



Case Study Report of **Pinduoduo**

BEMM646

Strategic and HR Analytics

Group 6

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INTRODUCTION

Pinduoduo is China's largest e-commerce platform by number of users, with approximately 788.4 million of them (Zhao, 2019). It was established in 2015 and listed on Nasdaq in 2018.

The Chinese meaning of its name 'Pinduoduo' reflects the characteristics of the platform, that is, users can enjoy more discounts by initiating groups with friends, family and neighbors, to buy goods at a lower price (Zhang, 2020). This social e-commerce strategy helped Pinduoduo quickly amass a large number of users.

Over time however, some its strategies are no longer applicable today. In 2021, Pinduoduo became the company with the largest loss in the Internet industry, losing 7.18 billion yuan.

EXTERNAL ANALYSIS

Porter's Five Forces



Threat of new entrants

Pinduoduo adopts a strategy of **differentiated competition** to expand the markets in lower-tier cities. But if there are new industry entrants who want to compete in this market, it will be difficult for Pinduoduo to continue to occupy the market through a "low price" strategy (Chang et al, 2019).



Threat of substitutes

Online shopping is an alternative to traditional offline physical store shopping. Although there are some new attempts in offline stores, there is still **no possibility** that online shopping will be replaced (Tang et al, 2020).



Bargaining power of customers

To capture consumers, Pinduoduo focuses on the **"low price" strategy**, attracting users through low prices and subsidies, but once its price no longer has a competitive advantage or the products it provides do not meet user expectations, user loyalty will also be greatly decreased (Solomon et al, 2012).



Bargaining power of suppliers

Due to Pinduoduo's "low price" strategy, most of the sellers are **small suppliers**, their sales and influence is **limited**, from a long-term perspective, it must develop brand sellers to enhance user influence.



Competitive substitutes

According to China's B2C market in the first half of 2019, Taobao's market share was 53%, followed by JD.com with 29%, and Pinduoduo **ranked third** with an 8% market share. The competition between major e-commerce platforms is obvious, but the market position is **relatively stable**.

Many customers choose Pinduoduo because of its price advantage. Once Pinduoduo no longer has a competitive price advantage, user loyalty will be greatly reduced. Because Pinduoduo's online shopping model is focused on markets in lower-tier cities, competitors will not be able to pose a greater threat to Pinduoduo in the short term, but once e-commerce giants like Alibaba begin to enter lower-tier cities, a new pattern is likely to be formed.

From the analysis of the external environment, it can be concluded that the core problem of Pinduoduo is that its current **low-price strategy is unsustainable**.

INTERNAL ANALYSIS

Brand resource

Pinduoduo is a well-known brand in China for its bargain price (Zhong, 2018). In 2020, its **users reached 730 million** and its rivals, Alibaba and JD, have 757 million and 362 million respectively.

Product resource

Its suppliers diversely spread in China and a large part of its products are **agricultural goods**.

Financial resource

In 2020, its revenue reached 59.4 billion Yuan with a 97% year-on-year growth. However, **the financial state is unstable** (Kor et al, 2007) .

Human resource

Behind an astonishing developing speed, PDD only have 1/40 staff of its rival JD. And it is reported that **the employees need to work 10-15 hour per day** (LIANG et al, 2020).



Market capability

It has a strong marketing capability because it can be accessed on **Wechat**, the biggest social media in China, and **group buying makes** it more influential (Chen et al, 2020).

Operation capability

It adopts **C2M model**, which bridge the gap between producers and customers.

Supply chain capability

The employed C2M model shorten the supply chain (Lin et al., 2020), making the **bargain price** for customers and **greater profits** for sellers.

R&D capability

PDD **invested 1.6 billion** in 2nd quarter in 2020. They focu on the **talents, systems and algorithms** to promote the development of **agricultural tech**.

With its clever strategy of integrating shopping and social media, alongside its special selling method of group buying and the C2M model, Pinduoduo has seen a rapid growth in their revenue in the past few years.

However, it also needs to pay attention to its weaknesses in financial and human resources. First, compared with its competitors, **Pinduoduo's revenue is unstable**, Secondly, as such a fast-growing company, it only has 1/40 the staff of its rival JD, which implies **work overload** for each of its employees.

