

# The commercial transformation and development of Xiaohongshu

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**Abstract.** Web 2.0 has revolutionized social media, providing users with diverse platforms to engage with. Xiaohongshu stands out as a unique social media that offers a fusion of visual, textual, and video content, with a core focus on "growing grass" (i.e., promoting products or services). However, many researchers pointed out that the commercialization process of Xiaohongshu could have been more successful. Nevertheless, there is still a lack of a unified explanation for Xiaohongshu's difficulties and managerial decisions. To address this gap, this research collects data on the number of plants planted, the amount of interaction, the cost of brand placement, and so on in Xiaohongshu. It conducts regression analysis to determine whether the current strategy of Xiaohongshu can effectively and effectively increase the number of users and their intention to purchase. Results indicate found that merchant investment can significantly increase engagement. The amount of business investment can significantly increase the number of grass-planting notes, and the amount of interaction can also significantly increase the number of grass-planting notes. In contrast, the number of commercial advertisement notes significantly negatively impacts the number of grass-planting notes. Overall, the findings suggest that the amount of interaction and brand investment mutually reinforce in Xiaohongshu. In addition, the higher the interaction volume and the brand investment amount, the higher the willingness of users to share and buy. Moreover, there is a trade-off between the number of ads and the number of grass grown.

**Keywords:** Social Media, Xiaohongshu, Commercialize, commercial strategy.

## 1. Introduction

### 1.1 Background

In recent decades, social Media Apps have become increasingly prominent, with WeChat, TikTok, and Xiaohongshu being the most popular ones in mainland China, where people share their daily experiences, such as travel and food recommendations. However, many social media However, many social media platforms have shifted from publicity software to profit-making software, with advertising revenue, e-commerce, and co-marketing being the main sources of income. For example, TikTok focuses on advertising and e-commercial and will cooperate with their network anchor, and those anchors can be divided into sellers' anchors and detectives. Therefore, those anchors will gain revenue from products sold, gifts from fans, and advertising fees. Then Tiktok will take percentage fees from those anchors' revenue as the company revenue. TikTok must be the most successful social media in mainland China. Another social media site, Xiaohongshu, is also called Little Red Book, a Chinese platform combining. So, what is its commercial strategy? Xiaohongshu is a content, social e-commerce app launched in 2013. It is the leader of community marketing in mainland China (with 200 million users and a valuation of more than USD 3 billion) but faces a series of cash-out problems [1]. Xiaohongshu mainly provided overseas shopping references by PGC at first, then transformed into UGC to solve the problem of lack of information and deficiency of user activity [2]. However, Xiaohongshu is still developing for more optimal Profit and a suitable commercial strategy. Furthermore, according to the proportion of revenue and user populations between Xiaohongshu and

TikTok, Xiaohongshu has a lower profit ratio per user and has struggled to generate substantial profits since its founding in 2013, despite having over 200 million users.

## 1.2 Challenges

Xiaohongshu faces several challenges in increasing its revenue. Firstly, the user must use Xiaohongshu as a recommendation app rather than buy those recommendation goods from other e-commercial apps such as Taobao. Secondly, Xiaohongshu uses very simple platforms to perform the entire app, so it's tough to add any advertising inside the platform. Third, there is a limited supply chain for goods, with only a few famous bloggers selling products, while most bloggers can only make recommendations. Therefore, how to fix those problems and make an excellent commercial strategy for Xiaohongshu is the goal.

## 1.3 Objective

The paper aims to analyze the strategies of the Xiaohongshu and how it can Xiaohongshu face its challenges. How to promote the commercial strategies for Xiaohongshu? Specifically, this study examines how Xiaohongshu balances user-generated content and e-commerce transactions. Additionally, this study will evaluate how Xiaohongshu leverages social media influencers and word-of-mouth marketing, and how Xiaohongshu adapts to changing consumer preferences and market trends. Besides, finding out other enterprises' successful operation strategies, Combined with the commercial development prospects of Xiaohongshu. Eventually, come to some strategic suggestions for the future commercial promotion of Xiaohongshu.

