

GLOBAL EXPANSION: PINDUODUO'S CROSS-BORDER E-COMMERCE INITIATIVE¹

Wei Li, Jing Chen, and Hubert Pun wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Founded in 2015 in Shanghai, China, Pinduoduo Inc. (Pinduoduo) began as an online retailer specializing in fresh agriculture.² It later transitioned into a third-party online marketplace connecting consumers and sellers across various product categories.³ With its unique social e-commerce model and ultra-competitive pricing strategy,⁴ Pinduoduo experienced rapid growth throughout its seven-year history.⁵ As of March 2022, Pinduoduo had become one of China's largest e-commerce platforms in terms of active users and market share,⁶ and it had also established itself as the largest agriculture-focused technology platform in China.⁷ However, Pinduoduo, one of the fastest-growing e-commerce companies,⁸ faced several challenges in China's e-commerce market. Alongside intense competition and sluggish consumer spending,⁹ Pinduoduo seemed to have reached a growth ceiling within the domestic market.¹⁰ During a call with analysts in August 2022, Lei Chen, the chairman and chief executive officer of Pinduoduo, stated, "The company sees cross-border e-commerce as one of the new opportunities to explore."¹¹ Should Pinduoduo launch a cross-border e-commerce business to seek new growth avenues?

PINDUODUO

Pinduoduo's Origins

In April 2015, Colin Huang, a former Googler¹² who had worked on e-commerce search algorithms,¹³ founded Pinhaohuo as an online retailer—it was the precursor to Pinduoduo.¹⁴ Pinhaohuo's initial business model revolved around purchasing fruits and vegetables in bulk from farmers and selling them directly to consumers.¹⁵ Huang and his team believed that the fruits and vegetables category could entice consumers to make repeat purchases on the platform, as these items were lower-ticket products. They aimed to gradually build trust among consumers and then expand into additional product categories.¹⁶ Moreover, incumbents such as Alibaba Group Holding Ltd. (Alibaba) and JD.com Inc. (JD.com) primarily concentrated on non-perishable items, leaving the fruits and vegetables category with less competition.¹⁷ Pinhaohuo used WeChat to acquire users and establish its operations.¹⁸ Users could make purchases through its WeChat mini-program.¹⁹ WeChat, launched by Tencent Holdings Ltd. (Tencent) in 2011,²⁰ was the most popular social platform in China, boasting 600 million monthly active users (MAUs) as of the second quarter of 2015.²¹ WeChat Pay also simplified transactions for users, allowing them to complete purchases without leaving the platform.²² For deliveries, Pinhaohuo partnered with SF Express Co., Ltd. (SF Express), a Chinese multinational delivery services and logistics company.²³ By the end of 2015, Pinhaohuo had accumulated 10 million registered users and received one million orders daily.²⁴

However, Pinhaohuo's business model did not perform well. Being a first-party retailer, the company had to manage inventory, and inventory management proved to be very challenging, especially for perishable products.²⁵ In September 2015, Huang and his team established Pinduoduo, a separate company designed to operate as an online marketplace.²⁶ The strategy behind this new company was to avoid holding inventory, take only a small transaction fee, and offer products at lower prices than any other marketplace. With no need to maintain inventory and manage its own logistics, Pinduoduo quickly outperformed Pinhaohuo.²⁷ Just one month after launching the standalone application in January 2016, Pinduoduo's number of registered users surpassed 10 million,²⁸ and reached over 100 million within a year.²⁹ Tencent, the parent company of WeChat, recognized Pinduoduo's potential and became an investor in 2016, actively promoting Pinduoduo and accelerating its user acquisition.³⁰ In September 2016, Huang and his team merged Pinduoduo and Pinhaohuo into a single company, naming it Pinduoduo, which meant "Together, More Savings, More Fun."³¹ By the beginning of 2017, Pinduoduo had fully transitioned from the operationally intensive retailer model to an asset-light marketplace model.³² This transition was feasible due to China's mature third-party logistics market, allowing Pinduoduo to entrust deliveries to merchants.³³

Pinduoduo's Surge

When Pinduoduo launched, there was little room for a new entrant in China's e-commerce market, which was dominated by two major e-commerce companies, Alibaba and JD.com.³⁴ Similar to Alibaba's Taobao and to JD.com, Pinduoduo also offered a wide range of products, from daily groceries to home appliances.³⁵ However, instead of directly competing with these established giants, Pinduoduo initially targeted price-conscious (rather than brand-conscious) consumers in small cities and rural areas of China—an underserved market.³⁶ For instance, in 2016, Alibaba's Taobao had 369 million MAUs,³⁷ while Tencent's WeChat had over 700 million MAUs.³⁸ The significant gap of approximately 331 million users, with lower incomes and more free time compared to urban users,³⁹ heavily relied on WeChat as their primary source of information. Pinduoduo targeted this user demographic.⁴⁰ In addition, small and long-tail merchants were gradually losing favour on Alibaba's and JD.com's platforms due to the increasing purchasing power of Chinese consumers. In contrast, Pinduoduo offered a new and much-needed sales channel for these merchants. These consumers and merchants played a pivotal role in shaping Pinduoduo's strategy, driving the company to seek innovative ways to reduce costs and maintain competitive prices.⁴¹