ISSUE I

- **Issue Diagnosis:**

While Pinduoduo's competitively low costs have lured price-sensitive customers, it has simultaneously developed a reputation for harbouring low quality or counterfeit products, deterring middle- and upper-class buyers (Zhong, 2018). Pinduoduo's low price marketing approach is not sustainable long-term in the face of China's rapidly growing middle class which is projected to reach over 70% of the population by 2030 (Versace et al., 2021). With this concomitant increase in per capita income, customers come to prioritise quality over cost. Therefore, if Pinduoduo fails to engage the ever-increasing number of high-income individuals, its products will become increasingly obsolete as customers flock to better regulated markets (such as competitors Alibaba and JD) with more premium offerings (Lee, 2018).

- **Data Needed:**

- Pinduoduo should foster a closer relationship with agricultural partners to collect various data (e.g., soil salinity, temperature) from a variety of internet-connected sensors. Pinduoduo can then leverage its technological prowess to analyse the data and advise partners how best to improve crop quality and yield. The same should be done with non-agricultural partners; Pinduoduo can help a company make changes to its operations to ensure products meet a certain threshold for quality (Deloitte, n.d.).
- Pinduoduo should seek to mimic its competitors such as Alibaba who have designed an AI which can distinguish between authentic and counterfeit items; this AI should be supplied with imaging data of authentic products (Snow, 2020).

- **Recommendation:**

- A department should be founded that is responsible for aggregating data from Pinduoduo's partners which, after the data has been analysed, can then relate information back to these companies. This will enable the companies to implement recommended changes that ensure their products meet the standards of middle- and upper-class customers.
- Partnerships should be sought with well-known high-quality brands to attract high-income consumers; the anti-counterfeit AI will aid in these brands trusting Pinduoduo enough to establish a relationship. Merchants selling counterfeits should also be blacklisted if detected by the anti-counterfeit AI. This will reinforce consumers' views that Pinduoduo is a well-regulated and trust-worthy platform.

ISSUE 2

- **Issue Diagnosis:**

Another issue is Pinduoduo's unstable revenue. At present, the main selling strategy of Pinduoduo are the lower prices in group purchases compared with other e-commerce platforms providing the same products, typically 20% to 30% lower, satisfying users who are price sensitive (Lin et al., 2020). However, no stable profit is generated by Pinduoduo's platform to maintain its business activities (Wu et al. 2019). There are two main reasons for its erratic income. Firstly, Pinduoduo's group buying strategy is inseparable from continuous cooperation with WeChat (Lin et al., 2020). Secondly, advertising as Pinduoduo's most profitable revenue is affected strongly by how satisfied customers are with Pinduoduo's existing product advertisements (Lin et al., 2020).

- **Data Needed:**

- It is necessary to collect relevant data on social platforms that can share the group buying strategy for Pinduoduo customers, such as the cost of cooperation between Pinduoduo and the social platform. This includes not only Tencent, which has had a cooperative relationship with Pinduoduo, but also other suitable social platforms.
- Pinduoduo also needs to pay attention to the clicks and views of different types of advertisements on their platform, such as which type of product is more sought by Pinduoduo's customer groups, and which product advertisements are unpopular.

- **Recommendation:**

- Pinduoduo can build a cooperative relationship with other platforms by paying them a similar or even lower fee compared to that they pay Tencent, based on the data collected about social platforms.
- Pindoduo can release more popular advertisements on the platform by using the data of consumers' preferred advertisements. Based on users' feedback or the A/B test, Pindoduo can continuously improve the quality of advertisements and the revenue generated by these advertisements.

ISSUE 3

- **Issue Diagnosis:**

In the internal human resources of Pinduoduo, there exists a serious issue of employees working under too much pressure. In 2020, Pinduoduo had only 5,827 employees (Pinduoduo Financial Results, 2020), which is 1/20 of Alibaba's, but their revenue is 5.65 million yuan per person, twice that of Alibaba. Behind this achievement is the fact that Pinduoduo's employees face a much higher workload and work pressure than other internet companies. Pinduoduo Shanghai employees revealed the company requires them to work 300 to 380 hours a month. Work pressure even led to the death of a Pinduoduo employee when leaving to get off work in the middle of the night (Liu, 2021).

- **Data Needed:**

- Pinduoduo needs to collect performance indicators and a quantified workload of each position, and ask professional psychological research institutions to collect data such as the stress adaptation index and mental health index of Pinduoduo employees. These data can help Pinduoduo to scientifically manage employee stress and prevent stress from negatively affecting their health and behaviours.
- Pinduoduo needs to collect its company's business costs (employee wages, infrastructure costs, etc.) and profits data, and compare the service quality and service prices data of outsourcing companies. With these data, Pinduoduo can choose the right outsourcing company to outsource part of the work.

