

Operation Strategy Analysis of E-commerce Platform Taking PDD as Analysis Case

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Abstract. With the development of Internet and information technology, more and more people prefer to purchase merchandise online through e-commerce platforms rather than offline stores. And this change causes an increasing number of enterprises focus on online e-commerce platforms. With the number of e-commerce platforms grows, the competition between e-commerce platforms become fierce. It is a good question that how the e-commerce platform stands out from many competitors. This paper studies the e-commerce operation strategy through user analysis, business model and product analysis according to specific examples which are popular E-commerce platforms in China called Taobao and PDD via methods of case analysis and comparative analysis in different three periods and the main analysis object is PDD. Combine with the research results, even though PDD faces the competitive environment, PDD adjusts its strategy in time in order to become more competitive in different periods. Correct strategic positioning to meet the needs of consumers and differentiated from other competitors are methods of long-term existence and development.

Keywords: E-commerce, PDD, Operation Strategy.

1. Introduction

1.1 Background

As the Internet has grown, e-commerce platforms have become popular. In other words, an increasing number of people prefer online shopping rather than offline shopping. Nowadays, there are three major e-commerce platforms: JD, Taobao and PDD. What's more, they adopt different operation strategies in order to form their unique competitive advantages. Latecomer companies are expected to have sharp market insight [1]. Information technology has a huge impact on people's daily social life. It is convenient for people to purchase something demanded online. E-commerce retailers are required to provide some details of merchandise, such as color, size, material, etc. Compared with offline retailers, online retailers reduce store rent and save transaction time. In terms of customers, they have more chances to select something. On e-commerce platforms, customers are able to browse comments before they place orders.

With the globalization of market economy rapid development and policy support, e-commerce breaks geographical restrictions. It means that consumers have chances to purchase commodities which from other regions even from abroad with the reasonable price and they don't need to go there in person. C2M online business model in China is approved by more and more customers. As a result, an increasing number of enterprises enter e-commerce market and expect to occupy their position. It is crucial for firms to adopt correct operation strategies [2].

1.2 Literature review

With the development of the internet, the quantity of transaction of e-commerce in China has sustained growth in recent years, ranking first among the global online retailer markets. In just three years, the bipolar pattern of China's e-commerce industry has been broken by PDD, many investors are willing to invest in PDD because of its high growth rate. Li et al. concluded PDD implements four strategies: "countryside surround the city" development strategy, low-cost leading strategy, competitive strategy of strategic loss and strategy of increasing the number of users as well as repurchasing rate (Li, Tsai, Tran 2021) [3]. The competition between different e-commerce platforms is becoming increasingly fierce. As a result, they adopt different operational strategies. Wang shared

the idea of analyzing competitive business strategies of different platforms through case analysis and comparative analysis. She concluded that according to the result of SWOT, the successful strategy of PDD is that it adopts the mode of shopping called group purchase which can attract more users and offer favorable price to consumers. PDD also offers users and factories a platform to connect with each other directly. If enterprises want to achieve win-win situation, they are expected to cooperate with partners (Wang 2021) [4]. In the article of Xue and Guo, their analysis of Taobao data showed that the successful recipe of Taobao is that it uses reputation leading strategy and cost leading strategy flexibly. Taobao is only a C2C trading platform. Sellers and buyers are the main market participants during market transactions. They also pointed out there are two things about the competition that sellers face, one is competition with offline stores, the other is competition with the same tape of sellers (Xue, Guo 2012) [5].

Moreover, through research the strategy of PDD, Zhang found that it provides its users cost-effective products via C2M "pin" factory model. In the first stage of PDD founded, it became popular relying on "cut a knife" mode. If existing users invite new users to purchase together, they can obtain huge discounts. PDD applied the theory of virus marketing successfully and it became popular in a short period of time. PDD is only a mini program in the WeChat, which is easy to use, especially for middle-aged and elder people (Zhang 2022) [6]. Fan and Jarinto contended that the globalization of the market economy had altered conventional modes of consumption. During the sales process, accurate product information plays an important role. Color, size and style affect customers' comments. If the actual products are not as same as descriptions, sellers will receive negative comments. The sales of products is another factor which effect consumers' satisfaction. They can't touch the actual products before they receive products. In other words, they access information through advertisements. Some customers prefer to focus on quality (Fan, Jarinto 2018) [7]. Chen et al. think the products of PDD are supported by national agricultural support policies. PDD. As a typical online agricultural products selling platform, it has many popular parts, such as Duoduo farm and 10 billion CNY subsidy. PDD has great achievements in promoting agricultural products and selling these products. This action gains more farmers' trust and helps many farmers to sell agricultural products directly. PDD always faces competitors in the e-commerce market, such as Taobao. Even though every e-commerce platform has loyal customers, many users of PDD turn to Taobao because of fake products or low-quality products (Chen, Wu, Wu, Li 2022) [2]. Ou and Davison stated that compared with e-bay, the key successful method of Taobao is free-of-charge business model. It attracts a group of sellers and buyers. Taobao became a dominant player from a small-scale new entrant. Moreover, it provides a platform that buyers can communicate with sellers directly and identify whether sellers online easily, buyers don't need to use other apps. Chinese customers prefer to set up trust relationship with sellers by themselves, not merely view other consumers' comments (Ou, Davison 2009) [8].

