

Changes and Development of Pinduoduo's Business

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Abstract. In 2015, traditional e-commerce platforms led by JD.com and Taobao had already occupied the vast majority of China's online shopping market. It was under such an intensely competitive environment that Pinduoduo was able to break through 100 million users in about a year and 300 million users in about two years. Therefore, the goal of this study is to analyze the changes in Pinduoduo's platform strategy from its inception to the present day and compare it with JD.com and Taobao, hoping to summarize Pinduoduo's future direction from it. This article studies the development process of Pinduoduo, combined with the annual reports of Pinduoduo, JD.com, and Taobao, as well as different users' evaluation of the advantages and disadvantages of these three e-commerce platforms to analyze their similarities and differences. Pinduoduo attracted a large number of users and merchants by offering subsidies in the early stage at lower prices. After having a huge user base and occupying a certain market share, it then strengthened supervision, improved product quality, established brand image, and gradually approached the perspective that traditional e-commerce platforms focus on.

Keywords: Pintado, Social commerce, Transformation, Dilemma.

1. Introduction

1.1. Background-

As of the end of 2020, Pinduoduo's active user base had reached 788.4 million, surpassing JD.com and Alibaba to become the largest e-commerce platform in terms of user scale in China. In 2021, Pinduoduo's national user base reached a new high of 869 million. Pinduoduo's ability to achieve such an amazing growth rate despite entering the market relatively late must have its unique business logic, which is also the focus of this article.

1.2. Related Research

Yunguo.Xu, Rui.Xu and Xiaoca.Zhang investigated Pinduoduo's profit model and competitive advantages and found that its business model is based on social e-commerce, where users can form groups to buy products at preferential prices. The platform offers a wide range of products, including electronics, clothing, food and home goods, at lower prices than competitors. Pinduoduo's revenue comes from commissions it charges on each transaction and advertising revenue from merchants. [1] According to a research article by Hong. Liu, Pinduoduo's business model has disrupted China's traditional e-commerce market by providing a unique shopping experience that combines social networking and online shopping. The study found that the social features of the platform, including the ability to share product links with friends and family, were an important factor in attracting users [2]. Mingjing.Zhou said Pinduoduo employs a variety of marketing strategies to attract users and merchants to the platform. One of the most famous tactics is the "Pinduoduo Duo Duo" campaign, which offers steep discounts and cashback rewards to users who invite friends to join the platform. The campaign was very successful, with more than 600 million users participating in the program [3]. Another marketing tactic used by Pinduoduo is celebrity endorsements. The platform has partnered with several well-known stars, including Jay Chou, to promote the platform and attract users. According to a research article by Ping Xiao and Wen Li, celebrity endorsements effectively build consumers' trust and credibility in Pinduoduo [4]. Pinduoduo's rapid growth and unique business model have had a major impact on Chinese society. The platform enables consumers in rural areas to purchase products at lower prices and provides farmers and small businesses with new income

streams. According to a research article by Zheng and Lin, Pinduoduo's platform creates new opportunities for small businesses and entrepreneurs, especially in rural areas where traditional e-commerce platforms have limited coverage [5]. However, Zhou, Y., Wang, S., and Zhang, L pointed out that Pinduoduo's impact on Chinese society is not entirely positive. The platform has been criticized for selling fake and inferior products. In 2019, the platform was fined 10 million yuan by Chinese regulators for selling counterfeit goods. In addition, Pinduoduo has been accused of exploiting workers by offering them low wages and poor working conditions [5]. Zhao et al. analyzed Pinduoduo's financial performance in 2020 and found that the company's revenue growth continued to be impressive, but its profitability was still worrying. The authors noted that Pinduoduo's net loss in 2020 was higher than the previous year, even though the company's revenue grew by more than 97%. The authors attribute this to the company's heavy investment in marketing and promotion, which is essential to attract users in a competitive market [6]. Despite these challenges, Pinduoduo remains a major player in China's e-commerce market, with millions of users and a unique business model that has disrupted traditional e-commerce. Its social networking features and marketing strategies have helped to build a community of users and both consumers and merchants on the platform. While the company faces challenges, its impact on Chinese society and the e-commerce market cannot be ignored.

