

Pinduoduo: How to Rise with The E-commerce Model Innovation

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ABSTRACT: *E-commerce has developed for more than ten years. Many games such as Ali and JD have never stopped. The e-commerce sector has basically entered the competition stage of the Red Sea and will face new integration. At the same time, Pinduoduo have seized the key points of the mobile social dividend, relying on WeChat traffic to establish a new social marketing model, and let the original monotonous “buy and buy” upgrade into an interactive and interesting “spelling fight” in the circle of friends. In the form of innovation, it opened a new era of true social e-commerce, and dug out the blue ocean of its own in the Red Sea.*

Keywords: *Social innovation, Spelling mode, Positioning, Reverse consumption*

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I. INTRODUCTION

The rise of Pinduoduo is a successful practice of unicorn companies in the commercial field in recent years. When Taobao, Jingdong and others focused on online and offline combined with new retail, Pinduoduo expanded a social commercial marketing platform, and in just two years, the turnover exceeded the annual 100 billion mark, and the results were amazing. According to the 2018 e-commerce market share ranking: Ali accounted for 58.2% of China's e-commerce market share, absolute monopoly; Jingdong accounted for 16.3%; Pinduoduo 5.2%; Suning 1.9%, it can be seen that Ali and Jingdong monopolized the Chinese e-commerce market 80% of the share. New e-commerce companies want to show their ambitious situation is not optimistic, but Pinduoduo has become a unique show in this wave. In just three years to achieve the position of e-commerce third, force Suning, Vipshop, etc. In the post-e-commerce era, it is really impressive to be able to develop rapidly to such a large scale. In fact, before Pinduoduo, social e-commerce has been repeatedly demonstrated, Xiaohongshu is a typical social e-commerce model, WeChat also opened a micro-store. But the traditional social e-commerce model of the past is not very successful. Why is it that it is the turn of Pinduoduo to develop the ultimate model of social e-commerce? In fact, the key point is that Pinduoduo has been re-structured in terms of retail customers, merchandise, and shopping scenes. This is a bit like headline and vibrato content distribution and operation model reconstruction, low price, rich gameplay, social Spread, making shopping an emotional activity or entertainment consumption, rather than simply centralized sales.

II. COMPANY DEVELOPMENT BACKGROUND

Pinduoduo is a third-party social e-commerce platform focusing on C2B. It was formally established in September 2015. Users can buy goods at a lower price by launching a group with friends, family, neighbors, etc. Less than three years after Pinduoduo went online, users were mainly concentrated in third- and fourth-tier cities, accounting for 56.72% of the total, which was higher than Jingdong's 44.23% and Taobao's 51.81%. Consumers in most first- and second-tier cities are not optimistic about Pinduoduo at this time and define it as a “five-ring” philosophy. However, this situation soon changed. When Ali and Jingdong adopted a follower strategy to enter the sinking market, and tried to take advantage of the huge public relations war and the second choice, the Pinduoduo continued to deepen its market with its innovative business model. At the same time, it infiltrated into first- and second-tier cities. According to Pinduoduo's earnings conference data, in January of this year, the GMV of users in first- and second-tier cities of Pinduoduo platform has reached 37%. By June, the proportion had climbed to 48%. It can be seen that Pinduoduo has successfully broken through the first- and second-tier cities and started the all-user development model.

On June 30, 2018, Pinduoduo submitted a prospectus to the US Securities and Exchange Commission for listing. A paragraph on the prospectus is a very precise description of Pinduoduo's business model. "Pinduoduo will be a "Costco" and "Disney" driven by a distributed intelligent agent network (rather than the popular centralized super brain AI system). (that is, a combination of cost-effective products and entertainment). It not only efficiently matches information, but also constantly simulates the group emotions of the crowd in the entire space, and tries to adjust the whole space to let the group experience More fun." Simply speaking, Pinduoduo is not just a shopping platform, but also a cultural product that reconstructs the shopping scene and user relationships. For example, when we watched TV, we suddenly saw that there was a good cup in the play, and then we used the remote control to place an order. This is a new era of marketing channels. This is a new era

of marketing channels, it is this road leading Pinduoduo to go further and further.

