Exploring Pinduoduo: Unveiling the Dynamics and Innovation in China's E-commerce Industry

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Abstract. This paper takes an in-depth look at Pinduoduo, a high-profile emerging giant in China's e-commerce space. It dissects its unique business model and compelling growth story, including social e-commerce, rural e-commerce promotion, and internationalization. An in-depth study of Pinduoduo provides an understanding of the characteristics and success factors of this emerging e-commerce platform. It highlights the dynamics and innovations in China's e-commerce industry. Its success story has inspired more innovation and competition, positively impacting consumers, businesses and the entire e-commerce ecosystem. In the e-commerce space, different business models and market segments have the opportunity to succeed, creating more possibilities and opportunities for the continued growth and development of the e-commerce industry. Although Pinduoduo still faces challenges in terms of profitability, its active exploration of new profit models and areas, such as value-added services, demonstrates its confidence in continued growth in the future. As such, Pinduoduo's success and development provide useful experience and inspiration for e-commerce in China and offer a positive outlook for the industry's future development.

Keywords: E-commerce, Pinduoduo, Innovatio.

1. Introduction

E-commerce is one of the business models that could be addressed in today's society, and various e-commerce platforms are emerging globally [1, 2]. China's e-commerce market is especially characterized by fierce competition [3-5]. This paper aims to look in-depth at Pinduoduo, a high-profile emerging giant in China's e-commerce space [6]. Since its founding in 2015, the company has risen to prominence in the highly competitive market with its unique features [7, 8]. This article will examine Pinduoduo's unique business model in detail and its compelling growth story, including its social e-commerce model, rural e-commerce promotion, and internationalization. An in-depth study of Pinduoduo will provide a better understanding of the dynamics and innovations in China's e-commerce industry and provide useful insights into the trends and opportunities in the e-commerce market.

2. Case Description

Pinduoduo, an emerging giant of China's e-commerce platforms, has emerged in a competitive market with unique characteristics since its founding in 2015. The Shanghai-based company is led by technology-born founder Huang Zheng, who has built an innovative e-commerce model by drawing on his engineering experience at Microsoft and Google. One of the core features of Pinduoduo is its social e-commerce model, which allows users to invite their friends to buy goods together and enjoy more discounts through group purchasing, the interactive nature of the shopping experience has attracted many users, especially young people. At the same time, users can post comments and ratings on the platform, strengthening social interaction and trust and making users more willing to share their shopping experience. Pinduoduo is also committed to mass consumption, offering products in multiple fields at affordable prices, which attracts low- and middle-income people. In addition, Pinduoduo promotes its services in rural areas, helping farmers sell their products directly to urban residents, improving the efficiency of agricultural sales and bringing opportunities for development in rural areas. Pinduoduo's rapid rise and innovative growth path has been remarkable, with the

company's rapid IPO and growing market capitalization demonstrating its potential in the e-commerce industry. It is also actively exploring new business areas, such as rural e-commerce and online education, to further expand its reach. Pinduoduo's success story provides useful lessons for China's e-commerce sector and highlights the dynamism and innovation of China's e-commerce industry [9, 10].

3. Pinduoduo's Unique Business Model and Explosive Growth

Merchants take a percentage and quickly obtain traffic, selling traffic and advertising space promotion through the "Taobao model". The second is to attract customers to gather through low-priced products, initiate group-buying behavior, and pay group-buying deposits. Then, by temporarily depositing customers' group-buying deposits, Pindoduo designs a fund maturity mismatch plan to form a long-term and stable cash flow and finally invests the cash flow many customers generate to earn income.

