

Research on the Marketing Strategy of Pinduoduo—— Based on the STP and 4Ps Methods

Jingshen Kuang

*School of Accounting, Southwestern University of Finance and Economics, Cheng Du, Si Chuan, China, 610000
Kjs_James@163.com*

ABSTRACT

Pinduoduo is hailed as a marketing miracle. As an emerging giant in the e-commerce industry, Pinduoduo has excellent marketing strategy and marketing mix. Therefore, this paper mainly studies the success of Pinduoduo in the context of new e-commerce. This research focuses on STP and 4Ps theories and makes an in-depth analysis of Pinduoduo's marketing strategy as well as implementation based on relevant data. Pinduoduo was aware of the consumption downgrade of Chinese e-commerce. By classifying consumer groups, Pinduoduo's final target customers were locked in low-paid groups and people who cared about cost performance. Then Pinduoduo drove down the price of goods through the C2M business model and used billions of dollars of subsidies to attract more consumers. As an online shopping platform, Pinduoduo adopted measures to subsidize shipping costs to allow more rural residents to shop online. At the same time, Pinduoduo carried out fission marketing to expand brand awareness among consumers.

Keywords: *Pinduoduo, E-commerce, Marketing strategy, Marketing mix, Business model*

1. INTRODUCTION

Since entering the 21st century, a variety of new Internet enterprises have sprung up like bamboo shoots after a rain, and the ensuing e-commerce giants have attracted the attention of all walks of life. Amid fierce competition with e-commerce giants, Pinduoduo rose rapidly and went public just three years after its founding, it was a miracle in the development history of e-commerce. At present, many scholars have studied Pinduoduo from different perspectives. Scholars Chang (2019) delved into the e-commerce sustainability as the case of Pinduoduo. [1] From the perspective of disruptive innovation and timing selection, scholar Chen (2020) researched how Pinduoduo successfully catch up the opportunity to enter into the market. [2] However, few people have studied why Pinduoduo has achieved great success in the China from the perspective of both marketing strategy and specific implementation.

This article focuses on analyzing the specific marketing strategies and implementation of Pinduoduo. Through STP and 4Ps theories combined with other relevant data to deeply analyze the business model and marketing strategy of Pinduoduo.

In the case of e-commerce market share has been completely occupied by major platforms, Pinduoduo has

successfully fought its way out. This paper can give inspiration to such emerging enterprise in the future by analyzing the successful cases of Pinduoduo's business model and classic marketing strategy.

2. BACKGROUND

2.1. Industry background of E-commerce before Pinduoduo went public

China's e-commerce industry started in 1997. [3] Before Pinduoduo went public, Alibaba and JD.com have become two giants, both of which are representatives of comprehensive e-commerce platforms, while many other e-commerce enterprises choose vertical e-commerce to avoid direct conflicts with e-commerce giants and seek development opportunities in the market segmentation. Figure 1 illustrates the changes in the number of MAU of Wechat, Taobao and Tmall from 2014 to 2017. MAU refers to the number of monthly active users. [5] MAU of Wechat is positively correlated with the total number of online shopping users, because almost each phone user has his or her own Wechat account. From 2014 to 2017, the MAU of Taobao and Tmall increased from 217 million to 580 million, accounting for 58.6% of the MAU of Wechat in 2017, indicating that Alibaba has occupied the majority of the e-commerce market share.

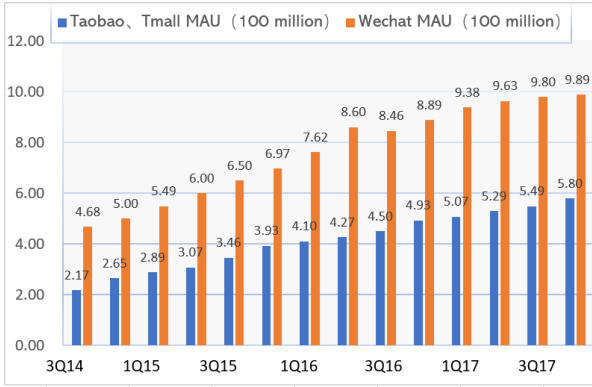


Figure-1. Changes in MAU of Wechat, Taobao and Tmall from 2014-2017 [4]