From the perspective of user scale, the number of active users of Pinduoduo has been rising since its establishment. By the end of June this year, the number of active buyers of Pinduoduo's platform has reached 483.2 million, up 41% from the same period of last year's 343.6 million, a net increase of 139.6 million. Compared with the first quarter, the single quarter increased by 39.9 million active buyers. The average monthly number of APP users reached 366 million, an increase of 88% from the 195 million in the same period of last year and a net increase of 76.3 million from the second quarter of 289.7 million.

In terms of transaction scale, in September 2016, Pinduoduo monthly GMV was only 1 billion yuan, and in 2017 it exceeded 4 billion yuan. In January 2018, GMV has exceeded 40 billion mark. Jingdong has been doing e-commerce for 6 years, and GMV has broken through the 10 billion mark, but Pinduoduo has easily jumped over 10 billion. As of June this year, Pinduoduo's GMV has reached 709.1 billion yuan, an increase of 171% over the same period last year of 262.1 billion yuan. This data is almost ten times the overall increase in e-commerce statistics collected by the National Bureau of Statistics. Behind the fast-growing figures, the industry has attracted a lot of attention, and its business model has been deeply explored. How does it stand out among many e-commerce companies? What innovations does it have compared to traditional e-commerce?

III. THE FOUR MAJOR SOCIAL E-COMMERCE INNOVATION POINTS

The e-commerce dividend is gradually disappearing, and the era when traditional e-commerce has gained competitive advantage by means of traffic is dying. Looking back at the Spring Festival Evening of 2018, you can feel through the screen, Taobao strongly supports the vast number of consumers to open Taobao's family accounts and expand their middle-aged and old-age consumer groups to increase the number of users. Jingdong also introduced various strategies to attract new users, but none of them got good results. Pinduoduo quietly won the cake, relying on the innovation of the four major social e-commerce: "interactive spelling mode, operating mode without goods source opening, strengthening product attributes, positioning + reverse consumption upgrade" easily captured the third and fourth line The consumers of the city, and formed the three-legged situation of the electric business "Taobao + Jingdong + Pinduoduo".

3.1. Interactive Spelling Mode

Pinduoduo can become a rising star in the electric business community, mostly due to its "single-single mode". The spelling list is a social mode of interaction and communication. The user can invite the friends, relatives, etc. to launch a group invitation. After the success, they can buy the favorite goods at a low price. Shopping is not new, but what is new is its combination with social experience. The traditional "e-commerce + social" is just a pure addition, adding a communication community function on the e-commerce platform, or simply adding a mall plug-in on the social platform, does not pay attention to the integration of the two and the consumer's shopping sentiment.

Pinduoduo's social business platform restructures the relationship between the scene and the user. Depending on the high stickiness of the social, when WeChat has not become the focus of e-commerce cooperation, Pinduoduo has begun to rely on the socialization of WeChat to achieve the fission of traffic, creating an entertaining shopping atmosphere. Shopping above pinduoduo, the customer is like a game player. In order to reach a deal, he must participate in WeChat "social games", not only play by himself, but also easily launch group purchases and invite WeChat friends together. This model of combining shopping with everyday social fun has won consumers' love. Moreover, the more people in the group, the more favorable the price, and to a certain extent, it also satisfies the psychology of consumers "taking advantage of the price"; In the process of spelling out, consumers will also consciously help merchants to promote marketing in order to achieve group purchases. These effects are not available in traditional e-commerce, but they are the true meaning of Pinduoduo "spelling group". This pattern of social interaction in Pinduoduo -- the fission of the users of Latvia to participate in shopping, is the core driving force of its operation.

3.2. Operating Mode without Goods Source Opening

Pinduoduo adopts a mode of operation without a source of goods, which can quickly gather a large number of customer resources. This model collects the good sales of other products on other platforms. After optimization, it is put into its own store for sale. After the user purchases, the merchant will go to the home to take the goods, and the goods will be filled in the buyer's address. Sending to the buyer, the buyer does not have to worry about the quality of the product, because the cooperative store has sales and quality assurance. For the merchant, the multilevel dealer link is omitted, and the merchant does not need to consider the problems of inventory, logistics service, etc., and only needs to increase the store sales through the operation technology. This has shaped the buyer's supply and short supply chain, which greatly reduced the cost and operational risks of the merchant. For traditional manufacturing companies that have been plagued by channels, Pinduoduo has also provided a new channel for them, which can save the daily channel marketing and promotion costs, and save

