant's reputation will be in ruins. If Pinduoduo wants to develop further, it must keep improving its reputation to expand its potential market.

4.4 Low-price profit model is risky

Pinduoduo's low-price profit model is also precarious. In the early stage of development, Pinduoduo relied on the low-price profit model to open up the market [28]. But in the long run, this profit model will bring risks. First of all, the initial stage of Pinduoduo is to take the money of venture capital to make up the difference in cost, thus reducing the price. But the problem is that venture capital is risky and may not recover the cost. In addition, Pinduoduo promotes a low-price strategy by suppressing suppliers [29]. But this will impact suppliers and discourage their production. This low-price model may also lead to vicious competition of low prices, which will reduce the quality of products. Given the current development of Pinduoduo, it should optimize the development model to seek better results.

4.5 Low brand loyalty

Another problem facing the development of Pinduoduo is the low brand loyalty of its consumers. Brand loyalty is an essential indicator of brand value. When consumers' brand loyalty is high, when the price of the brand's products increases or new products are introduced, consumers will be able to continue to consume [30]. However, if the consumer's loyalty to a brand is low, the consumer will keep changing brands, thus losing part of the market. As the target group of Pinduoduo is a group

with low income, the core demand of this target group is low price. When Pinduoduo raises the price for later development, it won't be easy to retain this group of consumers.

5. Conclusion

With the continuous development of Chinese e-commerce, vertical and segmented markets are gradually finalized, and the e-commerce market tends to mature. However, regardless of the development of the competitive market, the market is consumer oriented. Merchants should be fully aware of the vital role of consumers in market development [31]. Merchants can further explore their potential needs based on the habits of different consumer groups to stand out in the e-commerce industry. This thesis takes the development of Pinduoduo as an example and analyzes the opportunities and challenges encountered by Pinduoduo in its development [32]. With the landscape of China's e-commerce industry largely shaped, Pinduoduo has gained an advantage in the white-hot competition by utilizing model innovation and marketing method innovation [33]. The successful experience of Pinduoduo's development and its measures to cope with the problems have implications for the development of similar e-commerce platforms.

Firstly, as a third-party e-commerce platform sales website, Pinduoduo should constantly strengthen the supervision of the platform. Because the entry threshold of Pinduoduo is low, the merchants' credit varies. Some unscrupulous merchants are selling counterfeit and shoddy products. Pinduoduo should establish a better platform system and add more full-time staff to the platform's anti-counterfeiting activities in the face of this fake problem. In addition, it should also strengthen the management of the source of products so that the source of goods is transparent [34]. Once a product is found to be of questionable quality or counterfeit, the problem should be solved immediately [35]. The current technologies, such as cloud computing and big data, can be applied to the regulatory system and system.

Secondly, if e-commerce platforms want a long development, they must continuously improve their product quality. As we can see from the case of Pinduoduo, the reputation of Pinduoduo declined in the middle and late stages because there were more fake goods on the platform. The quality of goods is of great significance to the development of enterprises and media. E-commerce platforms should make the concept of improving product quality a part of the corporate culture [36]. In addition, a strict product accountability mechanism should be established so that when something goes wrong with a product, it can be quickly pursued by the person responsible.

Thirdly, E-commerce platforms should constantly improve the reputation and image of their media and establish a sound public idea. Take Pinduoduo as an example. There are many fake goods and complaint problems in the late stage of its development, which damages the brand image of the Pinduoduo platform. If such issues are not solved in time, the reputation of the Pinduoduo platform will gradually decline, and its vast accumulated user base will be progressively lost. The most crucial step to addressing the problem of counterfeit goods is to implement strict management measures for fake and shoddy goods. In addition, e-commerce platforms can also improve their public image by fulfilling their social responsibility. As the e-commerce industry becomes increasingly influential in society, it has become an inevitable trend for e-commerce platforms to assume social responsibility. Actively undertaking and fulfilling relevant social obligations is conducive to e-commerce platforms realizing the value of their brands and better shaping the image of their brands. For example, Suning Tesco has established its public welfare foundation and innovated developing rural e-commerce poverty alleviation model. The general welfare activities of e-commerce enterprises to fulfill their social responsibility help them spread their brand image and improve their word of mouth.

Fourthly, E-commerce platforms should strive to implement a precision marketing strategy, which is conducive to expanding the potential market while reducing the cost of publicity. Under the premise of precision marketing, accurate identification of consumers' potential needs, and the use of big data and cloud computing, and other related technologies, according to the user's browsing history, the user's previous purchase records, etc. to analyze the user's shopping tendencies, to more effectively

and accurately push relevant product information. In addition to precise marketing of goods, an e-commerce platform like Pinduoduo should conduct accurate marketing of brands. For example, for the consumer groups in small cities that prefer low-priced goods, Jindo can target this specific group of consumers to create a warm and cost-effective brand image so that the e-commerce platform is more attractive.

Last, the e-commerce platform should choose the communication channels and methods suitable for its brand image to expand the visibility of the platform according to the current positioning of its brand. Pinduoduo, an e-commerce platform, should strive to boost the visibility of its platform and develop potential markets. In the case of Pinduoduo, the reason for Pinduoduo's rapid rise is its efficient advertising campaign. Other e-commerce platforms should also use various ways to vigorously promote their brands to lay a good foundation for further consumer market expansion.

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