Pinduoduo was founded in 2015 after six years of rapid development and has become the largest agricultural products uplink platform in China and the second-largest e-commerce platform in China. As of December 31, 2022, the number of annual active buyers of Pinduoduo reached 869 million, the annual total transaction volume reached 2.4 trillion yuan, and the annual revenue reached 130.6 billion yuan. Fiscal year 2022 Performance: Revenue of 130.6 billion yuan, an increase of 39%; Net profit of 31.5 billion yuan, up 306% Tech Business 2023-03-28 09:21:09 + Attention Tech Business News Recently announced its financial results for the fiscal year 2022 and fourth quarter (ended December 31, 2022). According to the financial report, Pinduoduo's revenue in the fiscal year 2022 was 130.6 billion yuan, an increase of 39% compared with 93.9 billion yuan in the fiscal year 2021. The company's revenue in fiscal year 2021 increased 58% compared to fiscal year 2020.

The overseas version of Pinduoduo is called Temu, and its preferred site is the US site. So, it's clear that Pinduoduo's overseas goals are very ambitious. Since the platform has just been launched, it is relatively more supportive to merchants. For domestic enterprises wishing to carry out cross-border e-commerce, this is an opportunity to pay close attention to. As a foreign-listed e-commerce platform, Pinduoduo's demand and support for cross-border e-commerce business is understandable. The overseas version of Pinduoduo, "temu," is designed to connect to international markets, especially the U.S. market. This provides a potential opportunity for Chinese cross-border e-commerce companies to expand their reach and market their products globally. In addition, Pinduoduo provides a powerful platform for domestic companies to enter the international market as its popularity and influence in the international market continue to grow. With the continuous rise of China's manufacturing industry and increased demand in the global market, cross-border e-commerce has become a way for many companies to expand their business. pinduoduo, as an internationalized e-commerce platform, provides a more convenient and influential channel for Chinese companies to meet the needs of different countries and regions. Therefore, domestic enterprises can leverage Pinduoduo's internationalization features to better seize opportunities in the global market and achieve business growth and internationalization.

Pinduoduo is the product of mobile Internet traffic dividends, and replicability is extremely low in the current context. We want to avoid repeating the rise of Pinduoduo road, in the process of development and growth of Pinduoduo, the question of whether it has a moat and business model has always existed. We believe that the success of Pinduoduo is accidental and inevitable. The excellent management team and the early cooperative relationship with Tencent are only one aspect of its success. Still, the more important reason is that Pinduoduo, in the mobile Internet era and the general background of the Internet sinking, uses the subsidy for growth model to achieve the original accumulation of users quickly. Although this kind of marketing cost for many years is less real than the warehousing construction of Jingdong, the first-mover advantage eventually became a barrier after many years of operation.

4. Factors Contributing to Pinduoduo's Price Competitiveness

There are several reasons why the Pinduoduo platform can offer more competitive prices. First, Pinduoduo cooperates directly with some manufacturers and adopts a buyout model, in which the manufacturers sell their goods directly on the Pinduoduo platform without intermediaries earning a price difference, thus making the prices relatively cheaper. This direct cooperation model helps compress prices, allowing users to buy the goods they need at more affordable prices. Secondly, some manufacturers have opened stores on the Jinduoduo platform to sell first-hand supplied goods, eliminating third-party price differentials. Removing intermediate links makes goods relatively more affordable, benefiting the ultimate consumers. This is one of the reasons why the Pinduoduo platform has attracted so many manufacturers and brands. In addition, Pinduoduo uses a group purchase model, where users cannot buy goods individually but only after a certain number of group buyers have been reached. This allows merchants to sell at least two items simultaneously (Pinduoduo sets the minimum number of group buyers at 2), thus increasing sales effectiveness. This collective purchase not only reduces the cost of goods but also brings more shopping fun to consumers. The unique business model of the Pinduoduo platform and the way it cooperates with manufacturers enables it to provide relatively cheaper goods, which satisfies consumers' demand for affordable shopping and helps merchants increase their sales efficiency. Together, these factors have contributed to the rapid development of the Pinduoduo platform and the growing user base.

