

# How far can the wild growth of Pinduoduo go?

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**Abstract.** Pinduoduo officially landed in the market in September 2015. In the early stage of its establishment, Pinduoduo was positioned in the sinking market. It generated a disruptive user growth through social marketing and achieved over 100 million users within a year of its establishment. The rapid expansion has made Pinduoduo the third largest e-commerce company in China after Alibaba and JD.com. This paper chooses to analyze the development status of Pinduoduo, and then finds the existing problems of Pinduoduo, and puts forward corresponding suggestions for these problems.

**Keywords:** Pinduoduo; Ope; ating income; develop.

## 1. Introduction

In 2015, when the e-commerce industry was surging, Taobao Jingdong and other companies continued to grow savage, firmly occupy market share, B2B seems to have become the recognized Red Sea market. It is in this environment, Pinduoduo burst out, from the beginning is not optimistic, to the rapid listing in three years, and today to become the biggest competitor of Taobao, Pinduoduo is undoubtedly a dark horse in the electricity business. However, despite such rapid development of Pinduoduo, as of the second quarter of 2021, Pinduoduo has not yet achieved positive earnings. So, how is Pin-duo to achieve a high profile listing at \$19 / share on NASDAQ in the United States under the circumstances of continued losses? And how to achieve the accumulation of 800 million users in six years, among the three e-commerce giants? Will Pinduoduo be able to turn losses into profits and achieve sustainable long-term development in the future?

## 2. Pinduoduo business model analysis

Pinduoduo is a social e-commerce platform launched by Shanghai Coco Information Technology Co LTD in 2015. Since its inception, Pin-Duo, which has taken social networking as its core model, has developed rapidly, beating traditional e-commerce giants such as Jingdong and Suning Tesco in 2019 and becoming the second largest e-commerce platform in China after Taobao. In July 2018, it was officially listed on the NASDAQ Stock Exchange in the United States, and it took less than 3 years from establishment to listing.

### 2.1. Social e-commerce model

Social e-commerce is a social group platform based on communication activities and shopping among users, and is a new type of social e-commerce model. As a pioneer of "social + e-commerce", Pinduoduo must have its advantages in the value creation of business models.

Pinduoduo invests a large number of advertisements to attract users to register for free, including consumers and various merchants. The platform then collects transaction data of the two to further analyze consumers' purchasing habits, and uses big data to explore more potential users. As a result, a positive value chain cycle is formed among Pinduoduo, consumers, and merchants.

Pinduoduo seized the price-sensitive characteristics of users, started from the supply chain, and used the "group mode" to create large-scale orders, so as to improve the bargaining power with suppliers, so as to reduce the price of goods and attract consumers. Its "bargain model", in the form of sharing links, seamlessly connects with wechat, QQ and other software, successfully introduces the user traffic of social media, uses the existing acquaintance network to build the platform's own

shopping community, and greatly reduces the cost of customer acquisition. As of June 2018, before the listing of the company, the transaction amount of Pinduoduo has reached 262.1 billion yuan, and the annual active users are about 344 million, which shows the development potential.

Through the analysis of Pinduoduo's profit statement (Table 1), it can be found that its net profit reached the lowest level in 2018, mainly due to the substantial increase in marketing expenses, which were mainly invested in online and offline advertising, subsidized promotion and brand promotion activities. In addition, the company's research and development costs are also rising year by year, indicating that it is constantly optimizing and upgrading in program development and network maintenance.

**Table 1.** Ratio of Pinduoduo costs to sales revenue

year	2016	2017	2018	2019
Operating income(Hundred million yuan)	5.05	17.44	131.2	301.4
Operating cost(Hundred million yuan)	5.78	7.23	29.05	63.39
R&d expenses/revenue	5.83%	7.41%	8.51%	12.84%
Marketing expenses/revenue	33.47%	77.12%	102.44%	90.15%
Net profit(Hundred million yuan)	-2.92	-5.25	-102.2	-69.68

From 2017 to 2019, Pinduoduo's net cash flow from operating activities continued to be positive (see Table 2). Combined with its negative net profit in Table 2.1.1, the company has a large amount of positive operating cash flow mainly due to the increase in fees charged to merchants, as well as a large amount of payables and merchant deposits. In the company's investment activities, the expenditure on the purchase of intangible assets increased very rapidly, also due to the substantial increase in short-term investment and research and development expenses. Since operating activities cannot generate a positive net profit, Pinduoduo's capital turnover actually relies on financing activities.