1.3. Objective

The by comparing the financial reports of JD.com, Taobao, and Pinduoduo, and processing relevant data, I hope to evaluate the difference between Pinduoduo's social e-commerce model and traditional e-commerce platforms, and whether their future development directions will overlap.

2. Development History of Pinduoduo

Pinduoduo was born out of the merger of two social e-commerce companies. In April 2015, founder Huang Zheng first founded Pinhaohuo, and then in September 2015, Shanghai Xunmeng Technology, a company founded by Huang Zheng, launched a new product - Pinduoduo. In September 2016, Pinhaohuo merged with Pinduoduo, and after the merger, Pinduoduo continued to use Pinduoduo as a unified brand and began operations. The transaction flow on the day of Double 11 in the year of the merger exceeded 200 million yuan; one year after the merger, the number of Pinduoduo users exceeded 200 million. On July 26, 2018, Pinduoduo was officially listed on Nasdaq, with an issue price of US\$19 per share. That is to say, it took just over three years for Pinduoduo to grow into the No. Three major e-commerce platforms. After listing, Pinduoduo has increased its "double-playing activities" to enhance its brand presence. In August 2018, Pinduoduo forcibly closed 1,128 stores, removed 4.3 million products from shelves, and blocked more than 450,000 links to suspected counterfeit products. In October 2018, Gome, Dangdang, Xiaomi and other brands entered the Pinduoduo platform, and the brand image was significantly improved. On September 7, 2019, the China General Chamber of Commerce and the China National Commercial Information Center released the list of China's top 100 retailers in 2018, and Pinduoduo ranked third. The rapid development of Pinduoduo is inseparable from the support of capital. Judging from the financing process, Pinduoduo has completed four rounds of financing since its establishment and before its listing, and Tencent has become an important shareholder of the company. Tencent started to invest in Pinduoduo from the B round and invested heavily in the C round. On the eve of Pinduoduo's IPO, it also subscribed for 250 million US dollars of IPO shares. The addition of Tencent has provided more convenience for the improvement of Pinduoduo's business model, as shown in Table 1.

Table 1. Pinduoduo Development Odometer

2015/4	Huang Zheng founded Pinhaohuo
2015/9	Shanghai Xunmeng Technology, a company founded by Zheng Huang, has launched a new product — Pinduoduo
2016/9	Pinhaohuo merges with Pinduoduo
2018/7	Pinduoduo IPOs on Nasdaq
2018/8	Strengthen commodity quality screening and supervision
2018/10	Several well-known brands have entered Pinduoduo, improving their image
2019/9	Ranked No. 3 in the list of China's top 100 retailers in 2018

3. Business Model Analysis

3.1. The Basic Business Model of Pinduoduo

Pinduoduo's platform allows users to create or join groups to buy products at lower prices. Users can invite friends, family, or social media followers to join the group, and the more people join the group, the lower the price of the product. This business model has been very successful in China, especially in rural areas where consumers are more price-sensitive and access to traditional e-commerce platforms is limited.

One of the strengths of Pinduoduo's business model is that it encourages user engagement and interaction, which can lead to higher conversion rates and repeat customers. Users are encouraged to invite others to join groups, which helps grow Pinduoduo's user base and drives sales. Pinduoduo also uses social media to promote its platform and products, which helps increase brand awareness and attract new users.

3.2. Problems exposed by Pinduoduo's current business model

However, Pinduoduo's business model also has some problems that need to be solved. One of the main problems is the prevalence of counterfeit and inferior products on the platform. Pinduoduo has been criticized for being lax about product quality and safety, leading to numerous customer complaints. In response, Pinduoduo has pledged to raise product quality standards and impose stricter guidelines for sellers.