## 2. Literature Review

### 2.1 UGC

UGC, short for User-generated Content, is generally the main part of social media. Thanks to Web 2.0, users can update social media by uploading pictures or videos of their daily life, such as the food they have or the place they visit [3]. From the commercial perspective, UGC is an efficient way to advertise for brands and expand their markets [4]. Overall, UGC with high quality can enhance user stickiness and promote the realization of customer value. The UGC of community e-commerce is commodity-based. Among them, posts with diverse content, moderate reading volume and publishing from influential bloggers are easy to adopt [4].

Therefore, imitation can lead the users' purchase intention on UGC platforms. Through imitation mechanisms, the purchase behavior of KOL (key opinion leaders) can influence others' decision-making process significantly and essentially boost the conversion rate [5], which means electronic word-of-mouth (eWOM) plays an important role in the process for users to make decision. In that case, KOLs with high levels of credibility and reputation are more trustworthy and can stimulate users' purchase intention and stickiness [6].

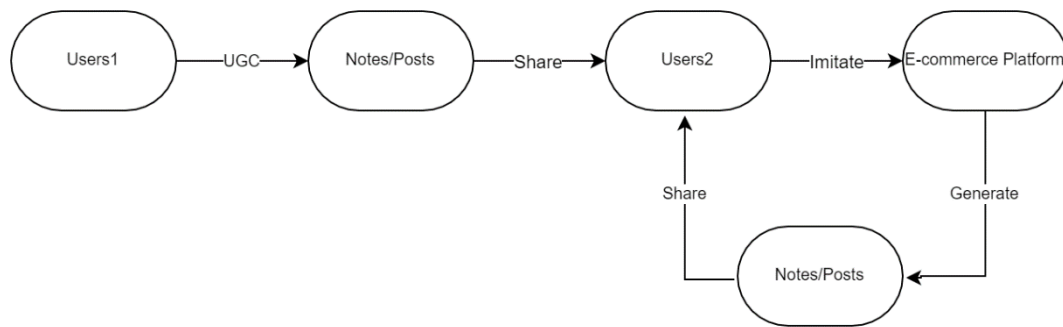


Fig. 1. UGC in Xiaohongshu

### 2.2 Purchase Intention on Content Social e-commerce Platform

In the online social context, trust and social willingness positively impact consumption intention. In contrast, in online consumption, information and service quality have a significant role in promoting [7]. Interactivity is one of the most crucial bases for these platforms, significantly affecting consumer shopping behaviors. The number of interactions is essential to assess influencer marketing activities, which is primarily relied upon by marketers [8]. Moreover, interactivity must affect the internal motivations of users, both hedonic and utilitarian motivations, so that it could affect purchase intention. Besides, brand awareness also affects purchase Intention [9].

Obviously, this type of social media guides users' consumption decisions through a large number of high-quality UGC and advertisements, which greatly enhances users' desire to consume while bringing platform traffic. Users continue to receive product information with real experience reports during the use process. Impulsive consumption psychology such as product expectations and the desire to challenge mixed reviews gradually arises, eventually evolving into consumption [10].

All of these require KOLs to upload high-quality and reliable posts relevant to user needs and have a positive social impact [11]. When users believe that the recommendations provided by KOLs are available and easy to use, they will follow the shopping recommendations of KOLs, resulting in a stronger purchase tendency [12].

### 2.3 Marketing Model

The marketing model comprises a platform to deposit and commission, self-operated welfare agencies, stores, and advertising fees [1].

It is required to pay the deposit and commission when third parties and brands move in, approximately 20,000 RMB, which is an important part of Xiaohongshu's revenue. Xiaohongshu can earn a price difference as a broker when collaborating with foreign brands [13].

