

E-commerce Platform Competition Strategy - A Comparative Analysis of Taote and PDD

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Abstract. This study focused on the similarities and differences in competitive strategies between two e-commerce platforms Taote and PDD. The full text is composed of four chapters. The first chapter summarizes the current situation of e-commerce in China, then puts forward the research problem, and clarifies the research significance from the practical and academic perspectives. The second chapter briefly introduces the background and development of Taote and PDD. The third chapter focuses on Taote and PDD's competitive strategies from traffic distribution logic, commodity supply side and user operation methods, and analyzes and compares the two platforms with examples to find their similarities and differences. The fourth chapter summarizes the full text and puts forward further research directions.

Keywords: E-commerce Platform, Competition Strategy, Comparative Analysis, Taote and PDD.

1. Introduction

The origin of e-commerce broadly can be traced back to the 1930s [1]. To speed up the transmission of trade information, business people began to send and receive trade information by telegraph. In the past 200 years, with the progress of science and technology, e-commerce has been developing continuously. Nowadays, there are a variety of e-commerce platforms, which can significantly enrich and facilitate people's lives [2-3]. Compared with foreign countries, China's e-commerce started much later. China's e-commerce platform has only been established for more than 20 years since the late 1990s [4]. At first, China was a blank in the field of e-commerce, but in recent years, China has ranked first in the global e-commerce sales list. The speed and quality of its development are apparent to all [5]. Therefore, China's e-commerce platforms are significant for analysis and research.

Marketing strategy is essential for e-commerce and is an important factor in a company's success. Smith analyzed the business models of Facebook, YouTube and Twitter and argued that advertising and content sharing could be used as business models for social networks [6]. Leonard selected 100 B2C and C2C websites and conducted case studies [7]. In addition, business models such as content marketing and social networks, which are directly related to social e-commerce, have also attracted the attention of some scientists [8-9].

Taote and PDD are two typical and successful e-commerce platforms, and their operation modes have many similarities, but they also have their characteristics. Hence, this essay takes Taote and PDD as examples, focuses on the comparative analysis of their competitive strategies, and finds the similarities and differences between them from three aspects: traffic distribution logic, commodity supply side and user operation methods. From a practical point of view, summarizing the development process of Taote and PDD, analyzing the similarities and differences of their competitive strategies, and finding the uniqueness and successful logic of the two can provide materials for other e-commerce platforms to learn and use for reference. At the same time, this specific case analysis can give other countries a deeper understanding of the Chinese e-commerce field and promote economic development and cooperation. In academic terms, this essay sorts out the background of Taote and PDD in detail, which can be used as a reference for subsequent scholars. The comparative analysis of this essay is clear and specific, providing novel ideas for scholars studying competitive strategies.

2. Background

According to the report by Eastern Securities, since the first quarter of 2019, Alibaba's AAC growth in China's retail market has decreased significantly in a single quarter. The slowdown in user growth led to a slowdown in Alibaba's four significant business revenues, of which the most essential e-commerce CMR business revenue decreased significantly. The transformation of the e-commerce competition pattern caused by the sinking market, content e-commerce and community group purchase challenged the overall ecosystem of Alibaba e-commerce. In this situation, Alibaba Group launched Taote to expand the users' scale and improve sales. Several important time nodes in the development of Taote are: Taobao special edition app was officially released in March 2020; In September of the same year, the B-end supply of 1688 was fully connected with Taobao Special Edition. In December of the same year, the C2M business unit, which operates the particular price version of Taobao, officially became independent from the Taobao business group, and Wang Hai, the person in charge, changed from reporting to Jiang Fan and Dai Shan on both lines to reporting to Dai Shan alone; In April 2021, C2M business department was officially renamed as Taote business department, and the independence and brand character of the platform was further enhanced. In May of the same year, Taobao special edition officially announced the brand upgrade and changed its name to Taote. In March 2022, Taote held a spring product communication meeting, announcing the launch of the Taote 10 yuan store and Taote 100. In the past two years, Taote completed essential links such as opening up supply channels, operating independently from Taobao, and finding its unique positioning. Taote focuses on the sinking market and can fill the gap in Alibaba Group's e-commerce ecosystem. At present, it has achieved phased results. By the end of 2021, Taote had 280 million annual active consumers, and many Taote users were new users outside the original Alibaba ecosystem. Taote made a significant contribution to the rapid growth of Alibaba users.