2.2. The amazing history of Pinduoduo

Figure-2 demonstrates the development of Pinduoduo. Since its establishment in September 2015, Pinduoduo has achieved rapid growth in the number of users. In September 2017, two years after its foundation, the number of users reached 200 million. In January 2018, the number of active users of Pinduoduo surpassed JD.com and became the second largest in the industry. Then it went public in the United States in July 2018, becoming the third largest e-commerce platform after Alibaba and JD.com. Next part, the author will illustrate the magical market strategy of Pinduoduo. Based on the development history of Pinduoduo, it can be found that Pinduoduo's market strategy has become a boost to its rapid development. It helped the MAU of Pinduoduo surpass JD.com within three years and grabbed more market share from China's two e-commerce giants. The author will analyze the above reasons with the perspective of marketing in the subsequent sections of this article.

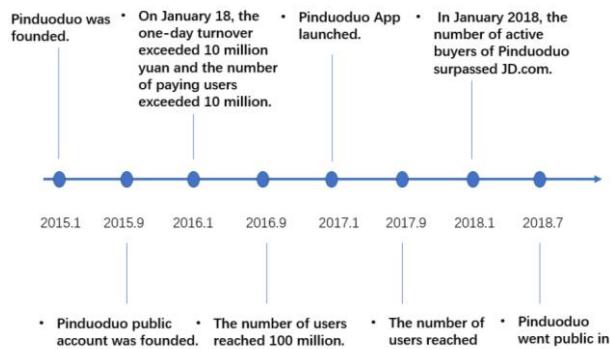


Figure-2. The development of Pinduoduo [6]

3. MARKETING STRATEGY

3.1. The definition of STP method

STP theory includes three parts: market segmentation (S), target market (T) and marketing position (P).

The idea of segmentation is that group customers by some criteria, such that those within a group will respond similarly to a marketing action and those in a different group will respond differently. [7] The enterprises can analyze their customers from the aspect of geographic, demographic and so on.

Targeting is that when a company designs products or services, it focuses on meeting the needs of certain market segments, so that its supplies have high brand recognition in a certain field. [7]

The position is an important reference for market strategy. In many cases, market positioning is a product strategy made after analyzing the target market. [7] A company's slogan clearly reflects its market positioning and target population. A clear slogan is easier for consumers to remember the brand. Many successful companies have clear market positioning. People will always remember the slogan of Nike — Just do it. Figure-3 shows the slogans used by Burger King from 1974 to 2018. On the contrary, the marketing strategy with mixed market coverage and unclear target market makes the supply of the enterprise more but not precise, and it is easy to be in a disadvantaged position in the existing market competition environment.

Years	Slogan
1974-1976	Have it your way.
1976-1978	America loves burgers and we're America's Burger King.
1978	Best darn burger.
1979-1982	Make it special, make it Burger King.
1982-1985	Battle of the burgers: Aren't you hungry for Burger King now?
1985	Search for Herb.
1986	This is a Burger King town.
1987	The best food for fast times.
1987-1989	We do it like you'd do it.
1989-1991	Sometimes you've gotta break the rules.
1991	Your way. Right away.
1992-1993	BK Tee Vee: I love this place.
1994-1999	Get your burger's worth.
2000	Got the urge?
2001	The Whopper says...
2018	The internet should be like the Whopper



Figure-3. Changes in burger King's slogan [8]

3.2. The STP Method of Pinduoduo

3.2.1. Segmentation

Pinduoduo used geographic, demographic, psychology and occasion methods to segment the consumers.

3.2.1.1. Geographical

Geographical factors include geographic area, city size, population density, and climatic conditions. [9] Usually, cities of different levels have obvious differences in terms of area, size, and population density. Therefore, in terms of geographical factors, the entire consumption of e-commerce market is segmented by city level.

3.2.1.2. *Demographic*

Demographic factors include gender, age, occupation, income level, etc. [9] Different income level groups have different capacity for shopping. According to this factor, it is roughly divided into low-paid class, the middle-class, high-paid class.