- **Recommendation:**

Work stress is a double-edged sword. It causes some men to break, and others to break records. Therefore, Pinduoduo needs to manage work stress scientifically.

- Pinduoduo can use the data of the position and the psychological data of the employees to build the Revised Transactional Model of Occupational Stress and Coping presented by Goh (2010) which can analyse the stress adaptation index of a dedicated position to choose the right one and provide early warning of emergencies caused by excessive pressure. Therefore, managers can make effective stress management decisions and improve employee work satisfaction
- Pinduoduo can establish a variety of outsourcing schemes based on its business data and the data of outsourcing companies, and then choose the scheme with the best efficiency and profit, and hire appropriate outsourcing personnel to assist in the work, such as human resources outsourcing (Dube, 2003). In this way, Pinduoduo can reduce the workload and pressure of its employees through outsourcing.

CONCLUSION

In the first part of this report, we conduct external analysis and internal analysis on Pinduoduo. Through external analysis, we found that, although it focuses on users in lower-tier cities and its competitors will not pose a greater threat to it in the short term, its low-price approach is still unsustainable. In the process of internal analysis, we have learned that Pinduoduo has gained considerable revenue with effective strategies in the past few years. However, it also has some issues, such as unsustainable profit sources, and excessive employee pressure.

To solve the unsustainable problem of the low-price strategy, Pinduoduo can establish a department to help partners provide high-quality products through data analysis. Also, products can be detected via anti-counterfeiting AI. In term of unsustainable profit sources, it should expand cooperation with more major social platforms, which not only increase advertising revenue, but also help understand the preferences of users in those platforms. To reduce employee pressure, Pinduoduo's managers should use some tools for stress monitoring and early warning or outsource appropriate workloads to reduce employee stress.

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APPENDIX

External Analysis: Porter's Five Forces

Supplier
Pinduoduo's suppliers are businesses that provide consumers with products and services. In the entire e-commerce industry, brand suppliers generally have strong bargaining power. Because of high brand recognition, strong user stickiness, large industry influence, and large market share, they can increase sales for the platform. As the e-commerce industry continues to mature, e-commerce platforms led by Taobao have begun to change their business concepts, retaining competitive brands, and many other companies have been eliminated. About 80% of the early settled merchants of Pinduoduo are spilled over from the Taobao platform. Due to the "low-price" label, there are currently few big brands that have settled in. Most of the sellers are small suppliers with limited sales and influence. Pinduoduo should consider adjusting its sales strategy for long-term development (Chang, Y, 2019).
Customers
With the growing scale of Internet shopping, there are more and more consumers shopping online. (Solomon, M.,2012). At the same time, Pinduoduo has also launched mini-games, money-saving annual cards, etc, to increase user retention and retain customers, but these measures have not worked out well, launched a "low price" strategy, attracting users through low prices and subsidies, but once its price no longer has a competitive advantage, or the products provided do not meet user expectations, user loyalty will be greatly reduced.
Competition
According to China's B2C (business-to-consumer) market in the first half of 2019, Taobao's market share was 53%, accounting for more than half, followed by JD with 29%, and Pinduoduo ranked third with 8% market share. Pinduoduo is growing rapidly by focusing on the urban and rural markets. Overall, the major e-commerce platforms have obvious competitive relationships, but Pinduoduo's market position is relatively stable (Tang, W., & Zhu, J., 2020).
New entrants
The existing e-commerce industry has formed a monopoly by Taobao and Jingdong, and the e-commerce industry is more difficult for new entrants. Pinduoduo was originally a new entrant against the long-established online shopping platforms such as Taobao, but due to Pinduoduo's strategy of differentiated competition, it has expanded to the populace of small cities and rural-urban residents ignored by traditional e-commerce companies, approximately 614 million users. However, current market user growth is stagnant, and new industry entrants inevitably want to compete for this market. It is difficult for Pinduoduo to continue to occupy the market through the "low price" strategy.
Substitutes

Online shopping itself is an alternative to traditional shopping in brick-and-mortar stores. For Pinduoduo, although there are new attempts such as 24h convenience stores, unmanned supermarkets, and offline experience stores, online shopping has not been replaced.