Compared with the old e-commerce platforms Taobao and JD, PDD started late, but its growth rate is fast. Relevant research on the internet shows that, in September 2015, PDD, an incubator of the Shanghai dream game, had more than one million fans only two weeks after its launch; In July, 2018, PDD was listed on NASDAQ; In June 2019, PDD launched 10 billion subsidies, focusing on brands, and strove for high-end urban users; In January 2020, Duoduo live broadcast was officially launched; In March 2022, PDD's annual active users reached 882 million (Source: Sinolink Securities). In 2017, PPD's annual active users began exceeding JD, gradually widening the gap. From 2020, PDD's annual active users surpassed Alibaba group, and has been on a par with Alibaba. At the beginning of its establishment, PDD focused on C2M group shopping. Users can buy high-quality goods at a lower price by initiating group shopping with friends, family, neighbors, or bargaining. PDD began to focus on the sinking market. After gaining the recognition of consumers in the sinking market, it expanded the audience, introduced big brand goods, and had customers with specific consumption abilities.

As soon as PDD came out, it aimed at the vast sinking market consumer group sensitive to price, and seized the market share of Taobao. Therefore, Taobao launched Taobao special edition to compete with it. Therefore, Taote and PDD have many similarities in their basic operating modes. At the beginning of their establishment, they both aimed to sink the market, gradually expanding the users' scale and improving their quality. However, Taobao and PDD have their uniqueness in specific operation details. The following will compare and discuss their similarities and differences in competitive strategies.

3. Competitive strategies of Taote and PDD

3.1 Traffic distribution logic

At the early stage of the platform, Taote focused on attracting low-price users. However, after having a specific user group, Taote changed its initial traffic distribution strategy, no longer focusing on low prices, but beginning to pay attention to commodity quality, richness and consumer experience.

According to the results of analyzing products and platform recommendations, among the top ten products provided by Taote, there are at least three non-popular products with sales of only hundreds or thousands, which is significantly different from other products with sales of tens of thousands or even more than one hundred thousand. In addition, some products show the number of repeat customers to attract new consumers. What's more, 'buying expensive must compensate' gradually faded, and brand status gradually improved. 'Official subsidies' part occupies a prominent position on the home page of Taote, and almost all the products displayed in this part are brand goods. In the first half of 2021, Taote's official subsidy and commodity recommendation zones had many 'compensate for paying highly' labels. Attracting users at the lowest price was the core strategy of the whole platform at this stage. However, in August 2021, the 'compensate for paying highly' mode was officially changed, and the rebate was also canceled. Now it is difficult to see the 'compensate for paying highly' label in Taote, and the brand status of goods is gradually improving (Source: Eastern Securities). Therefore, Taote's traffic distribution strategy is not to blindly recommend trendy products and promote low prices, but to implement a 'partly popular' strategy and actively select products to achieve low costs and improve quality, richness and consumption experience time.

PDD's success logic is price advantage, aiming at almost forgotten price sensitive users, taking small cities, counties and towns as critical markets, investing much money to subsidize businesses, and rapidly expanding the users' scale. PDD has gradually spread from the third and fourth tier cities to the first and second tier cities, with an increase of more than 600 million annual active users in only four years. PDD has successfully created consumers' low price mentality. When it comes to PDD, consumers' first reaction is low price. Using the same method of statistics, among the top ten commodities provided by PDD, there are only one or two non-extremely popular products with sales of hundreds or thousands, or even none. However, the rest are almost trendy products with more than 100 thousand sales.

Taote and PDD have the same logic in traffic distribution. First, in the early stage of the platform, their target customers came from the sinking market. After accumulating a certain number of users, they entered the first and second-tier cities, finally gained many users and had a firm foothold in the e-commerce field. Second, when users enter the software, Taote and PDD will automatically appear in a pop-up window of 'receiving red envelopes everyday' or 'discounts or free orders' to attract consumers. Third, to win users who pay attention to the brand and product quality, Taote and PDD have introduced 'official subsidies' and 'ten billion subsidies' to benefit such users. The difference between the two is that, first. However, Taote and PDD both attract users with low-cost goods. In the later stage, Taote pays more attention to product quality and richness, and adds recommended nontrendy products in the middle of trendy products. At the same time, PDD prefers to follow the distribution logic of dramatically popular products. Second, Taote's 'official subsidy' goods are mostly daily necessities, and the price is still very low, some of which are even less than one yuan. High-priced goods such as electronic products, household appliances, cosmetics and so on are not in the priority recommendation category. Even if there is a recommendation, they are low-priced accessories or very niche brands. By contrast, PDD's '10 billion subsidies' products are primarily international first-line brands, such as the iPhone, Midea refrigerator, Estee Lauder, SK2, etc. Although there are subsidies, these products are still expensive.

