

Analysis of the Current Situation and Development Trend of Mainstream Social E-Commerce in China

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ABSTRACT

For its social functions, e-commerce platform Pinduoduo is rising rapidly in China. That has changed the landscape for Alibaba and JD.com as leaders in China's e-commerce sector. Social e-commerce has been the focus of attention in China's e-commerce industry. The rapid development of social e-commerce in China is closely related to the popularization of mobile Internet and mobile payment, as well as the problems faced by the e-commerce industry. Social networking has enriched the functions of e-commerce. However, only those enterprises with e-commerce core competitiveness can achieve sustained and stable development in the future.

Keywords: *Social network, e-commerce, development mode*

1. INTRODUCTION

The popularity of mobile Internet in China has brought about the change of e-commerce mode. Social e-commerce is one of the development directions of e-commerce mode. Consumers can get the product they want quickly according to the social e-commerce platform recommendation. Pinduoduo is one of the representative platforms of social e-commerce. It was listed in the US in 2018. This has aroused public concern about social e-commerce. With the rapid development of existing social e-commerce business, such as Yunji and Little Red Book, traditional e-commerce enterprises have also made business expansion and attempts of social e-commerce.

In the relevant literature, e-commerce and social network have synergistic effect. For example, Hajli [1] added trust and social media elements on the basis of technology acceptance model, improved the model and analyzed the role of social media in e-commerce. Chong [2] studied that social interaction and the resulting relationship would enhance consumers' trust, thus increasing their willingness to purchase multiple times. Yahia [3] studied the drivers of e-commerce in social media platforms, the perceived characteristics of social e-commerce providers and their impact on user trust. Huang et al. [4] studied the influence mechanism of the atmosphere characteristics of social e-commerce platforms on consumers' continuous purchase intention based on the stimulus-organic-response theory.

However, the combination of social communication and e-commerce is also influenced by cultural environment, infrastructure construction, consumption concept and other factors, and has certain differences among different countries. China is one of the most developed countries in the world in terms of e-commerce. This paper analyzes the operation mode, existing problems and future development direction of several typical types of social e-commerce in

China. It provides a practical sample for the further study of social e-commerce.

2. THE DEFINITION OF SOCIAL E-COMMERCE AND ITS DEVELOPMENT HISTORY IN CHINA

According to the Business Norms for Social E-commerce (Draft for Comments) released by the Ministry of Commerce of China in July 2018, social e-commerce is a series of e-commerce processes, such as information exchange, commodity sales, service supply, payment and settlement, and logistics distribution, completed through social media on the basis of interpersonal relations. In a broad sense, social e-commerce includes three types: e-commerce socialization, the social e-commerce of traditional enterprises and the e-commerce of social groups. Social e-commerce in a narrow sense refers only to the e-commerce of social groups. In this paper, the narrow sense of social e-commerce concept is adopted.

The main impact of social contact on e-commerce is as follows:

Unplanned demand, that is, in the social context, the shopping scene shows the characteristics of fragmentation and increased impulse consumption.

Discovery-based purchasing is popular. In the social context, consumers find products mainly through recommendation and sharing, rather than independent search. It is more efficient to find products to buy through recommendation and sharing. The matching degree between products and users is also higher [5].

Because of social contact, consumers simplify the confirmation process when buying goods, and realize the transformation from trusting friends to trusting products. In the social context, good products form word of mouth and consumers become product promoters spontaneously. Before 2010, Taobao, the largest e-commerce platform in China, e-commerce was mainly completed through PC.

There were savvy sellers using BBS and social networking software QQ to promote their Taobao stores. This can be viewed as an early combination of e-commerce and social applications in China. In 2013, some facial mask brands in China began to sell through social software WeChat, and the public referred to those who sold products through WeChat as WeChat business. In 2014, the multi-level agent model began to appear, and the development of WeChat business accelerated. With exposure of WeChat business fake facial mask by Chinese media in 2015, the development of WeChat business suffered a major setback. WeChat business once became synonymous with fake and inferior products. Later, using social media to engage in e-commerce activities has gradually become known as social e-commerce. Pinduoduo obtained a new round of financing of 3 billion yuan in April 2018, which triggered the public's attention on social e-commerce. Since then, discussion and research on social e-commerce have been heating up.