Internal Analysis: Resources and Capabilities

Brand resource
Pinduoduo is a well-known brand in China for its bargain prices (Zhong, 2018). In 2020, its users reached 730 million and its rivals, Alibaba and JD, have 757 million and 362 million respectively. In terms of market share, Pinduoduo is the third-largest e-commerce player in China behind Alibaba and JD.
Product resource
It has suppliers all over the world. It worth mentioning that a large part of its products are agricultural goods, helping farmers to sell their fresh vegetables and fruits (LIANG, H., 2020).
Financial resource
In 2020, its revenue reached 59.4 billion Yuan with a 97% year-on-year growth. In 2021, it invested 10 billion into agricultural technology to promote the development of agriculture and the selling of agricultural goods (Kor, Y. Y., 2007).
Human resource
Due to an astonishing speed of development, Pinduoduo only has 1/40 staff of its rival JD, having 7k and 227k staff number respectively. This has led to long overtime work for each employee, and it is reported that their staff are required to work 10-13 hours a day. Even worse, this kind of work overload even leads to the employee deaths.
Market capability
It has a strong marketing capability because it integrates shopping and social media. Pinduoduo can be accessed on WeChat, the biggest social media platform in China, with over a billion monthly users. Its group buying model encourages buyers to share goods with friends, which makes it more influential (Chen et al., 2020).
Operation capability
It adopts the C2M model, which bridge the gap between producers and customers. Benefitting from big data and AI, billions of users' needs can be automatically matched, and this demand will be sent to suppliers in seconds, which is highly efficient. Group buying makes more customers' demands to be matched, and this kind of bulk purchase is also favored by suppliers.
Supply chain capability
Pinduoduo employs the C2M model in its selling stage. As sellers have a direct method to sell their products with fewer middlemen and extra costs, it effectively shortens the supply chain (Lin et al.,

2020). As a result, customers can get goods at bargain prices and sellers can sell in bulk with more revenue.

R&D capability

Pinduoduo focuses more on invisible assets such as talent, systems and algorithms, and it aims to build a comprehensive supportive mechanism to improve agricultural regulation, product quality and upgrade technology.



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BEMM646 Strategic and HR Analytics

Group 6

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Summary

1. PINDUODUO INTRODUCTION

Brief introduction

Pinduoduo is one of the mainstream applications in China's e-commerce field. It was established in September 2015 and listed on NASDAQ in 2018.

Main features

Users of Pinduoduo can enjoy more discounts by initiating groups with friends, family and neighbors, so as to buy goods at a lower price (Zhang, 2020) .

Present situation

In 2021, with a loss of 7.18 billion yuan, Pinduoduo became the company with the largest loss in the Internet service industry.



2. EXTERNAL ANALYSIS - porter's five forces



Threat of new entrants

Pinduoduo adopts a strategy of **differentiated competition** to expand the markets in lower-tier cities. But if there are new industry entrants who want to compete in this market, it will be difficult for Pinduoduo to continue to occupy the market through a "low price" strategy (Chang et al, 2019).



Threat of substitutes

Online shopping is an alternative to traditional offline physical store shopping. Although there are some new attempts in offline stores, there is still **no possibility** that online shopping will be replaced (Tang et al, 2020).



Bargaining power of customers

To capture consumers, Pinduoduo focuses on the **"low price" strategy**, attracting users through low prices and subsidies, but once its price no longer has a competitive advantage or the products it provides do not meet user expectations, user loyalty will also be greatly decreased (Solomon et al, 2012).



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Due to Pinduoduo's "low price" strategy, most of the sellers are **small suppliers**, their sales and influence is **limited**, from a long-term perspective, it must develop brand sellers to enhance user influence.



Competitive substitutes

According to China's B2C market in the first half of 2019, Taobao's market share was 53%, followed by JD.com with 29%, and Pinduoduo **ranked third** with an 8% market share. The competition between major e-commerce platforms is obvious, but the market position is **relatively stable**.

- Summary:**
- Pinduoduo has **a lot of consumers** and focuses on **markets in lower-tier cities**. In the short term, competitors will not be able to pose a greater threat to it.
 - The core issue of Pinduoduo is that its current **low-price strategy is unsustainable**.

2. INTERNAL ANALYSIS - resources & capabilities

Brand resource

Pingduoduo is a well-known brand in China for its bargain price (Zhong, 2018). In 2020, its **users reached 730 million** and its rivals, Alibaba and JD, have 757 million and 362 million respectively.

Product resource

Its suppliers diversely spread in China and a large part of its products are **agricultural goods**.

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In 2020, its revenue reached 59.4 billion Yuan with a 97% year-on-year growth. However, **the financial state is unstable** (Kor et al, 2007) .

Human resource

Behind an astonishing developing speed, PDD only have 1/40 staff of its rival JD. And it is reported that **the employees need to work 10-15 hour per day** (LIANG et al, 2020).



