Financial Analysis and Operation Analysis of Pinduoduo Based on SWOT

Xicheng Gong[1, *]

[1] International Department of Chengdu Shude High School, Sichuan, China

*Corresponding author: daiting@bankoftianjin.com

Abstract. With the rapid development of the income level and e-commerce in China, the low-consumption population is gradually being overlooked by merchants. Nevertheless, founded in 2015, Pinduoduo (PDD) has made a spectacular achievement, precisely noticing and targeting the sinking market, reaching a huge success. Thus, in this paper, the author mainly focused on the reason why PDD could thrive in the competitive Chinese e-commerce market and PDD's successful marketing strategies. In addition, based on SWOT analysis, the author investigates the main strengths, weaknesses, opportunities, and threats that are related to PDD. The author also collects and analyzes data from its financial reports. Based on these analyses, the author will correspondingly give suggestions that will be beneficial for PDD's future development. Consequently, the author finds that even though PDD is successful in operating, it has a large number of problems, for which needed to transform itself from mid-to-high tier by providing better services.

Keywords: Pinduoduo; SWOT analysis; strategy.

1. Introduction

Global economic growth has slowed and inflation is at its highest level in decades due to COVID-19, the Russia-Ukraine war, and so on. Therefore, the income level is continually decreasing, and offline shopping is significantly constrained by these special circumstances. Thus, e-commerce become one of the best ways to satisfy people's requirements for buying goods. In addition, Pinduoduo (PDD) has accurately found the existence of the sinking market. These opportunities provide PDD a chance to grab and occupy the sinking market at the beginning, leading to its current business legend. This paper will to analyze the reasons behind its success, and the drawbacks it still needs to improve.

This paper first makes a comparison of PDD's balance sheet in the years 2021 and 2022, followed by its successful strategies. Next, the author will analyze the main external and internal factors that have an impact on PDD's development based on SWOT analysis. Finally, some suggestions will be given for tackling the problems that PDD is confronting now.

2. Basic description of PDD

Founded in 2015 by Huang Zheng, PDD focuses on the customer-to-manufacturer model, aiming to gather the strength of more people to buy better things at lower prices and experience more benefits and fun. The social concept established by communication and sharing has formed its unique social e-commerce thinking, which leads PDD to create its own social e-commerce model, carrying out marketing based on people's socialization. PDD precisely found the truth that there was a low-consumption population in the Chinese market. Therefore, they basically chose to lower the average price of the goods that were sold on its platform to adapt to this group. Thus, PDD mainly sells agricultural products and cheap daily commodities. Conversely, its main competitors, Taobao and JD focus more on the quality of goods, the trend was reinforced after Taobao was accused of selling fake goods in the year 2015. Therefore, PDD has the opportunity to access and thrive in the Chinese market, and in 2016, its user number reached one hundred million. In addition, PDD went public in the United States in 2018, with a market value of 24 billion dollars [1]. In addition, it successfully brings in strategic investor Tencent, which held 16.9 percent of the stock. By the end of 2020, the number of

annual active buyers of PDD has reached 788.4 million, making PDD the largest e-commerce platform in China in terms of its users [2].

However, in the year of 2021, PDD became the most lost-making company in the internet services sector on the list with a loss of 7.18 billion yuan [3], and in March of the same year, Huang resigned as chairman of PDD and was replaced by co-founder Chen Lei. Before PDD's establishment, its main competitors, JD and Taobao occupied approximately 90 percent [4] of the Chinese internet shopping market. Nevertheless, in 2022, PDD already has a large presence in the Chinese market, successfully ranking third in the market share, with about 15 percent, compared to the 20 percent and 51 percent that JD and Taobao own respectively [5].

3. Literature References

Table 1. PDD's balance sheet

Quarter	Total Income/billion	Year-on-year	Link relative
2022Q3	35.51	65%	13%
2022Q2	31.44	36%	32%
2022Q1	23.79	7%	-13%
2021Q4	27.23	3%	27%
2021Q3	21.51	51%	-7%
2021Q2	23.05	89%	4%
2021Q1	221.7	239%	-17%

As shown in Table 1, from the third quarter financial report released by PDD, the total revenue of PDD in the third quarter was 35.504 billion yuan, an increase of 65% compared with the same period last year, and the market estimated 30.9 billion yuan [6]. The net profit of PDD was 10.588 billion yuan, an increase of 546% compared with the same period last year [6]. Gross revenue was 28.09 billion yuan, up 87.93% year-on-year [6]. The cost of revenue was 7.414 billion yuan, up 13% from a year ago [6]. Overall operating expenses amounted to RMB17.653 million, an increase of 38% over the same period last year [6]. The expenditure on research and development was 2.698 billion yuan, an increase of 11% over the same period last year [6]. As can be seen from the above data, PDD's overall revenue in the third quarter is growing, without being affected by international and domestic forms. In addition, its operating cost and revenue control is at a good level. Moreover, there are many shopping festivals during quarters two and four, be it 618 and double eleven. Therefore, these periods are the peak of revenue and profit growth of the e-commerce industry. From the perspective of operating costs, PDD has increased its investment in researching and developing the layout in advance for later development.