In the third quarter of 2021, Pinduoduo's total revenue was RMB 21.506 billion ($3.376 billion), up 51% from RMB 14.210 billion in the same period a year earlier. Net profit attributable to Pinduoduo common shareholders was RMB 1.64 billion ($254.5 million), compared to a net loss of RMB 784 million in the same period a year earlier. Excluding Generally Accepted Accounting Principles (GAAP), net income attributable to Pinduoduo common shareholders was CNY31.502 billion ($488.9 million), compared to CNY4.664 billion in the same period a year earlier. This figure reflects Pinduoduo's exceptional performance in the third quarter of 2021. The significant growth in total revenue indicates that the company saw a significant increase in sales during the quarter, demonstrating the strong momentum of the platform.

Meanwhile, the positive shift in net income to a profit and away from a loss shows Poundland's continued profitability. In particular, the significant increase in net income, excluding GAAP, further emphasizes the company's financial health. This financial also demonstrates Poundland's continued growth and development in a competitive marketplace. The company's increased profitability is helping to further invest in the growth and innovation of the platform, creating more opportunities for the company's sustainable development.

Pinduoduo has become one of the main channels of e-commerce shopping for the public, and the "Purchasing Economy" has been applied to all major consumer scenarios. It has not only added a new form of consumerism, but its existence has also greatly impacted Taobao, the king of e-commerce. As a platform emerging from third- and fourth-tier cities, Pinduoduo's growth rate is remarkable. The rise of Pinduoduo marks a new trend in the e-commerce space. Traditional e-commerce platforms offer greater discounts in the form of Pinduoduo, which encourages consumers to buy collectively through group buying and price sharing. This model is popular with the public as it offers more shopping fun and affordability. At the same time, the rise of Pinduoduo has enabled more consumers from rural areas and small cities to enjoy the convenience of e-commerce, broadening the boundaries of the e-commerce market. As a fast-growing platform, Pinduoduo's development speed is amazing. Its increasing number of users and continued sales growth demonstrate the platform's competitiveness and attractiveness in the market. Pinduoduo's success also demonstrates that in the e-commerce space, different business models and market niches have the opportunity to succeed.

Earlier, Poundland also released its annual business figures for 2020. By the end of 2020, Pinduoduo's annual turnover (GMV), operating income, and number of active users all performed well, but amidst the many bright numbers, its earnings remained negative. This means that Pinduoduo, despite its huge success in the market, still has to face the challenge of profitability. Despite its continued growth in size and market share, the company's profitability could be better due to fierce

competition in the market and its reliance on promotions and subsidies. Compared to some more profitable e-commerce platforms, Pinduoduo may focus more on market share and user growth than profitability in the short term. This strategy could explain why it still has negative earnings despite achieving huge transaction volumes and user numbers. However, it's worth noting that Poundland's negative earnings sometimes mean its future could be better. The company may seek a different profit model in its future strategy, reducing its reliance on promotions and strengthening its refined operations to achieve long-term sustainability of its earnings. In addition, Pinduoduo has built a strong user base and can increase its revenue streams by offering more value-added services and attracting more advertising partners. Although the current earnings position remains negative, Pinduoduo may take steps to improve its financial performance and achieve profitability. Therefore, Pinduoduo's negative earnings situation is not necessarily a stumbling block to its future growth but more likely a temporary phenomenon.

5. Summary

By studying Pinduoduo, this study not only understands the characteristics and success factors of this emerging e-commerce platform but also highlights the dynamics and innovations in China's e-commerce industry. Pinduoduo's strategies of social e-commerce model, mass consumption positioning, and rural e-commerce promotion bring new business opportunities and market dynamics to the Chinese e-commerce market. Its success story has inspired more innovation and competition, positively impacting consumers, businesses and the entire e-commerce ecosystem. In the e-commerce space, different business models and market segments have a chance to succeed, creating more possibilities and opportunities for the continued growth and development of the e-commerce industry. Although Pinduoduo still faces challenges in terms of profitability, its active exploration of new profit models and areas, such as value-added services, demonstrates its confidence in its continued growth in the future. Therefore, Pinduoduo's success and development provide useful experience and insights for e-commerce in China and offer a positive outlook for the industry's future development.

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