As for sales revenue, as a content e-commerce company, Xiaohongshu has its self-operated mall, providing free community and content services to obtain user consumption information. After that, Xiaohongshu pushes relevant product note content to target users to achieve targeted delivery and provides products for users to purchase through the information and e-commerce model to increase the consumption conversion rate of users [2].

Besides, advertising expenses of the platform are another source, which is exploited in the form of information flow in October 2018.

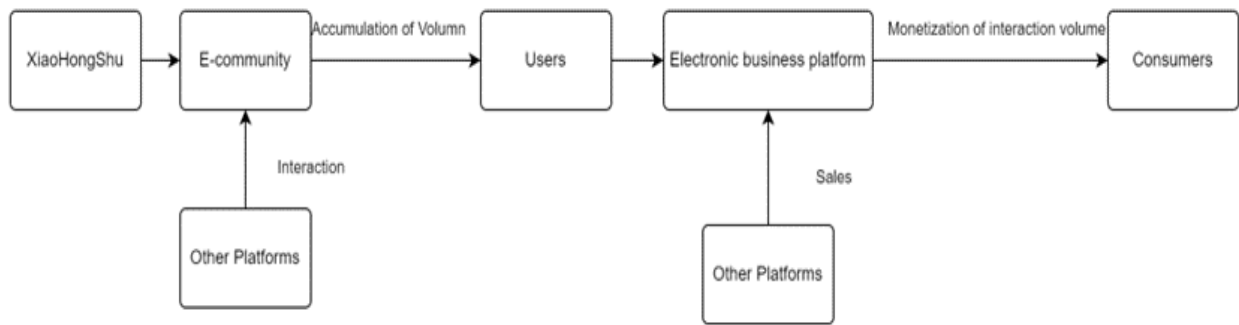


Fig. 2. Xiaohongshu Profit Model [13]