3. REASONS FOR THE RISE OF SOCIAL E-COMMERCE

3.1. High Operating Costs of E-Commerce

After years of development, the total online shopping transaction volume in China has reached 10 trillion yuan by 2019, but the growth of transaction scale and user scale has gradually slowed down in recent years. At present, China's e-commerce industry has formed a situation led by Alibaba and JD.com. These two platforms account for more than 80 percent of China's e-commerce industry. The number of active merchants on China's mainstream e-commerce platforms has reached about 12 million in 2018, and the competition among merchants is becoming increasingly fierce [6]. In order to attract customers, merchants on e-commerce platforms have to pay high promotion fees. As operating expenses continue to rise, merchants on e-commerce platforms no longer have cost advantages compared with physical stores. At this time, both for the e-commerce platform and its merchants are eager to find a new way to obtain high quality customers at a low cost.

3.2. China's Infrastructure Laid the Groundwork

According to the statistical report released by the China Internet Network Information Center (CNNIC), in 2008, there were 112 million mobile Internet users in China, and mobile Internet users accounted for 39.5% of all Internet users. In 2018, the number of mobile Internet users in China has reached 817 million, and mobile Internet users accounted for 98.6% of all Internet users. In terms of mobile payment, there were 236 million people using mobile phones for online shopping in China in 2014,

accounting for 42.4 percent of the mobile Internet users. In 2018, there were 591 million people using mobile phones for online shopping, accounting for 72.5 percent of the mobile Internet users [7]. The role of traditional websites is gradually weakening in China. Some emerging e-commerce platforms even only have mobile apps, and the popularity of mobile apps makes it easier to join social functions [8].

3.3. Changes in Consumer Spending Habits

Nowadays, consumers are surrounded by all kinds of information. In daily life, news, video, game, push advertisements, online education and daily communication divide consumers' time, and the trend of time fragmentation is obvious. Faced with massive information, consumers need to spend more time and energy to identify commodities, while through recommendation and sharing in social activities, consumers can quickly determine the commodities to buy and reduce the difficulty of selection. Some price-sensitive consumers take the lead in shopping at low prices on e-commerce platforms with social sharing functions [9]. They inspire other consumers, and more people are making purchases through social e-commerce.

4. CLASSIFICATION OF SOCIAL E-COMMERCE

4.1. Content Sharing Mode

The content sharing model usually attracts users through product-related content posted by Internet celebrities and opinion leaders on social media such as WeChat, Weibo, and online communities. This mode solves the problem that users spend a lot of time and energy to choose products because they don't understand the product.

The representative platform of this type is Little Red Book. Little Red Book is a lifestyle community platform in China, which was founded in 2013. By July 2019, the number of registered users had exceeded 300 million, of which 70 percent were born in the 1990s. The platform has nearly 10,000 third-party e-commerce merchants, offering more than 100,000 different products.

Most of the users gathered by content-sharing e-commerce companies have some common characteristics or values, which is convenient for carrying out targeted marketing activities. The common needs of users coupled with certain application scenarios mobilize users to spread spontaneously. In addition, as users are grouped together by similar values and interests, they are more loyal to the platform and are more likely to re-purchase [10]. This mode has higher requirements for platform operators. In order to build barriers to competition, platforms need to continuously output high quality content and formulate corresponding business strategies based on product characteristics.

4.2. Distribution Mode

Yunji is a representative platform of distribution model. Established in 2015, it is an e-commerce platform driven by social networking in China. In Yunji, members can not only buy goods, but also share goods with friends, and obtain profits after friends purchase. The number of paying members reached 5 million in 2018, and Yunji went public on NASDAQ in May 2019. Distribution type social e-commerce enhances the effectiveness and scope of retail through social tools. Traditionally, individuals promote and sell products through their social circle. The new distribution mode is different from the previous mode, and its manifestation is S2B2C, in which S refers to suppliers and B to small business, C is for customer. The core of S2B2C operation is that S supplies B, B contacts with customers, S and B serve customers together, and then S and B distribute benefits [11].