the cost savings for consumers. The huge order quantity from Pinduoduo also makes these companies dare to make reforms in the production chain, which can reduce the cost of a short sleeve from 30 yuan to 25 yuan. Compared with this new mode of operation, traditional e-commerce has lagged far behind. If a business wants to open a store in Taobao, it must have basic conditions such as supply support and logistics services, and the cost of opening a store is high. Sellers must always pay attention to the flow of consumer information. To spend more money on marketing to attract consumers. However, for opening a store on Pinduoduo, a mobile phone can be solved, the operation is simple, and the source of supply does not have to worry. This gameplay mode is very suitable for the intervention of general people such as college students and Baoma, and is undoubtedly more favored by consumers.

3.3. Enhanced Commodity Attributes

Pinduoduo is different from traditional e-commerce in the development of internal platforms. No shopping cart is one of the characteristics of Pinduoduo. A shopping cart is generally an essential module for a traditional e-commerce platform, but in the Pinduoduo shopping experience, users can only place orders for specific products and cannot add them to the shopping cart. Pinduoduo's founder, Huang Zheng, mentioned in an interview with Caijing that there is no shopping cart on the Pinduoduo APP, nor does it support shop search. From the words of Huang Zheng, we can see that he has streamlined the flow of goods equal to the flow of information in today's headlines. Pinduoduo's logic is to strengthen the merchandise attributes, similar to the headline and vibrato release operation mode, proactively present the goods of interest to consumers, regardless of which merchants the goods come from. Such a shopping concept design not only enhances the characteristics of the product itself, but also increases the consumer's awareness and purchasing power.

3.4. Positioning and Reverse Consumption Upgrade

Nowadays, consumption is in the midst of a fierce upgrade, but the consumption up-grading structure is actually diverging, and the phenomenon of reverse consumption upgrading frequently occurs, especially in the field of consumer goods. Corresponding to the consumption upgrade, the reverse consumption upgrade refers to the fact that consumers do not pursue high prices, high efficiency, brand and quality service in the case of small gaps, but more pursuit of high quality and low price. Pinduoduo's vision is "to upgrade the consumption of the most people in the service", so the user positioning is not used by consumers who are accustomed to high-priced and high-quality products, but the middle- and low-income group of third- and fourth-tier cities---usually visiting Taobao and Jingdong may be suspected expensive, even people who don't buy online. While the mainstream platforms such as Ali and JD.com are tilting towards the core users to make quality, Pinduoduo is doing the opposite. It has taken over the buyers and sellers who have been squeezed out by consumption, focusing on third- and fourth-tier cities. Affected by regional environment and income, the consumer demand of third- and fourth-tier cities is very different from that of first- and second-tier cities. Their income is relatively low, and their sensitivity to prices is relatively high. Pinduoduo just caught the psychology of this part of the consumer, positioning the goods in the low-price strategy "it is cheaper, and the group is more favorable", targeting the 470 million third- and fourth-tier cities that Taobao ignores - most of them are not used to Taobao. Or will not use Taobao's native generation to enable this group of people to achieve reverse consumption upgrades.

IV. THE ENLIGHTENMENT OF THE DEVELOPMENT OF E-COMMERCE PLATFORM

Although Pinduoduo quickly achieved amazing results in just four years, it did not win a full house of applause, and the outside world's doubts were uninterrupted. Some people are worried about the sustainability of the Pinduoduo profit model. Some people question the quality of Pinduoduo products. But the value of all products is nothing more than two points, to meet the needs and resolve conflicts. In fact, satisfying the needs and solving the contradictions themselves are two aspects of the same problem. The key to understanding the problems with Pinduoduo is to understand what contradictions Pinduoduo solves. But we can't deny that this business model is successful. Tencent, the 3 billion of Sequoia Capital is not blindly invested. The innovation and development of Pinduoduo is worth our study and reflection.