By analyzing data on Taobao's reputation ratings, Lin et al. concluded that the reputation scores provided by the system were reliable indicators of market structure. Even though e-bay started early than Taobao, Taobao had growth trend. The distribution of Taobao is as same as e-bay. Lognormal is quite possible to describe all online C2C marketplaces (Li, Li, Lin 2008) [9]. Huang et al. stated reliable quality and reasonable price are two methods of attracting more customers. It can be seen that the basic way to create and improve customer stickiness is to focus on the price and quality of merchandise in the online platform. the "repeat customer" column of PDD marks accurately the number of purchasing, and gives psychological hints to new and old consumers. This action not only increases the trust of new customers but also shortens the distance between old customers and platform. It is important that this action can enhance customer stickiness better (Huang, Xu, Liu, Qi, Chen, Sa 2021) [10]. Zhou et al. shared the idea that "Business Adviser", a column of Taobao, provide multi-dimensional analysis data of their online shop to sellers. By this way, sellers have chances to follow the trend of popular and judge the demands accurately and better (Zhou, Yu, Choguill 2021) [11].

1.3 Objective

This paper aims to explore operation strategies of different online e-commerce platforms in China. In this paper, the author will offer concrete examples which are major e-commerce online platforms in China: PDD and Taobao. These two platforms adopt different operation strategies and manage to become well-known e-commerce platforms in China. More and more enterprises focus on online e-commerce area, meanwhile, some offline firms also add e-commerce business to their business list. The author will state and compare these two different strategies and then analyze the reason why PDD and Taobao make them successfully within the intense competitive environment.

2. Discussion

PDD was founded by Huang Zheng in April 2015 and it aimed to middle and low-end market and depended on WeChat platform. It gives somebody a chance to find pleasing goods who pursue low cost products. PDD adopt group-buying mode, which means that if people want to buy merchandise, they will be allowed to share this link with their friends or family members. And then they can cost less money to buy merchandise. In order to occupy its position in the crowded market environment, there are two problems need to be solved. One is low-price products source, the other is a large number of consumers. Considering two problems, the "social group" of PDD perfectly fits the social attributes of WeChat. It provides users with a convenient way to purchase things through mini programs in WeChat [2]. In a short time, PDD accumulates many customers. Focusing on the customers who live in second-tier and third-tier cities is a successful recipe. Other online platforms focus on first-tier cities group. Finally, it is obvious that PDD doesn't have carts because it encourages users to order instantly and share the link with their friends.

The development of PDD can be divided into three stages.

The first stage was from 2015 to 2017. During the period, the first issue that PDD faced was that there were some online e-commerce platforms already in the market and many customers were familiar with them, such as Taobao and JD. Taobao was founded by Alibaba in May 2003 and JD was founded by Liu Qiangdong in 1998. These two e-commerce platforms almost covered all kinds of merchandise. The business model of Taobao was C2C, which means consumers can communicate with online retailers through online platform. The tag about 3C products of JD was well-known among customers. Even though faced competitive environment, PDD never gave up and solve this problem very well. PDD combined e-commerce with social for the first time.

At the initial stage, the most important thing that PDD needs to do is that attracting customers as much as possible. The aimed users of PDD were someone who lived in small cities and rural areas. The major products of PDD were agricultural products and fruits, which were not concerned by Taobao and JD. The most important thing was that PDD depended on leverage of WeChat. WeChat was a popular social application in China, in other words, it had a large number of users. In this way, PDD was known by people and it owned first batch of users.

The second stage is from 2017 to 2018. During this period, PDD needed to further expand market, so it adopted C2M model. Customers placed orders and then orders are delivered to manufacturers or farmers directly through PDD. It built up fruits and agricultural products supply chain and cooperate with farmers.

C2M model offers supply chain a new idea, which build the bridge between final customers and upstream product period [12]. The price of fruits and agricultural products was lower than other products and these were necessities, so the main kinds of commodities were fruits and agricultural products. And then, in order to solve the problem that profits of merchandise were lower, PDD needed to find good source and increased the sales. Finally, PDD adopted C2M model, which meant that manufacturers were products source. Customers placed orders with manufacturers directly through PDD.