3.2 Commodity supply

Taote's supply of goods goes directly to the source of the industrial belt, supported by the supply of group 1688, Taote factory and origin warehouse, which support its low price logic. 1688 is the largest B2B domestic trade wholesale platform in China, and it is also the business that Alibaba first started in 1999. After more than 20 years of accumulation, the 1688 platform has covered nearly 200 primary industrial belts and has more than 500000 source factories. Currently, 1688 factory merchants are the primary source of Taote merchants, foreign trade merchants and Taobao merchants, which provide a fundamental guarantee for Taote to achieve good goods and low prices at the supply end. For example, with the supply of 1688, Taote can provide customers with retail goods at approximately

wholesale prices. Compared with merchants who opened stores on 1688 and Taote, the initial cost of the same product on the two platforms is similar. Even after enjoying Taote's subsidies and red packet deduction, the cost of the Taote platform is lower than the batch purchase price of more than 100 pieces on the 1688 platform (Source: Research report by Eastern Securities). The supply of goods close to the source compresses many intermediate links such as brands, agents and retailers, and realizes direct contact from factories to consumers, improving efficiency and ensuring low prices.

PDD provides consumers with cost-effective products through the C2M 'Pin' factory model. On the demand side, PDD realizes 'goods looking for people through algorithms, and obtains large-scale orders quickly by combining social groups, inviting bargaining, helping to avoid orders, etc. On the supply side, PDD directly feeds back the needs of consumers to the factory, so that the factory can produce in batches quickly and sell them directly to consumers through the PDD platform. For example, PDD has developed a central processing system for agricultural products, which can effectively connect the demand of the front end and the supply of the back end. The system collects information on the location of farmers, characteristic products and maturity cycle at the back end, analyzes users' consumption habits and user portraits through big data at the front end, and accurately matches the back-end supply with the front-end demand at the maturity of agricultural products, to realize 'finding people with goods. The platform's front end knows consumers' needs through pre-sale and grouping. After learning the requirements, the platform purchases directly from farmers. The products are transported from the origin to the nearest storage location for sorting, packaging and packing out of the warehouse, and then distributed to consumers by long-term cooperative national and regional logistics enterprises to realize direct purchase and delivery from the origin. This model eliminates the intermediate circulation links, reduces the loss of agricultural products, and at the same time, large-scale orders also significantly reduce logistics costs. In addition, PDD is more inclined to cooperate with high-quality OEM. On the one hand, their quality has been tested by the brand side. On the other hand, they lack online sales experience, so the OEM and PDD can form complementary advantages (Source: Vzko).

Taote and PDD are typical representatives of the C2M model. They connect directly with consumers and factories, eliminate a large number of intermediate links, and can provide consumers with low-cost goods. The difference between the two is that the powerful Alibaba group supports Taote. Based on the resources and capabilities accumulated by Alibaba's B-end for many years, Dai Shan, president in charge of China's digital commerce sector, manages Alibaba's domestic B-end business and Taote business in a unified manner. So Taote has a significant price advantage on the supply side (Source: Research report by Eastern Securities). However, PDD doesn't have such natural conditions. PDD started from scratch and attracted consumers in terms of product prices by constantly creating its factories and refined algorithms. PDD's advantage is that the front-end and back-end businesses can be carried out synchronously. By obtaining product information, users' needs can accurately match the products. At the same time, the factory can understand the purchase needs of consumers through the user information collected on the platform, and make a good advance.

3.3 User operation method

In the process of moving from attracting new customers to fostering repeated purchases, Taote grasps the needs of sinking users, and is based on the group's collaborative advantages. It can steadily attract new customers in the sinking market. Taote jumped out of the inherent operation idea of Taobao and showed the operation strategy of sinking users. The homepage traffic field layout shows that Taote and Taobao have different user operation strategies (Source: Research report by Eastern Securities). In the top ten parts of Taote, except for 'official direct sales', the other nine are related to red envelopes, discounts, gifts, etc. The two core traffic fields in the middle are 'earn special currency every day' and '10 yuan store', and the product recommendations in the lower parts also contain eye-catching tips such as 'subsidies' and 'rush purchase for a penny. The core strategy has a clear purpose around cost performance, forming a sharp contrast with Taobao, realizing a large-scale coverage of the sinking market.