4.3. Group Purchasing Mode

The group purchasing model once flourished in China. In 2011, there were more than 5,000 group purchasing websites in China. With the crazy development of group purchasing industry, vicious competition, poor customer experience and other problems continue to appear, a large number of group purchasing websites continue to close. In 2015, Pinduoduo relaunched group purchasing and added a social feature with the help of WeChat. It's very simple to complete the group purchasing through WeChat. There is no need to register a special account, and payment is also very convenient. Pinduoduo's cheap products attract a large number of consumers. Pinduoduo's social shopping is also simple and convenient. A large number of consumers in remote areas who have never been exposed to online shopping have been activated, and the scale of consumers has expanded rapidly.

4.4. Community Group Purchasing Mode

Community group purchasing is a form of group consumption of community residents. Xing Sheng You Xuan is the representative platform, which was established in 2017. The platform is mainly positioned to meet the daily needs of household consumers, providing a full range of selected commodities including vegetables, fruits, and daily necessities etc. The platform provides services for users through the mode of pre-sale plus self-pick-up. The community group purchasing platform hires group leaders and provides them with commodities, logistics, after-sales and other services. The leader recommends products to community members through social software. Due to the lower price and guaranteed quality of the products, members placed orders one after another. After the deadline of the group purchasing, the group leader will distribute the goods to the relevant members and get the corresponding commission. Commodities of community

group purchasing are mainly fresh products with high frequency of consumption. Compared with traditional channels, community group buying has lower customer acquisition cost, logistics cost and labour cost.

5. DILEMMA OF SOCIAL E-COMMERCE

5.1. Social E-Commerce Encounters Trust Crisis

High quality, real and referable information is the foundation of the development of social e-commerce, which is particularly important for content sharing e-commerce. However, with the rapid development of social e-commerce, the authenticity of content published on platforms cannot be guaranteed. Taking social e-commerce platform Little Red Book as an example, publishing false content in the community has become a way for some people to make profits. The problems involved in Little Red Book included: false notes, leaking personal information, selling fake goods, publishing prohibited advertisements, excessive marketing, etc. The management department of Little Red Book has made some corrections and policy adjustments to the problems of the platform, but the problems have not been effectively solved. The accumulated problems finally broke out on July 2019. Little Red Book was removed from the android app market that day. In response to the incident, Little Red Book issued an official information statement. They said they would carry out a comprehensive self-examination and rectification of the platform's content.

5.2. Social E-Commerce Lacks Core Competitiveness

The ultimate attribute of social e-commerce is still e-commerce, and it is inevitable to compete with other e-commerce companies. Due to short period of development, the core capabilities of social e-commerce in quality control, after-sales service, supply chain and other aspects are still defective [12]. In the early stage of enterprise development, there is financial support of investors, so social e-commerce business can make growth through low prices, subsidies and other ways. However, this way is not sustainable. In the face of competitive pressure from other e-commerce platforms and the increasing customer acquisition cost, social e-commerce needs to continuously strengthen the core competence construction of e-commerce.

6. THE DEVELOPMENT TREND OF SOCIAL E-COMMERCE IN CHINA

6.1. Some Social E-Commerce Companies Are Transforming to Member E-Commerce Companies

In order to promote the compliance development, some distribution-type social e-commerce enterprises such as Yunji have transformed to membership-type e-commerce enterprises. These e-commerce enterprises have accumulated a certain user base in the early stage of development. Now, they plan to transform their operations to focus on and improve customer repurchase rate and activity. During the transformation, the member e-commerce retains the social factors. Members are both consumers and sellers, and they are also developing new members while shopping themselves. Member e-commerce enterprises are provided with products and services by brand owners. Most of their products are private brands or new brands, which increase product differentiation and avoid homogeneous competition. A large number of members enhance the bargaining power of member e-commerce over brands, and bring competitive prices to consumers.