4.1. Focus on Platform Innovation

John D. Rockefeller once said: "If you want to succeed, you should move on a new path, don't follow the road to success that has been trampled," Pinduoduo has succeeded in taking the road of platform innovation. When the trend of the Red Sea is full of e-commerce, Pinduoduo has not eagerly copied and pasted the success of the predecessors. Instead, it has transformed and upgraded the marketing model, combining social fun with shopping to create a new path. This road has changed the traditional purely trading relationship and broke the way of relying on the net red economy in the e-commerce economy to obtain benefits. Pinduoduo creates a new environment for consumers---sellers and themselves are equal. Customers not only have the right to choose, but

also can easily start group purchases, let others participate in their own consumption preferences and enjoy the whole shopping process. This way of integrating social and e-commerce makes customers no longer a mere information receiver. They have more initiative and interaction. Through this interaction, they can form a social community of consumer groups, thus giving enterprises bring economies of scale. Therefore, today's e-commerce platform should focus on the innovation of "social + e-commerce" according to its own advantages. This is not a simple addition, but a social entertainment and e-commerce integration, so that consumers can get unprecedented in the shopping process. shopping experience.

4.2. Pay Attention to the Blue Sea Crowd

Blue Ocean Strategy means that companies create new changes by looking for unmanned, new market spaces and new business opportunities, as well as developing new thinking. The Blue Ocean crowd refers to the potential customers in the Blue Ocean market that have not yet been discovered by other companies. Pinduoduo's user positioning is very clear, it perfectly explores the blue ocean population in the third-tier cities neglected by taobao and Jingdong. The price is targeted at low-end consumption, and the product function satisfies the psychology of taking advantage of cheap consumption. The more people there are in a group, the lower the price will be. Nowadays, with numerous e-commerce platforms and fierce competition, the existing market has been basically saturated. In order to win a place, enterprises must set aside their immediate interests, explore new markets and target customers, and find consumers with unique needs or who are ignored by most enterprises. According to their needs, develop specific products and marketing strategies to meet their psychological demands and make them loyal customers.

4.3. Seize the Consumer Psychology

Most consumers choose shopping online, one to save time and the other to be cheap. Although not all consumers choose online shopping with the purpose of the latter, there are at least 470 million middle and lower-income consumers in China, whose consumption is not up to the advanced level, and their first choice is cheap and high-quality. And Pinduoduo just seized the psychology of this group of consumers and engaged in the marketing model of "explosive models + spelling groups" on the platform. Give consumers a feeling of buying good goods and saving money, let buyers feel that this platform shopping is what they can consume, and invest less capital and energy than other shopping platforms, so firmly grasp Live in the hearts of consumers. Most e-commerce platforms today often ignore this and cause customer loss. Therefore, enterprises should start from now, pay more attention to the changes in consumers' consumer psychology needs, and always be prepared to make changes and innovations in order to grasp the psychological needs of customers, timely adjust corporate strategies, achieve customer satisfaction, and thus win long-term customer loyalty.

4.4. Introducing External Investment

Competition among e-commerce enterprises is fierce. New e-commerce companies and established e-commerce companies want to quickly occupy market share and stabilize their place. However, due to insufficient accumulation of their own funds, they need to introduce external investment and expand their own advantages. Since its establishment in September 2015, Pinduoduo has received three rounds of financing in just two and a half years. The most significant round was round C, a \$3 billion joint investment by Tencent and Sequoia on April 11, 2018. Pinduoduo is in the development stage at this time, and the addition of Tencent has undoubtedly accelerated the pace of Pinduoduo's advancement, making it faster into the development turning stage. Such a story is actually a warning to most new e-commerce companies: the economic base determines the superstructure. If enterprises want better development, they must increase capital investment. A quick and effective way to expand funds is to introduce external investment. External investment can quickly extend the company's own advantages in the short term, and more funds can be invested in product development, platform innovation and other activities, thus winning more potential customers than competitors.

V. SUMMARY

Low price is not a long-term strategy of Pinduoduo. It is only a means to obtain customers and resources in the early stage. The core of Pinduoduo is not cheap, but the psychology of satisfying consumers. Now Pinduoduo is like Taobao at the beginning, which can be upgraded to Tmall once the cheap label is torn off. Pinduoduo has a long way to go in the future, no matter how the current reputation is, but its successful business model is worthy of our reference. E-commerce platform sells products that consumers can't touch or feel. If they want to attract and retain customers, they only firmly grasp the consumer psychology, accurately locate the target customers, upgrade the customer's consumption experience, and provide customers with genuine quality. Low-priced products can attract more consumers---making new customers a loyal consumer and making potential customers new.

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