**Table 2.** Cash flow of Pinduoduo from 2016 to 2019

year	2016	2017	2018	2019
Net cash flow from operating activities(Hundred million yuan)	8.80	96.86	77.68	148.20
Net cash flow from investment activities(Hundred million yuan)	-3.07	0.72	-75.49	283.20
Among them: purchase of fixed assets(Ten thousand yuan)	-	-	-	-
Purchase and construction of intangible assets and other assets(Hundred million yuan)	230.10	892.10	2733.00	2744.00
Net cash flows from financing activities(Hundred million yuan)	-3.20	-	-77.01	526.70
	4.87	13.99	173.40	158.50

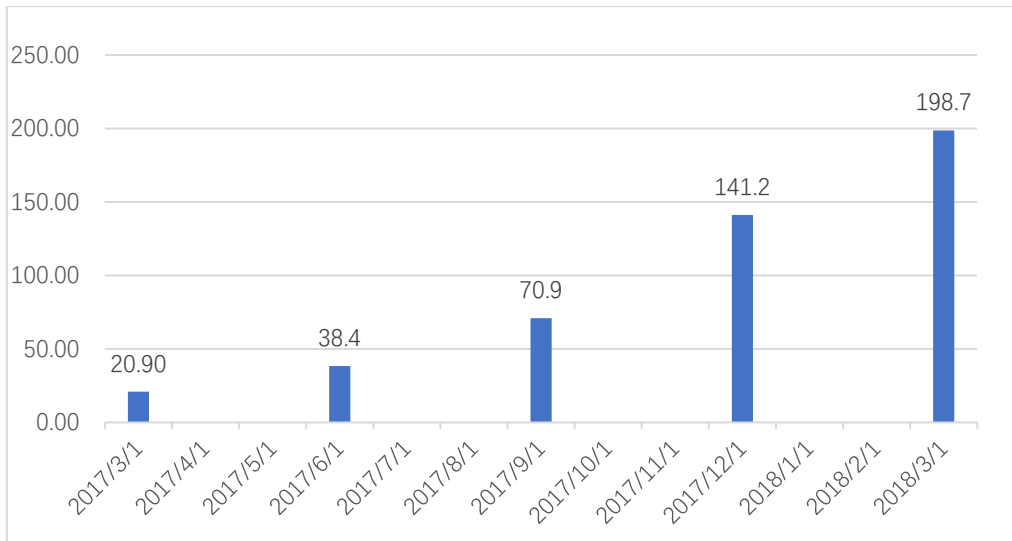
## 2.2. Attract strong financing

In the face of the brutal e-commerce competition pattern, Pinduoduo has won a large number of user groups by impacting the sinking market and achieving rapid rise. Founded just over two years ago, Pinduoduo, more than 100 billion GMV in 2017, to achieve this goal, Jingdong used 10 years, Vipshop used 8 years, Taobao used 5 years.

Data show that before listing, Pinduoduo received a total of 7 rounds of multi-billion dollar financing, investors including Sequoia Capital, Pinduoduo, Gaorong Capital, Kaihui Capital, Light Speed China, etc.

It is worth noting that Pinduoduo received a huge traffic entrance to wechat shortly after receiving financing from Tencent. Huang Zheng has repeatedly denied that Pinduoduo is Tencent, but from Tencent's financing process in Pinduoduo, Pinduoduo has been tilted by Tencent's resources to at least a certain extent.

The shareholding structure shows that before the IPO, Huang Zheng, the founder, chairman and CEO of the company, had absolute control over the company, and his shareholding ratio with related affiliated entities was as high as 50.7%; Tencent, the second largest shareholder, holds 18.5%, Gaorong Capital holds 10.1% and Sequoia Capital holds 7.4%. Similarly, before JD.com went public in 2014, Tencent held 17.6%.