3.2.1.3. *Psychological*

Psychological factors include price sensitivity, personality characteristics, and pursuit of brand attributes. [9] People with high price sensitivity regard price as the main basis for consumption decisions. The pursuit of brand attributes is an overemphasis on the value a brand brings to consumers. Pinduoduo classifies such users by price sensitivity.

3.2.1.4. *Behavioral*

Behavioral factors include behavioral occasions, frequency of use, and attitudes toward products. [9] The frequency of use, taking online shopping as an example, can be subdivided according to the monthly consumption, which can be roughly divided into light users, moderate users and heavy users.

3.2.2. *Targeting*

As for the geographic perspectives, on the one hand, first-tier cities and second-tier cities online shopping market has been closed to saturation. With the development of technology, Figure-4 shows that the Internet penetration rate increased from 26% to 71% in urban areas between 2007 and 2017, and from 7.4% to 35.45% in rural areas. Nearly 90% of these users access the Internet through mobile phones, indicating that most people now have smartphones. Therefore, Pinduoduo chose to rapidly expand its stores in lower-tier cities to occupy the sinking market.

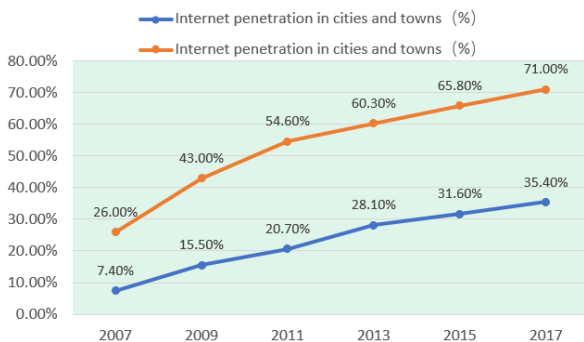


Figure-4. Changes in Internet penetration rates in rural and urban areas from 2007-2017 [4]

For the demographic perspective, Figure 5 shows China's average and median per capita disposable income in 2017, the average and median disposable incomes of residents were 25,974 and 22,408, respectively. Although

it was an increase from 2016 to 2017, most people's income is still limited, resulting in uneven consumption. As a result, Pinduoduo chose to focus on the low-paid class.

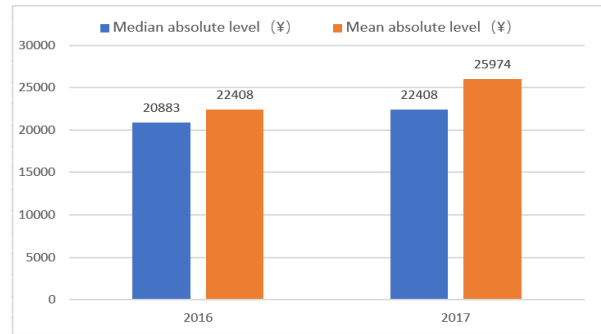


Figure-5. Average and median per capita disposable income for 2016 and 2017 [10]

For psychological perspective, JD.com has created a business model of "quality + logistics", enabling consumers to buy products at relatively high prices. Pinduoduo is similar to Taobao, capturing users who value cost performance. It is also due to China's consumption level is not developed, and more people pay more attention to cost performance when buying goods.

For behavioral perspectives, after more than 20 years, e-commerce mode has a relatively simple form and a relatively narrow application scenario. Accordingly, Pinduoduo is targeting people who are more willing to expand the use of e-commerce and who use it frequently.

3.2.3. *Position*

Positioning starts with the product, but not just the product itself. It means the unique impression of a product or brand forms in the minds of consumers.

Firstly, it is supposed to know the benefit. Understand what customer needs your product serves compared with your competitors' products. Then, generate a positioning concept to crystalize the unique benefit you are serving to customers. Finally, the 4Ps are designed according to the positioning concept of the product.

According to the above, the position of Pinduoduo is that: it wishes to create value for users and meet the needs of the majority of the people. Users first, consumers first.

4. **MARKETING MIX**

The Marketing mix is a strategy before launching any new product or service, consisting of those four variables which help in smoothing the strategic decision necessary for an organization.