The revenue of the platform business is 31.39 billion yuan, with a year-on-year growth of 49%, and the growth rate is far ahead among the three e-commerce giants (Alibaba's e-commerce revenue growth rate is -10%, JD's growth rate is +5%). Its second quarter's GMV reached 884.2 billion. PDD has a great impact on Alibaba's core e-commerce. This indicates that the market of PDD will further expand. Especially with the impact of the epidemic and the decline of residents' income, people will choose products with more competitive prices. It does not rule out that manufacturers are in urgent need of destocking due to the impact of the epidemic. From the perspective of liquidity, PDD mainly consists of liquid assets, and less illiquid assets are allocated. From the point of view of the contribution way of profit, operating assets mainly, investment assets account for a relatively small proportion.

4. Marketing Strategies

4.1 The ten billion subsidies

PDD has launched a ten billion subsidy to encourage people to buy things on it, which has a remarkable reduction in price for customers. This strategy become a great appeal to customers, and to a large extent improve its low reputation caused by deceptive advertisements.

4.2 Increasing the number of users and repurchasing rate

To larger the repurchasing rate and number of users, PDD has launched a number of games on its platform to increase interaction between customers and shopping, aiming to arouse their desire to buy things frequently [7]. This action could speed up the user growth rate of PDD, which were lowering now, in order to compete with Taobao and JD.

4.3 Elaborate strategies to adapt to the low-spent population

PDD has enabled and enforced a number of strategies to adapt to the low-consumption population, including a wide variety of discount activities and after-buying services, for instance, many discount activities and 100 percent refundable without returning the goods services. These activities become remarkably appealing to consumers, which developed a large customer base and a good reputation, strengthening its competitiveness. In addition, PDD spent a lot on advertising, and the universality and attractiveness of the advertisement that PDD made, also has a great impact on the construction of its customer base.

Moreover, PDD has stuck to the low-price strategy, which provides it great competitiveness, since the low-consumption population is attracted more to buy things on their platform at a lower price. In addition, it is not unusual to see that the same product has a much lower price in PDD, compared with Taobao and JD. For example, the same table lamp sold for 12.8 yuan on PDD. However, when it is sold on Taobao, the price increases to 23.9 yuan.

5. SWOT analysis

SWOT analysis, based on internal and external competitive environment and conditions, is a general method to list the main internal strengths and weaknesses and external opportunities and threats closely related to the research object through investigation. Using this method, the author will generalize and analyze the internal and external factors which have been influencing PDD's development. Based on this method, the author will then give suggestions for PDD’s future development.

5.1 Strengths

5.1.1 A large number of loyal consumers

Even though a number of people feel bad about buying goods on PDD since the low quality, however, they were addicted to PDD since the low price and the multiple activities it has the author mentioned in its marketing strategies. Also, the cooperation between PDD and Wechat stimulates the spread of awareness of PDD. Thus, PDD has developed a large number of loyal consumers, being a significant internal strength and providing steady support for it. For the entire first quarter that ended March 31, 2022, the average number of monthly active users of PDD was even reached 751.3 million [8].

5.1.2 Low entry barriers

Approaches to being a merchant on PDD are much easier and cheaper than Taobao and JD, and only an amount of cash deposit is required, which is fully refundable. In addition, the marketing cost of PDD is also cheaper than Taobao or JD. Therefore, it is easier and more attractive for individuals to enter PDD.

5.2 Weaknesses

5.2.1 Repeated advertising and low quality make customers feel not good

A large amount of money was used by PDD to do advertising. Conversely, people get sick of it since they think it is overmarketed. In addition, PDD has a large number of deceptive advertisements. For example, it claims that the good was sold for 9.9 yuan, when, in fact, the price was false and the good sold for much more. Also, PDD's low price results in its low quality, and it is common to see comments about its goods' low quality on the internet. Therefore, the reputation for PDD got very low, and fewer people are willing to buy things on PDD. It only has a 3.1 rating in the Apple Store.

5.2.2 Bad services

PDD does not attempt to balance the prices and services. Since PDD merchants commonly have low profits, it is difficult for them to serve well under such circumstances. Additionally, the bad services lower PDD's reputation again. People who have frequently witnessed these poor services will choose to buy goods on other platforms instead of PDD.

5.2.3 Focused on low-consumption people

It must compete with other e-commerce platforms to capture the first and second-tier city markets in order to achieve sustainable development [9]. Since PDD's major customers are focused in rural areas and third-tier cities and lack development in the first and second-tier cities, which have more power to consume.

5.3 Opportunities

5.3.1 Alternation of CEO of PDD's competitive company Taobao

Jack Ma resigned as Alibaba's executive chairman and was replaced by the current Alibaba Group CEO Daniel Zhang in the year of 2019. The transition of the chief executive to a major competitor gives PDD a chance to develop, which plenty of evidence can support. In 2019, Pin-Duo achieved a revenue of 30.14 billion yuan, increasing 129.7%, and its gross profit increased from 10.21 billion yuan in 2018 to 23.80 billion yuan in 2019 [10].