Another challenge for Pinduoduo is the high level of competition in China's e-commerce market. Pinduoduo faces stiff competition from established players such as Alibaba and JD.com, as well as new entrants such as ByteDance and Meituan. To remain competitive, Pinduoduo needs to constantly innovate and differentiate itself from its competitors.

3.3. Pinduoduo's Countermeasures

To address these challenges, Pinduoduo has implemented several improvements. One of the most significant changes is the introduction of a new quality control system for the products sold on its platform. Dubbed the "10-billion-yuan quality project," the system aims to improve product quality by incentivizing sellers to adhere to stricter quality standards. Pinduoduo has also introduced a new product rating system where users can rate, and review products and sellers based on their experience.

Pinduoduo is also focused on expanding its user base by targeting new demographics and regions. For example, Pinduoduo has launched a series of initiatives aimed at attracting younger consumers, such as live-streaming events and gamification features. Pinduoduo has also expanded into new markets such as Southeast Asia to diversify its revenue sources and reduce its reliance on the Chinese market.

4. Mode Comparison

By comparing Pinduoduo with Taobao and JD.com, the two largest e-commerce platforms in China, we can find that Pinduoduo's overall strategic approach is moving closer to Taobao and JD.com. Pinduoduo, Jingdong, and Taobao are three of the largest e-commerce platforms in China. While each company has its own unique business model and strategies, there are certainly some similarities between them when it comes to financial indicators. In this analysis, we'll look at some of the key financial metrics for each company and compare them.

4.1. Revenue and Gross Merchandise Volume (GMV)

One of the most important financial metrics for any e-commerce platform is revenue or the amount of money the company brings in from sales. Another key metric is GMV, which represents the total value of merchandise sold on the platform. Both of these metrics are closely related and can indicate the platform's overall health and growth.

In terms of revenue, all three platforms have seen significant growth over the past few years. Taobao, which is owned by Alibaba, is the largest e-commerce platform in China and generated over \$104.4 billion in revenue in the fiscal year 2021. Jingdong, also known as JD.com, generated over \$149.3 billion in revenue in 2021. Pinduoduo, which is a newer platform, generated over \$14.7 billion in revenue in 2021 [8-10]. As shown in Figure 1.