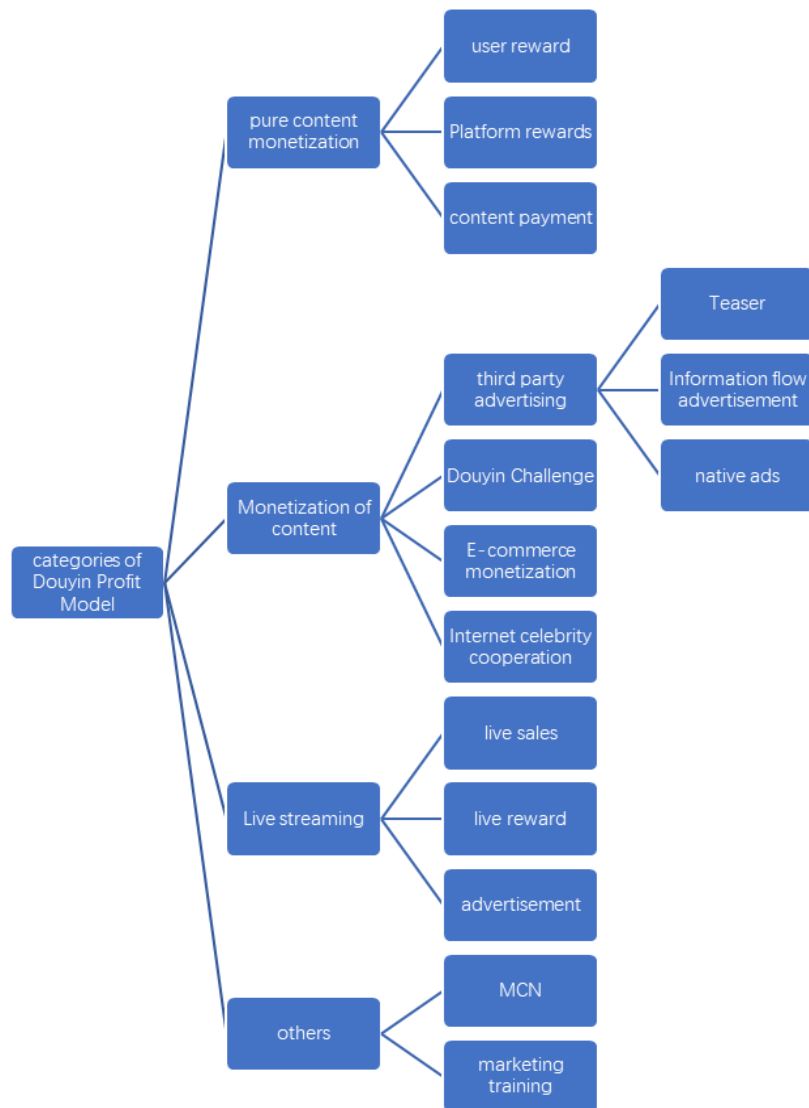


Fig. 3. Social Media Profit Model [14, 15]

### 3. Research Design

#### 3.1 Data collection

The data were collected in February 2023, comprising two main data groups. The first is the rank of brands' advertising, and the second is the rank of customer search rate. According to the first one, data showed at least 500 brands that chose Xiaohongshu as an advertising platform. The second data

showed at least 439 main search topics, which primary red users search daily. This research set up two main hypotheses according to those data. The first will be "Brands advertising investment in Xiaohongshu can significantly increase the interaction between users and brands." The second will be "Brands advertising investment can significantly increase the users' purchase intention". According to the research, the main profit gained by Xiaohongshu comes from Brands' advertising and investment.

### 3.2 Data Pre-Processing.

The data collected for this study were analyzed using SPSS 25.0. Regression analysis was conducted to examine the relationship between variables. This research proves two regression tables. The first table estimated the relationship between the brand placement costs and engagement volume. The second table estimates the number of persuasive notes and estimated brand placement costs, note interaction, and the number of business notes. The dependent variable is the engagement volume, and brand investment is the independent variable. This research aims to find the P-value for those two tables and determine which significantly affects customer behavior and Xiaohongshu Profitability.

## 4. Results

Regression analysis was used to prove the correlation between estimated brand placement costs and engagement volume in Table 1. The dependent variable is the engagement volume of users, while the independent variable is the estimated brand placement costs of certain recommended products advertised on Xiaohongshu. The analysis reveals a significant positive correlation between estimated brand placement costs and engagement volume ( $B=0.085$ ,  $p<0.05$ ), indicating that increasing the brand placement costs leads to a corresponding increase in user engagement on Xiaohongshu.

**Table 1.** Linear regression result between volume of users and estimated brand placement costs

Variable	Coef	Std Err	t	P> t
Estimated Cost	0.085	0.003	26.746	0.000

Another regression was run to show the correlation between the number of persuasive notes and estimated brand placement costs, note interaction and number of business notes. The dependent variable is the number of growing gross notes, which refer to the posts where users recommend products to others after using them. The independent variables consist of estimated brand placement costs, note interaction and the number of business notes. Each item has a p-value less than 0.05, indicating they are statistically significant. It is considered that the number of growing persuasive notes is directly proportional to estimated brand placement costs and note interaction and inversely proportional to the number of business notes.

**Table 2.** Linear regression result between the number of growing gross notes and estimated brand placement costs, note interaction and the number of business notes

Variable	Coef	Std Err	t	P> t
Estimated Cost	0.00038	0.000	7.149	0.000
Interaction	0.00048	0.000	8.910	0.000
Business Notes	-1.07520	0.525	-2.050	0.041

## 5. Discussion

According to the data analysis and some relative research, the future of the commercial development of Xiaohongshu can be discussed in the following graphs.