Pinduoduo pioneered social e-commerce in China by integrating social elements into the online shopping process,⁴² a model the company referred to as "team purchase" (see Exhibit 1).⁴³ Leveraging Tencent's WeChat, Pinduoduo expanded its user base by promoting the team purchase model and offering heavily discounted products.⁴⁴ Merchants had the flexibility to set two prices for each item: one for individual purchases and one for team purchases.⁴⁵ Users could choose to participate in group buying when selecting an item on Pinduoduo, which led to discounts. The larger the group, the greater the price reduction,⁴⁶ with discounts sometimes reaching up to 90 per cent, depending on the product and team size.⁴⁷ This incentivized buyers to share item links through WeChat with friends, family, and neighbours.⁴⁸ Consequently, Pinduoduo acquired users at a remarkably low cost while enhancing user engagement and retention.⁴⁹ The platform achieved a seven-day retention rate of 77 per cent, the highest among all China's e-commerce platforms.⁵⁰ By combining the viral acquisition loop with an addictive shopping experience, Pinduoduo quickly became a viral sensation in China.⁵¹

With support from Tencent's WeChat, Pinduoduo's team purchase model not only reduced advertising and marketing costs but also generated significant order volumes for sellers, giving them more room and flexibility to lower prices.⁵² To maintain competitive prices, Pinduoduo also restructured its supply chain with a consumer-to-manufacturer (C2M) model, connecting manufacturers directly with consumers.⁵³ This

eliminated the costs added by layers of intermediaries, which were common among larger competitors, and allowed the company to pass on the savings to users.⁵⁴ Affordable prices, in turn, attracted consumers to make more purchases, increasing order volumes and enhancing manufacturers' profits—a virtuous cycle.⁵⁵ Moreover, the C2M model proved highly effective for the sales of perishable agricultural and fresh products, where the supply–demand matching speed was essential.⁵⁶

Unlike search-based platforms such as Taobao and JD.com, Pinduoduo operated with a highly personalized and recommendation-based approach.⁵⁷ Huang's fundamental insight was that the mobile shopping experience was centred around browsing rather than searching.⁵⁸ Pinduoduo provided users with an item feed for browsing,⁵⁹ and the integration of advanced technologies like artificial intelligence continually improved recommendations.⁶⁰ To further enhance user engagement and retention, Pinduoduo integrated various gamified elements into its platform. These elements included daily check-in rewards, loyalty card programs, and mini-games. For example, one of Pinduoduo's first popular games was *Duoduo Orchard*, a viral fruit-growing game.⁶¹ Users could collect water droplets to cultivate virtual fruit trees by shopping, browsing, and interacting with other platform users. In return, users could receive free fruit from Pinduoduo.⁶² By encouraging users to engage in platform games, Pinduoduo created a mutually beneficial scenario for merchants, consumers, and itself.⁶³ Moreover, the company consistently expanded its product categories and introduced new services to maintain user engagement.⁶⁴ In early 2020, Pinduoduo introduced Duoduo Video, a short-video function within its application, offering cash rewards based on the number of videos users watched, which significantly enhanced user stickiness and user duration.⁶⁵ The company also launched Duoduo Livestreaming, a livestreaming function aimed at boosting product sales on its platform.⁶⁶

As Pinduoduo grew, it continued to prioritize value and discounts as the primary means of acquiring users. Even when shifting its focus to larger cities and more affluent consumers, Pinduoduo launched the “¥10 Billion⁶⁷ Subsidies” (about US\$1.48 billion⁶⁸) campaign.⁶⁹ This initiative involved partnerships with established brands such as Apple Inc. (Apple) and Sony Group Corporation (Sony) to reduce the prices of higher-ticket items.⁷⁰ The campaign proved instrumental in helping Pinduoduo attract a new segment of high-end consumers and merchants while maintaining its reputation for offering value-for-money products.⁷¹

While Pinduoduo operated with an asset-light model that allowed merchants to collaborate with third-party logistics providers, the company took a significant step in 2019 by establishing its electronic logistics tracking system. This system ensured transparency in the delivery of goods and expedited the shipping process.⁷² To reduce reliance on Alibaba-backed courier services, Pinduoduo strengthened its collaboration with China Post, which had an extensive rural network, resulting in a 30 per cent increase in orders delivered via the state mail system.⁷³ In 2020, Pinduoduo made a \$200 million investment in GOME Retail Holdings Ltd., whose Anxun Logistics was a leading logistics provider in China, to leverage its 6,000 service outlets and nationwide distribution network.⁷⁴

In addition, Pinduoduo made substantial investments in research and development (R&D), harnessing technology to enhance efficiency and foster long-term sustainable development.⁷⁵ For example, Pinduoduo partnered with the government and universities to invent the Smart Agriculture Competition, incorporating cutting-edge technologies like automation and artificial intelligence to benefit China's agriculture sector.⁷⁶ In August 2021, the company launched a “¥10 Billion Agriculture Initiative” to support groundbreaking research in China's agricultural sector.⁷⁷ Chen stated, “In 2021, we made the strategic shift from sales and marketing toward R&D. We see ourselves making more long-term investment, especially in agriculture and R&D.”⁷⁸

All these initiatives contributed significantly to Pinduoduo's explosive growth. By the end of 2020, Pinduoduo had surpassed the 20-year-old Alibaba to become China's largest e-commerce player, with 788 million annual active users (AAUs).⁷⁹ As of the first quarter of 2022, Pinduoduo had accumulated 751