Market capability

It has a strong marketing capability because it can be accessed on **Wechat**, the biggest social media in China, and **group buying makes** it more influential (Chen et al, 2020).

Operation capability

It adopts **C2M model**, which bridge the gap between producers and customers.

Supply chain capability

The employed C2M model shorten the supply chain (Lin et al., 2020), making the **bargain price** for customers and **greater profits** for sellers.

R&D capability

PDD **invested 1.6 billion** in 2nd quarter in 2020. They focu on the **talents, systems and algorithms** to promote the development of **agricultural tech**.

2. INTERNAL ANALYSIS - summary

ADVANTAGE

- a combination of group buying and social shopping
- the C2M model with less middleman in supply chain

Human Resource issue

- Staffs work too long with too much pressure.

Financial Resource challenge

- The financial state of Pinduoduo is unstable.

3. ISSUES & RECOMMENDATIONS



Bargaining power of customers issue:

Pinduoduo has a reputation for cheap but **low-quality/counterfeit** products (Zhong, 2018).

- This deters **middle-** and **upper-class** customers who value **quality** over **price**
- As China's middle-class **grows** (Versace et al, 2021), Pinduoduo may become obsolete if it does not **cater** to this group

Recommendation

- Establish a department that can **relate information** to Pinduoduo's partners so that they know how **improve** the quality of their products.
- Release more popular advertisements on the platform by using the data of **consumers' preferred advertisements**. Based on users' feedback or A/B test, continuously improve the quality of advertisements and the revenue generated by advertisements.

Data Needed

Collaborate with partners to collect **metrics** relevant to the **production process**. This data can then be **analysed** to obtain insights (Deloitte, n.d.).

Data Needed

Collect **imaging data** to train an AI that can **distinguish** between **authentic** products and their **counterfeits** (Snow, 2020).

3. ISSUES & RECOMMENDATIONS



Financial Resource challenge:

Pinduoduo unable to maintain a **stable revenue** (Wu et al. 2019) .

- Pinduoduo's group buying strategy is **inseparable from the continuous cooperation** with **WeChat** platform(Lin et al., 2020) .
- Advertising revenue as Pinduoduo's most profitable revenue is affected by **how satisfied customers are** with its existing advertisements.

Recommendation

- Build a **cooperative relationship** with other platforms which are similar to Tencent to achieve group by strategy in Pinduoduo according to data refers to cooperation fee.
- Provide more advertisements of products that are more **popular with customers** on this platform to attract more customers and consequently increase the advertising income.

Data Needed

Cooperation fee between Pinduoduo and social platform which helps to develop cooperative relationship with other platforms instead of relying on Tencent.

Data Needed

Popular advertisement and product types among customers in platform to provide information for Pinduoduo when considering choosing advertisements.

3. ISSUES & RECOMMENDATIONS



Human Resource issue:

Pinduoduo's employees work under too much **pressure**.

- The fact behind the achievement of Pinduoduo is that employees have to face **far more workload and pressure** than other companies (Pinduoduo Financial Results, 2020).
- Pinduoduo's employees need to work 300 to 380 hours a month, and the huge work pressure even led to **sudden death** of employee (Liu, 2021).

Recommendation

- Build **Employee Stress Model** to analyse the stress adaptation index and provide early warning of pressure emergencies. It can help make effective stress management decisions and improve employee work satisfaction (Goh, 2010).
- Establish a variety of **outsourcing schemes**. Choose the scheme with the best efficiency and profit to assist in the work. It can help reduce the workload and pressure of its employees through outsourcing (Dube, 2003).

Data Needed

Collect the performance indicators data of each **position** and ask professional psychological institutions to collect psychological data of **employees**.

Data Needed

Collect company's **business costs and profits** data. Compare the service quality and service prices of **outsourcing companies**.

4. SUMMARY

Through external analysis(new entrants, customers, suppliers, etc) and internal analysis(brand recourse, financial resource, human resource, etc) ,we can see that it still has some issues that need to be solve:

1. Reputation for cheap but low-quality/counterfeit products
2. Unstable revenue
3. Excessive employee pressure



To improve low price strategy

- Help partners provide high-quality products through data analysis.
- Use anti-counterfeiting AI to detect products



To solve profit sources

- Expand cooperation with more major social platforms.
- Provide products advertisements more popular with customers.



To reduce employee pressure

- Use some models for stress monitoring and early warning.
- Outsource appropriate workload to reduce employee stress.

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