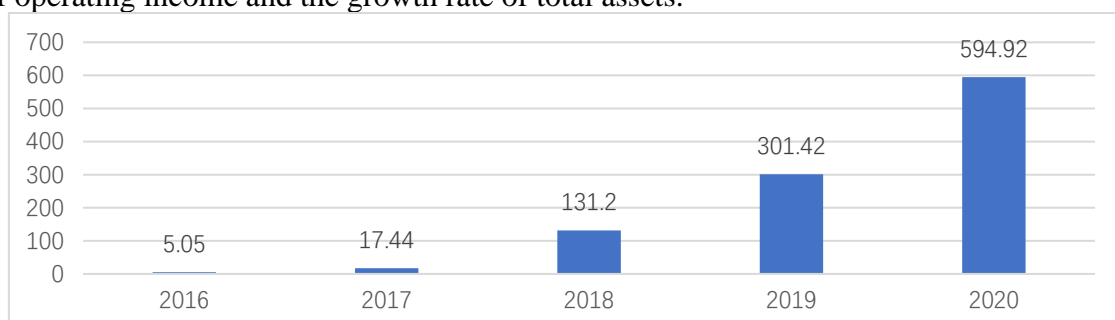
**Figure 1.** Pinduoduo GMV situation(Unit: 1 billion yuan)

From the perspective of business situation, 2017, 2018Q1 Pinduo platform GMV was 141.2 billion yuan, 66.2 billion yuan, if you consider the GMV scale of rolling 12 months, as of the end of 2018Q1 12 months platform GMV was 1987 billion yuan, sitting on the third largest domestic e-commerce. As of Q1 2018, the annual active users of the platform were 295 million, consistent with the "e-commerce shopping APP that 300 million people are using" heavily advertised in the advertisement.

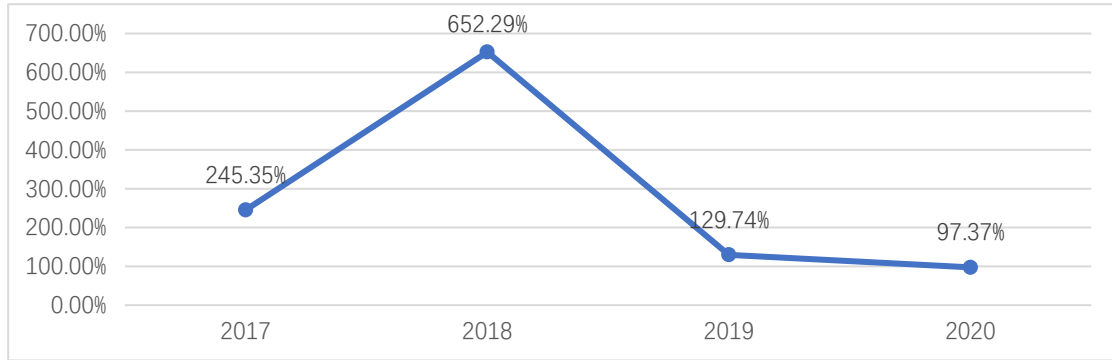
At the same time, due to the high stickiness and low commercialization of social traffic, the expansion cost of social e-commerce is relatively low. It is precisely by taking advantage of this attribute of the wechat ecosystem, Pindoduo can quickly obtain large-scale distribution through wechat's 1 billion active users, so as to achieve the growth of users.

### 3. Pinduoduo development status analysis

This paper analyzes the development ability of Pinduoduo by selecting two indicators: the growth rate of operating income and the growth rate of total assets.