6.2. Some Social E-Commerce Companies Transform to Customer-to-manufacturer (C2M) Mode

After the early extensive development, it is difficult to maintain the model of social e-commerce to acquire consumers at a low price. Social e-commerce will gradually shift to refined management, focus on sustainable development, and pay more attention to the efficiency of the supply chain and user satisfaction. The advantage of social e-commerce lies in the low cost of communication with users based on social networking. After social e-commerce initially achieved large-scale operations, some social e-commerce such as Pinduoduo began to apply the C2M mode. The C2M mode of social e-commerce application is to aggregate dispersed consumers and their needs, and organizes factories for personalized production according to user needs [13]. Social e-commerce can change the supply chain through market demand to improve production efficiency. Consumers obtain goods mainly through recommendation on social e-commerce platforms, and recommended goods tend to become popular products. In addition to realizing customization, low price and high quality with C2M, social e-commerce is also expected to establish mutual trust among the demand side, supply side and platform side.

6.3. Transformation from Group Purchasing E-Commerce to Comprehensive E-Commerce

Group purchasing mode is a marketing mode adopted in e-commerce competition, which is not unique to social e-commerce. In the development of social e-commerce, it is possible to weaken this model. For example, Pinduoduo is the representative of group purchasing, but this model has been weakened in Pinduoduo. At present, Pinduoduo is transforming into a comprehensive e-commerce business similar to Taobao and JD.com. The threshold for Pinduoduo to form a group has been greatly lowered. Two people can form a group, and group information can be found on the platform. Users do not need to use social media to find the group members. In addition, Pinduoduo acquires new users more by means of advertising, such as sponsoring popular variety shows and placing outdoor advertisements. The increase of users through social media has become an auxiliary means.

6.4. Uncertain Development of Social E-Commerce Based on Content Sharing

Content-sharing social e-commerce is still exploring how to integrate platform content with e-commerce business. Due to the relative independence of the content produced by the platform and e-commerce business, social e-commerce companies have not found the best way to combine them. Users are attracted by the commodity information shared on the platform, but after generating the demand for shopping, they may turn to other e-commerce businesses outside the platform. Problems such as unclear development model and weak core competitiveness are the main problems that plague content sharing social e-commerce.

6.5. Community Group Purchasing E-Commerce Increasingly Specialized

The competition of community group purchasing e-commerce is increasingly fierce, and various professional enterprises have successively arranged their own community e-commerce business, including e-commerce enterprises, physical retail enterprises, and supply chain enterprises and so on. These enterprises have advantages in operation ability, supply chain ability, financial strength and other aspects. They will lead the development of community group purchasing e-commerce in the direction of professional operation. The main products of community group buying are mostly fresh products with high consumption frequency, which are easy to retain customers. If community group purchasing e-commerce platform only provides standardized products, consumers are likely to lose out and choose other e-commerce platforms. In view of the fierce competition, the products of community social e-commerce will be inevitably developed towards diversification and differentiation.

7. CONCLUSION

Social e-commerce is an innovation and reform of the traditional e-commerce marketing model and sales channels. Relying on social networks, social e-commerce has developed rapidly in a short period of time.

In the process of its development, social e-commerce still faces many problems. For example, the product quality of some platforms cannot be guaranteed, there are false information, lack of supervision of the platform, poor after-sales service experience, no credit system established, weak supply chain management, etc. Only by integrating the resources of social media, avoiding homogeneous competition, exploring distinctive and differentiated development, and possessing the core competitiveness of e-commerce, can social e-commerce maintain its advantage in the fierce competition. Different types of existing social e-commerce companies in China are seeking for a more suitable development path. Such exploration is full of hardships. China is one of the regions with the most developed e-commerce industry in the world. The development process of social e-commerce in China provides a useful reference for the development of e-commerce in other countries and regions.

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