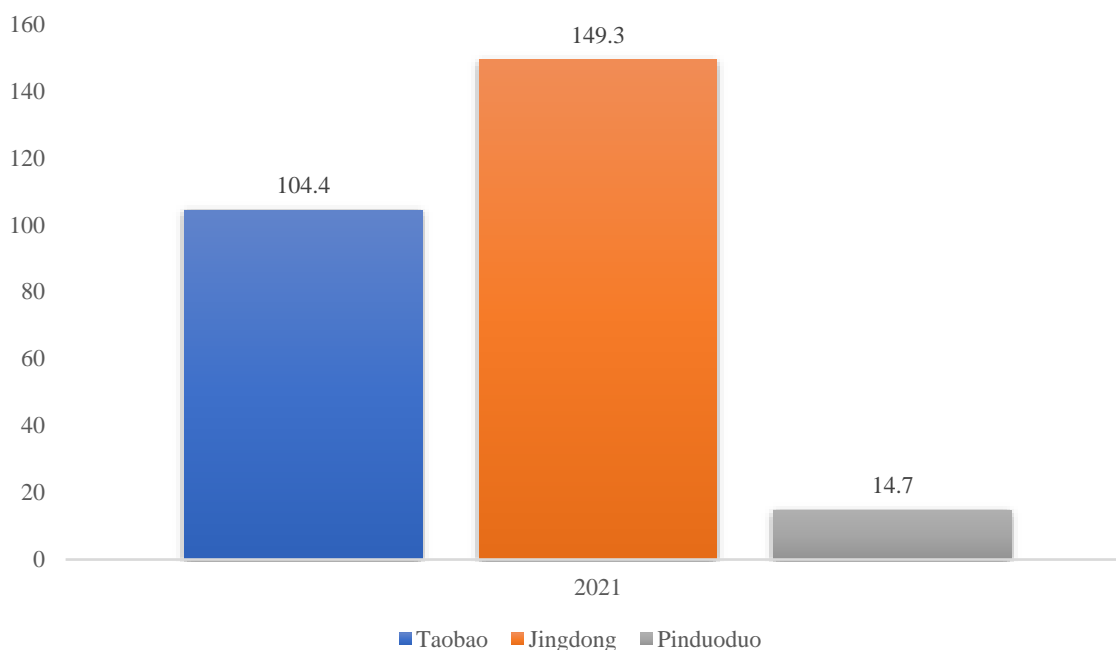


Figure 1. Eevenue of three major e-commerce platforms

In terms of GMV, Taobao again leads the pack, with over \$1164.4 billion in GMV in 2022. Jingdong had a GMV of over \$505 billion in 2022, while Pinduoduo had a GMV of over \$480.3 billion in the same year, as shown in Figure 2.

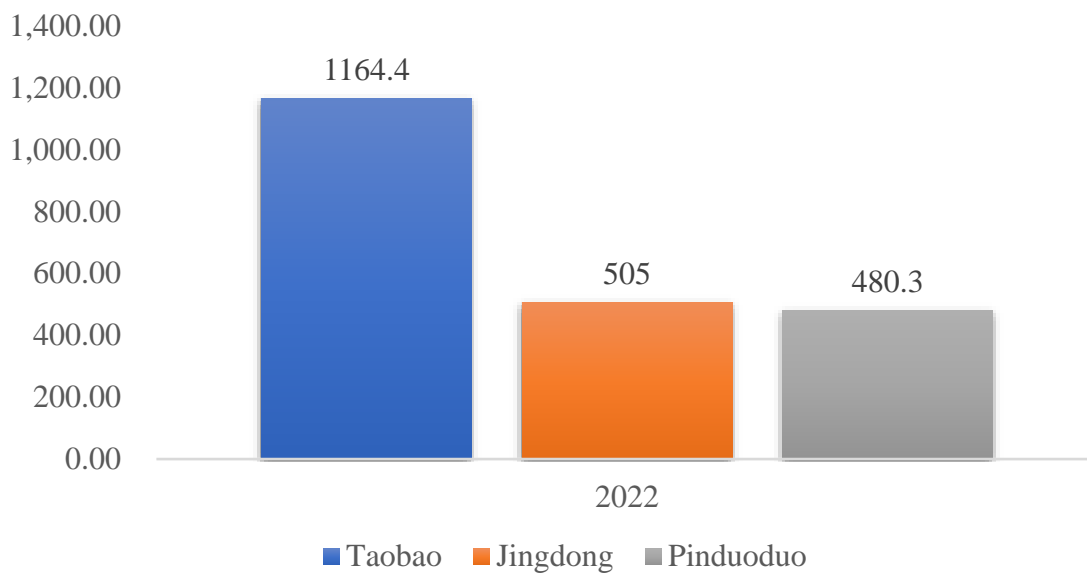


Figure 2. GMV of three major e-commerce platforms

4.2. Profitability

While revenue and GMV are important indicators of growth, profitability is also an important consideration for any business. E-commerce platforms face significant expenses related to logistics, marketing, and customer service, among other things, so it can be difficult to maintain profitability while also investing in growth.

Of the three platforms, Taobao is the most profitable. The company has been consistently profitable in recent years, with a net income of over \$6 billion in 2022., on the other hand, Jingdong has seen its profitability decrease in recent years, with a net income of just over \$4.1 billion in 2022. Pinduoduo is the least profitable of the three, with a net income of over \$1.38 billion in 2022.

4.3. Market Share

Market share is another important metric to consider when comparing e-commerce platforms. While Taobao is the largest e-commerce platform in China in terms of both revenue and GMV, all three platforms have a significant market share as shown in the pie chart.