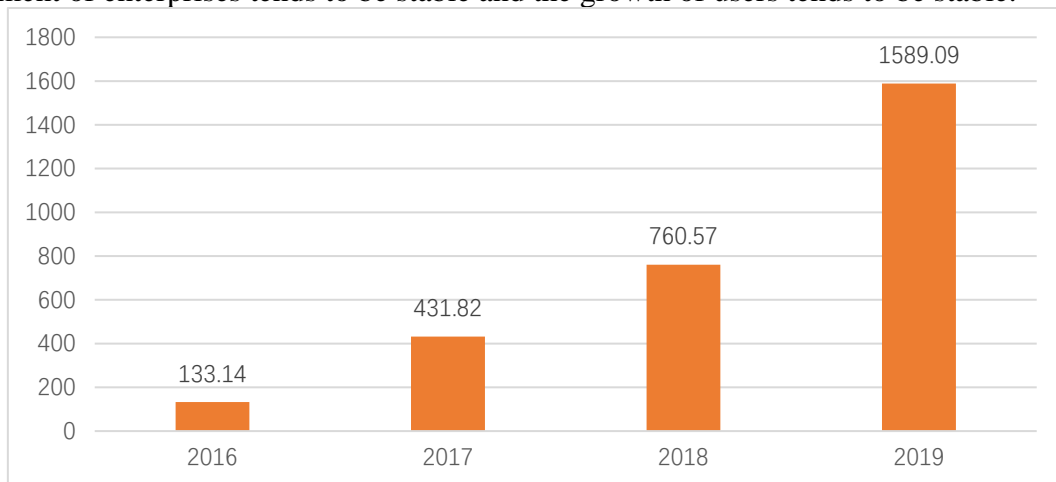


**Figure 2.** Change trend of Pinduoduo's operating income from 2016 to 2020

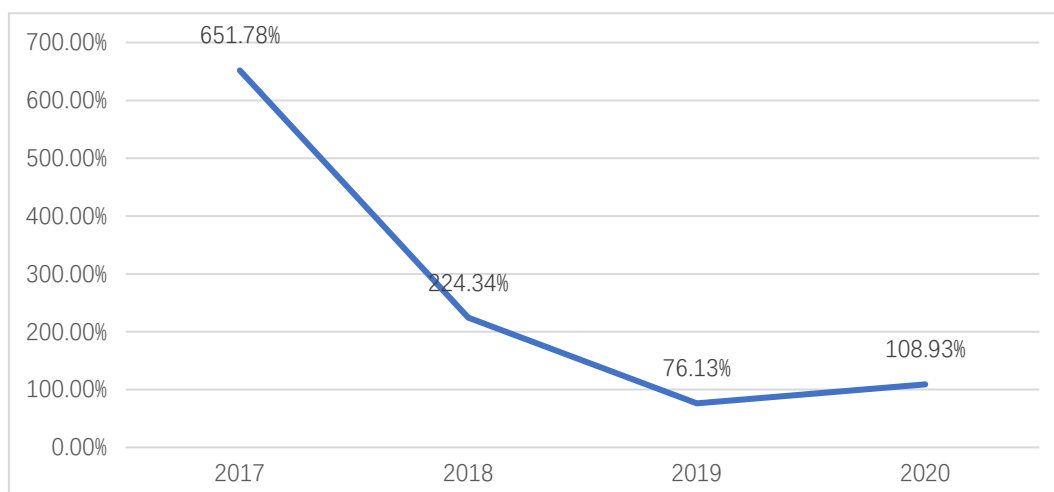


**Figure 3.** Change trend of Pinduoduo's operating revenue growth rate from 2017 to 2020

As can be seen from Figure 2 and Figure 3, Pinduoduo's operating income has grown rapidly in the past five years, with a huge increase in 2018, which indicates that Pinduoduo's e-commerce model has high operating efficiency, the company has accumulated strong development ability in a relatively short period of time, has a good market prospect, and its future profitability is very considerable. In 2017, the operating income growth rate of Pduoduo increased sharply from 245.35% to 652.29% in 2018, mainly because Pduoduo needs to rapidly expand its business scale to prepare for the rapid listing. At this time, the market share and influence of PDUoduo are enhanced, and the company has a good development momentum. After 2018, the growth rate of Pindoduo's operating income declined seriously, from 652.29% in 2018 to 129.74% in 2019, and the growth rate of operating income decreased by 522.55%, mainly due to the impact of the epidemic, users greatly reduced shopping on the platform due to travel restrictions and logistics and other reasons. From 2019 to 2020, Pinduoduo's operating income increased steadily, and the growth rate slowed down. This shows that the development of enterprises tends to be stable and the growth of users tends to be stable.



**Figure 4.** Change trend chart of Pinduoduo's total assets from 2016 to 2020



**Figure 5.** Change trend chart of Pinduoduo's total asset growth rate from 2017 to 2020

The growth rate of total assets is the ratio between the total assets growth of the listed company this year and the total assets at the beginning of the year, which reflects the growth of the company's assets in the current period. It is generally believed that the higher the index value of total assets growth rate, the faster the expansion of the company's asset management scale in a certain period of time.

As can be seen from Figures 4 and 5 the total assets of Pinduoduo maintain a positive growth on the whole, which is closely related to the rapid growth of its revenue, indicating that Pinduoduo is constantly acquiring platform users, expanding the scale of the enterprise, and maintaining continuous growth, which also indicates that its development ability is good. However, the growth rate of its total assets showed a downward trend, indicating that the asset management scale of Pinduoduo expanded rapidly in the early stage, and with the further expansion of the enterprise scale, the enterprise asset scale also tended to stabilize.