PDD was widely known for relying on the ‘cut a knife’ mode in the early days of its establishment. Existing users invite their friends to use PDD to bargain for themselves. If the invited friends register PDD for the first time, the bargaining force is the greatest. PDD successfully applied the theory of virus marketing and gained many users in a short time. Virus marketing uses public enthusiasm and interpersonal networks to make marketing information go deep into the human brain like a virus which can replicate and spread rapidly, and then spread the information to more audiences in a short time. In other words, virus marketing is to achieve the role of ‘marketing leverage’ by providing valuable products or services and advertising for themselves through others [10]. PDD accurately located the target market at low-end consumers who are price sensitive in the early stage, and obtained a large number of users quickly through many cheap goods. Subsequently, PDD began to innovate its operation and service model. In June 2019, PDD launched a 10 billion subsidy plan to give high subsidies to high-end brands, which quickly won the favor of consumers in first and second-tier cities. Since then, PDD’s user structure has been upgraded rapidly, and more and more brands are also involved. After the continuous expansion of PDD’s operation and service mode, such as 10 billion subsidies, Duoduo buying vegetables, etc., PDD has accumulated many highly viscous customer groups.

It is worth mentioning that PDD was widely recognized during the epidemic in Shanghai in early 2022. It holds a 48-hour guaranteed food service and fast group purchases. The former provides basic living materials for users in Shanghai through centralized collection and distribution. The latter is a ‘group buying artifact’ popular in Shanghai community group buying circles (Source: PDD). There are two reasons why Kuai Tuan Tuan can be widely promoted: first, it is a WeChat applet, which is simple and convenient to use and can attract many middle-aged and elderly users. Some middle-aged and older adults can only use WeChat, so this WeChat applet has won the favor of these people. Second, Kuai Tuan Tuan meets the needs of the head of the group to release group purchases, online statistics orders and collection quickly. Especially in the particular context of the epidemic in Shanghai, it can reduce the tedious work of counting the demand for vegetables one by one. Third, Kuai Tuan has reliable logistics channels, ensuring timely delivery of goods under special circumstances.

Taote and PDD have many similarities in user operation modes, such as entering the first and second-tier cities through sinking the market, stimulating consumption through daily red envelopes, etc. But the differences between the two are those. First, Taote was supported by some original Taobao users in the early days of its establishment, but PDD started from nothing. Second, one way for PDD to expand its user base is to connect with WeChat social networking. When PDD first came out, ‘cut a knife’ and ‘pintuangou’ were very popular. Consumers can buy goods at a low price by sending product links to WeChat groups or circles of friends and inviting friends to help negotiate prices. At the same time, this also created momentum for PDD, so PDD quickly gained a large number of users. In addition, PDD’s ‘pinxiaoquan’ enables users to see the goods purchased by their WeChat friends, which also serves the purpose of recommending. Third, Taote’s official subsidized goods still tend to be low-priced daily necessities, while PDD focuses on subsidizing first-line brands. Hence, PDD has higher popularity and more high-quality users than Taote. It can be seen that PDD is more innovative and diverse than Taote in terms of user operation mode. Even without a strong group background, it can retain its original users and constantly explore new markets.

4. Conclusions

This essay starts from the background and development process of Taote and PDD, then studies their competitive strategies from three aspects, and draws a conclusion after comparing and analyzing, finding out the similarities and differences. In terms of its original intention, PDD aimed at the third and fourth tier people who are sensitive to price, and intended to occupy the sinking market ignored by mature e-commerce platforms Taobao and JD. Taote’s prototype is a part of Taobao, but it can’t compete with PDD with total momentum just by relying on one entry of Taobao. Therefore, Alibaba

Group has developed a new App Taote. Therefore, their operation modes are similar, such as attracting customers through low prices. Both have cheap supply channels through red envelopes, subsidies to promote consumption, and subsidies to attract high-end users. However, the in-depth analysis found differences in competitive strategies between the two. First, in terms of traffic distribution, Taote pays more attention to the quality and richness of ordinary goods in the late stage, rather than pushing trendy products; Second, on the commodity supply side, with the support of the group, Taote can easily obtain low-cost goods, but PDD has also formed a complete low-cost supply system through continuous creation and contact with factories; Third, in terms of user operation mode, PDD continues to expand its user base with the help of WeChat. During the epidemic in Shanghai, PDD was widely favored for its convenience. Compared with Taote, PDD subsidizes major brand goods significantly, so PDD had more high-end users and higher popularity. At present, PDD is better both in terms of users and products. However, PDD cannot shake the position of Alibaba group behind Taote, but it does pose a great threat to Alibaba group.

This paper is mainly based on the author's views and analysis, so the follow-up research process will add the questionnaire survey, collect as many samples as possible, and understand the use feelings of the majority of user groups, to enhance the objectivity and universality of the essay. Scholars interested in e-commerce platforms can continue to study based on this essay, add more convincing data, or develop new analytical ideas to enrich and deepen the research topic.

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