5.3.2 A large number of customers

China has around 900 million low-consumption population, all of whom are potential customers for PDD, giving an opportunity for PDD to thrive in the Chinese market. In addition, its major rivals, Taobao and JD have not focused on this potential market. Therefore, PDD is likely to have competitiveness in the Chinese internet market.

5.3.3 The large number of merchants from Taobao

In 2015, a spot check by the State Administration of Industry and Commerce on China's major online trading platforms showed that only 37.25 percent was genius found on Taobao [11]. Correspondingly, Taobao has since launched an anti-counterfeit action. Thus, there are a lot of merchants who struggled with this action and left Taobao for PDD. Coincidentally, PDD was established in 2015, and this gives PDD a great opportunity to enter this market.

5.3.4 The huge impact on agricultural products COVID-19 brought about

There were many adverse effects that COVID-19 has brought about on agricultural products. Farmers found that it became difficult to sell it off-line. Thus, online selling became their first choice, and since PDD is focused and subsidized on agricultural-related goods, it has then gained a large number of sellers.

5.4 Threats

5.4.1 Competition of other companies in the sinking market

Taobao opened the "special sale area", "group buying", and other sections, matched the data analysis with the algorithm, and matched the merchants and commodities recognized by the system

with the low consumption users, aiming to grab the sinking market. PDD seems quite crisis-like as a result of these actions.

5.4.2 Online buying lacks legal restriction

Information security issues are present with the platforms. Platform enterprise oversight by the government is insufficient, and there is a lack of pertinent regulation [12]. Therefore, both PDD and its customers might take a number of risks when trading. For example, in some special circumstances, customers cannot defend their own rights by legal restriction.

6. Suggestions

The fundamental reason for not being willing to buy things on PDD is that customers have already lost their trust in PDD, caused by not only deceptive advertisements but also poor services. Thus, to address these weaknesses of PDD, the author believes that PDD should first improve its reputation by enabling and enforcing regulations to construct good services and reliability. For example, PDD could develop lessons in order to train merchants' ability for communicating with customers and tackle the problems that customers have well. In addition, an appropriate number of punishments and rewards can be taken to encourage merchants to serve better. To improve its reliability, it is vital for PDD to advertise authentically, avoiding creating fake and tempting advertisements. These methods are necessary to build a worth-trusting corporate image. Consequently, leading more people to use PDD.

However, the contradiction between low prices and good services is hard to diminish. In fact, PDD now excessively pursuing low prices, squeezing the profits that merchants will gain. The author believes a large proportion of adverse effects in people's shopping experience are derived from this action. Since merchants were kept suffering from the squeezing by the platform, the quality of goods and services cannot improve, otherwise, the merchants will be defective. From the authors' perspective, to tackle this problem, PDD could create its own low-price brand, instead of using fake goods to fill its market. This could to a large extent reduce the occurrence of low-quality goods, since the brand is directly controlled and run by PDD, without deducting a percentage from a sum of money from the platform. This action could reduce the amount of cost, using it to improve its services and quality of goods.

Confronting the external threats, the pressure that PDD suffered became greater and greater. Moreover, the user growth speed of PDD is lowering. Thus, PDD now chooses to increase customers' consumption frequency. In addition, PDD has teamed up with Kuaishou, another giant in the sinking market, to locate and attract more low-consumption populations through data analysis. The author believes that PDD can continually maximize its utilization of the social e-commerce model, since this is its unique characteristic, and not owned by Taobao or JD, which can spread itself by customers' social circle. Instead of using lower prices to attract consumers. Additionally, recommendation from acquaintances is the best way to improve awareness in the sinking market, since the essence of it is the transfer of information among people's social hub.

7. Conclusion

Through investigation, the author finds that from a business perspective, PDD has been a huge success. Its rapid growth within a few years was due not only to its precise grasp of the sinking market but also to its marketing and selling strategy. In order to enter China, the world's largest e-commerce market, PDD is taking a different path from the two established e-commerce platforms, Taobao and JD, be it targeting the lower and middle consumption people, applying the corresponding strategy to its customer.

Nevertheless, PDD is still confronting a number of problems, including the conflict between price and service, the excessive marketing cost, and also the threat brought by others' grasp of the sinking market. Thus, from the perspective of long-term development, it is vital for PDD to balance the

conflict between low prices and good services, transforming themselves in the future by providing better services to address the ongoing decline in user growth that they now face and create conditions for mid-to-high level growth, gradually converse its target group positioning from low spent population to high consumption people, in response to the seizing from other big e-commerce companies.

This paper could be advantageous for future deeper study in PDD, based on the analysis of its internal and external environment. Correspondingly, also can table many proposals for PDD's future development. It seems that the future study of PDD could be deeper. The suggestions for the problems that PDD is facing will be more beneficial, effective, and corresponding.

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