#### 4. Pinduoduo current problems

Although since its listing in 2018, Pinduoduo's share price has soared along with the growth of platform users. But since February 26 this year, when the stock price hit a high of \$212.6, it has begun to decline.

In the process of Pinduoduo's high-profile battle against e-commerce, the platform itself has always had problems that can not be ignored, and its fundamental profit model is not formed to accumulate a lot of risks to the platform. From the perspective of Pinduoduo's profit model, it is to use incredibly low prices to attract passenger flow. The low price mainly comes from three factors. First, let low-cost fake and counterfeit products flood the platform; Second, squeeze the resources of merchants to play low prices; Third, burn the venture capital money. The problems generated by these three ways are also the problems facing the future development of Pinduoduo.

First, user growth has hit the ceiling, and the population flow dividend has disappeared. The reason why Pinduoduo can rise rapidly is closely related to its main "low price". Because the pursuit of low prices to pinjoduo shopping users, price sensitive, and relatively low loyalty to the brand. At present, the platform users have been saturated, and Pin-Duo may face the risk of user loss if it wants to drive the growth of performance by increasing the unit price of customers in the later stage.

Second, the platform is flooded with fake goods, facing infringement and litigation problems; Pinduoduo has been labeled low from the early stage of development, and under the trend of more and more popular influence, the doubts and accusations it has suffered have also increased. Including not only netizens, but also pinduoduo old users, product quality cannot be guaranteed, user loss is also an inevitable trend. And in the face of a large number of lawsuits, anti-counterfeiting and business siege, Pinduoduo how to deal with.

Third, it is impossible to introduce big brand merchants, and the contradiction between the platform and merchants continues to escalate. Platform merchants in the beauty, clothing and other Ali home fertile category, Pin-duo is still difficult to move, the first line of well-known brands will choose to launch new products on Tmall, brand tone requires them and Pin-duo to keep distance, afraid of damaging the image, destroy the price system, until the inventory will be considered Pin-duo. In addition, the platform has repeatedly frozen merchant loan funds, and problems such as the loss of business interests caused by difficulties in safeguarding rights have also continued.

Fourth, will the marketing model that relies on huge amounts of money to burn traffic eventually lead to investors cashing out and the departure of the entrepreneurial team. For the early investment of a lot of capital, leaving the field is to see the prospects for profit. However, the current marketing model makes profit a luxury that cannot be mentioned. For venture capital, if there is a capital market cash opportunity, exit is a wise choice.

So the key is whether the Pinduoduo entrepreneurial team will also choose to leave because of the flight of capital. If the Pinduoduo entrepreneurial team is to tell a story to finance, it will inevitably choose to withdraw at the time of capital cash out, and the choice of the Pinduoduo entrepreneurial team also determines how long the vitality of Pinduoduo.

## 5. Future Suggestions

If you advance slowly, you retreat; if you don't, you die. If Pinduoduo wants to break the bottleneck, create profits, and achieve long-term development, innovation is imperative.

At the business level, it is imperative to control the quality of goods and get rid of the cheap and inferior platform image. Pinduoduo early use of "viral" marketing, although opened the Pinduoduo's market visibility, but no doubt many consumers to its heart loathe, discouraged. If you want to rebuild a good platform image, you need to think more about consumers, provide high-quality products and high-quality services, improve the quality of platform goods and service efficiency, and take the mode of word-of-mouth marketing to gain a firm foothold in the market. Pinduoduo platform should also strengthen the control of the platform, selectively control the entry of merchants, raise the entry threshold of the platform, strictly test the goods submitted by merchants, and ensure the quality of the platform goods.

From the financial point of view, facing the current situation of single profit source of Pinduoduo, it must seek new profit growth points, develop diversified business, and expand its income source channels, so as to better cope with the impact of market uncertainty on enterprises. At the same time, to enhance the profit barrier, enhance their core competitiveness, can adopt a shorter supply chain, and strive to provide consumers with stable low-cost and guaranteed quality products. In the later stage, it can also appropriately reduce the investment of marketing costs, increase the investment in technology development, and improve the value creation ability of platform products.

From 2015 to now, for six years of savage growth, Pinduoduo has undoubtedly created a miracle in the industry and become the leading e-commerce enterprises in China. However, the barbaric growth also left the seeds of "evil", poor platform image, endless shoddy products, low user stickiness and so on, resulting in continued losses year after year.

In the future, how far can Pinduoduo go? We believe that time will give the best answer.

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