According to data from eMarketer, Taobao's market share is expected to be around 56% in 2023. Jingdong's market share is expected to be around 17%, while Pinduoduo's market share is expected to be around 7%, as shown in Figure 3.

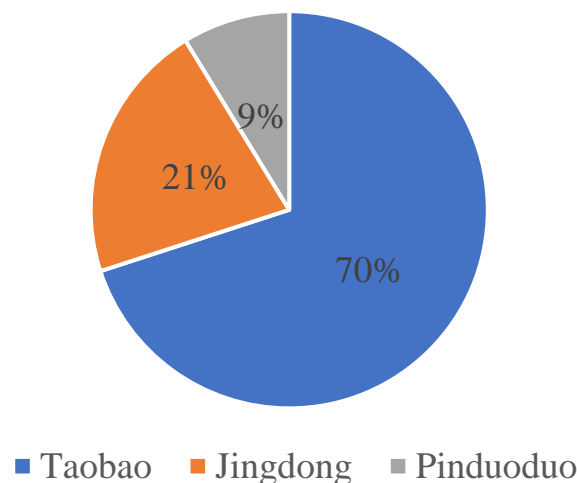


Figure 3. The market share of three major e-commerce platforms

4.4. Customer Base and User Engagement

Another key consideration for e-commerce platforms is their customer base and user engagement. E-commerce platforms rely on customers returning to their platform to make purchases, so it's important to have a loyal customer base and high levels of engagement.

Taobao has the largest customer base of the three platforms, with over 900 million active users as of March 2021. Jingdong has over 500 million active users, while Pinduoduo has over 700 million active users.

When it comes to user engagement, Pinduoduo stands out. The platform is known for its social commerce features, which allow users to share products with friends and family and receive discounts. This has led to high levels of user engagement, with users spending an average of over 27 minutes per day on the platform.

5. Conclusion

This article summarizes that the reason for Pinduoduo's rapid rise is to attract users and merchants at prices below the market, but at the same time it also exposes problems such as low product quality and the proliferation of counterfeit and shoddy products. The author further analyzes the market size of these three mainstream e-commerce companies by comparing the financial reports of Pinduoduo, JD.com and Taobao in recent years.

After comparison, it can be found that Pinduoduo is not much different from JD.com and Taobao in terms of the number of active users and is very close to JD.com in terms of GMV. However, when comparing revenue, it can be found that Pinduoduo is comparable to JD.com and Taobao. The main reason for this phenomenon is that Pinduoduo has deliberately reduced its commissions from merchants in order to expand rapidly and gain a place in a market that is already approaching saturation and has invested heavily in advertising and promotional subsidies. These measures have indeed enabled Pinduoduo to rise rapidly and become the third-largest e-commerce platform in China that can compete with JD.com and Taobao. However, it is undeniable that after opening up its own user group, Pinduoduo's overall strategic direction is actually toward traditional e-commerce companies such as JD.com and Taobao. Pinduoduo actively rectifies counterfeit and shoddy goods and invites major well-known brands to settle in. Originally, Pinduoduo mainly sold snacks and daily necessities, low-value-added products with relatively low production costs and low technical barriers, but now they are also trying their best to expand their business to high-value-added categories such as digital electronic products. Nowadays, the price of Pinduoduo's products is generally lower than that of JD.com and Taobao, but after the above-mentioned measures are implemented, an increase in net income must be ensured. The author believes that Pinduoduo's price advantage will no longer be obvious and will eventually become similar to traditional e-commerce platforms such as JD.com and Taobao.

The article shows that Pinduoduo sought a differentiated route from traditional e-commerce companies such as JD.com and Taobao at the beginning of its establishment in order to open up the market and accumulate its own user groups. After completing these goals, Pinduoduo began to develop in the direction of "reducing costs and increasing efficiency" and rectifying platform chaos.

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