### **5.1 Optimizing the content marketing of notes on Red**

Content marketing is vital in Xiaohongshu's commercial strategy as it provides a fundamental and sustainable way of promoting business. Stick to the content-oriented principle, improve content quality and diversity, meet users' different needs and interests, and enhance their stickiness and activity. Some possible measures for improvement are: Increasing the incentive mechanism for content creators (bonuses, honors, training, etc) and encouraging more users to create and share notes. Preparing more tools and support for content creation, such as templates, materials, and tutorials to lower the threshold and difficulty for users to create notes. Furthermore, Xiaohongshu diversify and innovate content creation by introducing new themes, topics, forms, etc., to enrich the content and style of notes.

### **5.2 Expanding the range of influential celebrities on Red.**

It's economically for Xiaohongshu to focus on inviting more social media influencers and encouraging ordinary people to produce more high-quality notes, which can leverage the influential users on the platform, quickly expand the coverage and spread of the brand or product, and also use their evaluation and experience to improve the credibility and attractiveness of the brand or product. Notably, by focusing on the prosperous commercial strategy of Instagram, their most sustainable profit contains the celebrity effect by famous people (e.g. idols, sports stars, politicians etc.) which is not possessed by Xiaohongshu [16]. So Next, Xiaohongshu should cooperate with more influential celebrities.

### **5.3 Improving the volume of note interaction on Xiaohongshu**

The volume of note interaction reflects how much users are interested in and influenced by the notes shared by other users. The higher the volume of note interaction, the more likely the platform can attract and retain users and generate revenue from e-commerce and advertising. Therefore, Xiaohongshu should constantly improve its content recommendation and interaction features to increase the volume of note interaction and enhance its competitiveness in the social media and e-commerce market. Xiaohongshu can be improved from these aspects:

Increasing the accuracy and personalization of content recommendation, such as using big data and algorithms, to recommend more notes that match the users' interests and needs. Affecting the incentive mechanism of content interaction, such as points, raffles, coupons, etc., to make users more motivated and fun to participate in the interaction and dissemination of notes.

### **5.4 Focusing on innovative business models and forms**

Innovation strategies like business innovation, Market model innovation, Operating model innovation, Revenue model innovation, and Platform ecological model innovation are commonly used in the commercial market [17]. For Xiaohongshu, it can focus on expanding more sources of income and cooperation channels, balance the proportion and relationship between advertising and content, and improve its business efficiency and revenue. Developing more business products or services, such as building a membership system, adding some paid content, use for virtual currency, to increase user's willingness and ability to pay for the platform, and can also explore more business models, for instance, distribution, group buying, crowdfunding, etc., to increase user's participation and contribution to the platform.

From the costing of the brand placement, Xiaohongshu must increase the data and analysis of brand placement, such as providing more data on placement performance and feedback, like click-through rate, conversion rate, ROI, to help brands optimize placement strategy and effect. When the budget is limited, the main goal of social media should be improving conversion. Specifically, signing contracts with famous KOLs and adopting a "spamming" marketing strategy for its brief monetization cycle can promote conversion rate effectively [18].

## 6. Conclusions

Based on the collected data, regression analyses, and the reference, this research defines that the business investment of brands and the user interaction are the primary profits resources for Xiaohongshu. However, given Xiaohongshu's large user population of 200 million, its profitability potential could be much higher. To realize this potential, Xiaohongshu should increase both the quality and quantity of poster notes, improving users' creativity and enthusiasm for posting notes. Meanwhile, The Xiaohongshu should consider invite more famous people such as movie actors, singers, and athletes. Because Xiaohongshu has a huge internet celebrity, those people can only influence some users' enthusiasm.

In order to improve its business models, Xiaohongshu should add a membership system for some high-quality users, and it should also add a single platform for live selling. Meanwhile, Xiaohongshu should add more platform functions to increase user interaction and not only focus on the poster notes and user comments. Xiaohongshu should create more brand links for users and their investment brands. In the end, Xiaohongshu not only faces more and more challenges from mainland competitors but also from the offshores. Especially the Chat GPT of Open AI will be the game changer for many internet apps and search tools. Therefore, it is imperative for Xiaohongshu to implement new business models as soon as possible to maintain its leadership position among Chinese social media apps.

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