PDD also created interesting modules, such as cutting a knife. The platform could offer some optional products which users could choose and then users needed to invite as more as possible friends

to click the link, which they received within 24 hours. If users could invite enough friends, they would purchase this merchandise for free. Through this way, PDD managed to become well-known.

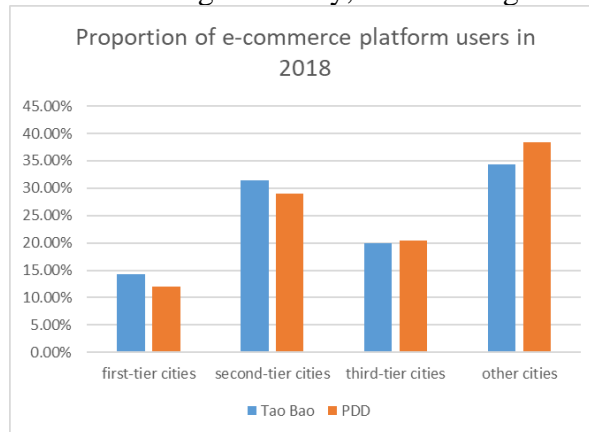


Figure 1 Data source: Topsperity Securities, Deppon Institute, Penguin survey

In the figure 1, it shows that the proportion of users who lived in first-tier cities of PDD in 2018 was 12% and that of Taobao was 14%. The difference between the two data was only 2%, so PDD has already occupied its market share and become popular.

The last stage is from 2018 to now. in this stage, PDD is expected to upgrade the image. People always have bought fake products because the name of fake and certified products are very similar. Several retailers puzzle customers through this way in order to obtain orders. As a result, PDD adds certified products guarantee service. What’s more, PDD cooperates with well-known brands as well as allowing users to enjoy preferential policy, such as ten billion subsidies. Compared with other e-commerce platform, the price of the same product in PDD is lower.

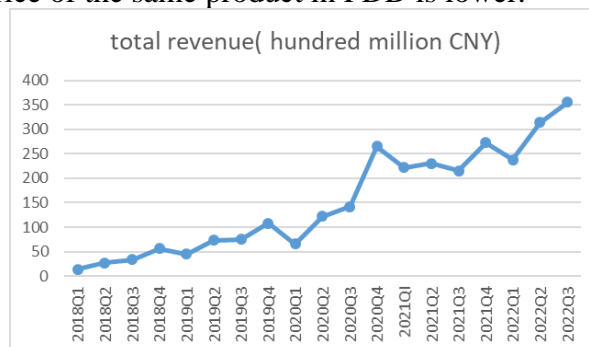


Figure 2. Data source: PDD annual report from 2018 to 2022

In figure 2, it shows that the total revenue of PDD has an increasing trend, from 13.85 hundred million CNY to 355.04 hundred million CNY.

PDD takes advantage of low price strategy, which means it meets customers’ ideas and needs. One of reasons why PDD becomes popular is that it takes into consideration particular customers who are sensitive to price [6]. Before PDD appeared, some e-commerce online platforms had occupied their positions, such as Taobao and JD. They had already formed competitive advantages. In other words, PDD needed to find target market and ensured that it was different from other e-commerce platforms. As a consequence, PDD regarded public who had low income as well as pursuing affordable products as target consumers. The target users of Taobao and JD were people who lived in the first-tier and second-tier cities with middle or high income. PDD filled the gap in the low consumption market and low price strategy catered for the specific group.

3. Conclusion

This paper uses the method of case analysis to analyze the operation strategies during three stages. In the first stage, the most important thing was that how to enter online e-commerce platform and

grab target users. At first, PDD focused on customers who lived in smaller cities and rural cities. Secondly, the main type of products were fruits and agricultural products because of cheap. Thirdly, it depended on effect of WeChat. The core part of the second stage, from 2017 to 2018, was market expansion. PDD built fruits and agricultural products supply chain as well as using C2M model. It attracted more consumers by the module, which called things for free. In the last period, PDD needed to boost its reputation because in previous two stages, in order to attract sellers utilizing PDD, it almost never set any strict conditions. It caused a big problem that too many fake products appeared, so it added certified products guarantee service to their services. In addition, PDD also cooperated with many popular brands and gave ten billion subsidies to users.

For one thing, in terms of e-commerce enterprises, high volume of users, meeting needs of customers and reasonable price of products are crucial things they need to finish. For another thing, if new e-commerce platforms want to play roles in the e-commerce market. They can depend on helpful platforms as well as cooperating with well-known enterprises to ask for help and online e-commerce platforms are expected to find their market position and form their competitive advantages.

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