In the 1960s, Professor Jerome McCarthy, an American marketing scholar, proposed the four major marketing mix strategies of "product, price, place, and promotion", which are 4Ps. The first letter of the four

words is abbreviated as 4P.[11] The prospects of a company's marketing plan depend on these four aspects. Now the author will give an insight into the marketing mix of Pinduoduo.

4.1. C2M business model

Before talking about Pinduoduo's 4Ps theory, it is the high time to grasp the unique business model of Pinduoduo — C2M. C2M, short for Customer-to-manufacturer, is a new industrial Internet e-commerce business model, also known as short-circuit economy. This e-commerce model was first proposed by Bi Sheng, founder and CEO of Necessary Mall, and was first practiced in China.[12] In the continuous upgrading of big data analysis, C2M eliminates many intermediate links in the commodity trading chain, links commodity suppliers and consumers, reduces the cost of commodity distributors and the premium of commodities sold through intermediate channels, and directly provides commodities to consumers.

For customers, C2M mode can help them design customized products and place orders with the manufacturer according to their preferences and personalized needs on the platform. For enterprises, under the C2M mode, they do not need to produce goods in advance and then sell them. Instead, they produce according to existing customer orders to meet personalized needs, which helps enterprises reduce inventory costs and sales pressure. Figure-6 illustrates the C2M model of Pinduoduo. Compared with traditional B2B and B2C e-commerce modes, C2M model skips the complicated sales channels and does not need intermediary steps such as agents and dealers, which can reduce costs and improve efficiency to the greatest extent. In the next part, the author will analyze the 4Ps theories with its C2M model.

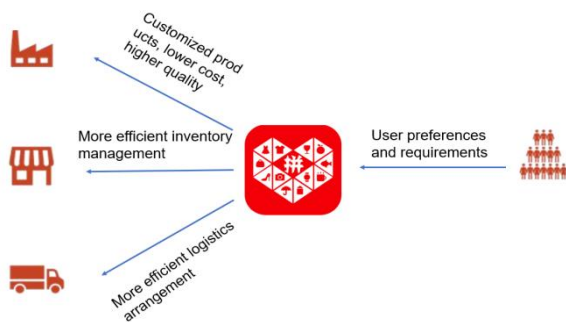


Figure 6. C2M model of Pinduoduo

4.2. The 4Ps of Pinduoduo

4.2.1. Price

In terms of price, Pinduoduo's product pricing method is not based on the market-based pricing method, instead the price is much lower referring than the product pricing of major competitors in the same industry. Not only the

agricultural products under the C2M model, but also the prices of other commodities in Pinduoduo under the promotion of the group concept are much lower than those of JD.com and Taobao. Figure-7 shows that the average price of all kinds of daily necessities such as backpacks, lipsticks and sneakers is much lower than that of Taobao and JD.com. It can be seen that Pinduoduo has attracted a large number of people who have a low and middle level of income with low price and rapidly occupied the sinking market.

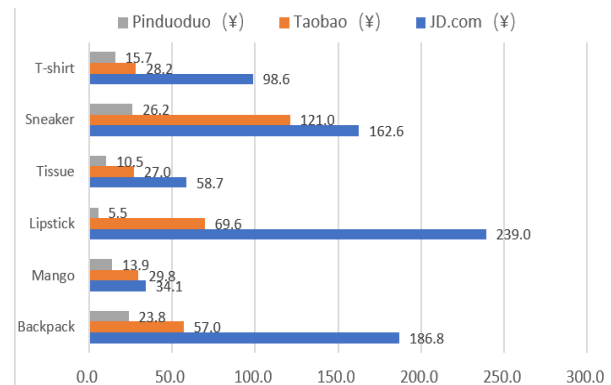


Figure 7. Partial goods comparison among JD.com, Taobao and Pinduoduo in 2018 [13]

4.2.2. Product

At first, Pinduoduo attracted a large number of customers with its cheap daily necessities and agricultural products. Now you can almost buy as much or more goods on Pinduoduo as on Taobao and JD.com. As all know the ten billion subsidies: Users can enjoy “ten billion subsidies” when purchasing high-priced products such as cosmetics or digital electronic products. For example, the price of the iPhone11 on the official website of Tmall is 5499RMB, and the selling price of Pinduoduo iPhone11 authentic authorized store is 4799RMB (direct subsidy is included in the price). And Pinduoduo provides quality assurance such as genuine guarantee insurance, fake one compensates ten, and priority after-sales service. The event won some traffic from other platforms for APP, and also brought price benefits to mass consumers. This method also attracts a large number of customers who care about cost-effective shopping. Pinduoduo has also launched mini-games such as Ant Forest and Baba Farm, where users can get free fruit after watering and fertilizing for several days. It not only helps the development of agriculture, but also enables more users to join the Pinduoduo platform.

4.2.3. Place

As for the place, Figure-8 shows that nearly 60 percent of Pinduoduo's consumers come from third-tier cities and below, and many farmers are not convenient to deliver goods. Through the C2M business model, Pinduoduo simplifies the tedious business process.

Consumers directly contact factories or farmers, which greatly reduces the transportation cost and enables more users in third-tier and fourth-tier cities to enjoy online shopping. Pinduoduo also subsidizes shipping and refund fees, further reducing the burden on consumers and farmers.

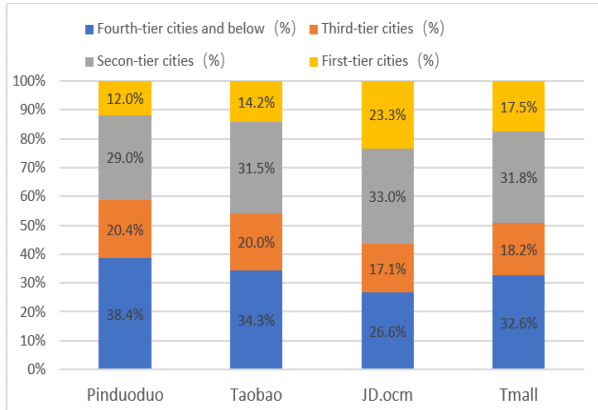


Figure-8. Comparison of user groups of major e-commerce platforms in 2018[13]

4.2.4. Promotion

The most successful and classic of Pinduoduo's 4Ps method is promotion. The first method is inviting friends to click some links and consumers may gain the discounts or cash. This fission marketing allows more new users to use Pinduoduo, which is also a reason for the quick growth of users. The most famous case is cash sharing: Before the start of the event, each user can get a red envelope of more than 90 yuan. You can withdraw it to WeChat wallet if you spend one hundred or more, invite friends to help. At the same time, friends can also get cash red envelopes and invite other friends to continue to participate in the help. The maximum amount of the activity is 200 yuan, and it will be credited within half an hour of withdrawal. In this way, the actual and effective cash activities directly bring a large number of new users to Pinduoduo and lay a user base for future friends to join together. Compared with the coupon model of Taobao and JD.com, Pinduoduo directly distributes cash to user accounts to enhance user discretion. Instead of bundled consumption in the coupon model, it has won the favor of customers. In addition, Pinduoduo also launched its brand promotion songs. The catchy melody reminds everyone of Pinduoduo when they heard the songs. This publicity measure boosted Pinduoduo's brand awareness among consumers, and that's one of the main reasons for its success.

5. SUGGESTION

Although in the past few years, Pinduoduo's price advantage formed by issuing a large number of coupons to subsidize consumers has brought it rapid market share growth. However, the problem is that consumers are not

sufficiently impressed with the brand influence and culture of Pinduoduo. If Pinduoduo loses its price advantage, it is likely to lose many consumers. Although Pinduoduo currently has a large number of monthly live numbers, the consumption rate is not very high. Therefore, to increase consumer stickiness and appeal to new consumers, Pinduoduo needs to expand its brand influence and form its unique brand culture in the minds of consumers. From the perspective of product and place, the author explained the possible ways for Pinduoduo to improve its brand influence and brand culture.

5.1. Product

First, Pinduoduo should strengthen supervision and crack down on fake goods. With the continuous development of e-commerce platforms, the phenomenon of fake goods is becoming increasingly serious. JD.com, Taobao and Tmall continue to strengthen the management and punishment of their platforms, but Pinduoduo is still full of mixed goods. Although the goods are relatively cheap, fake ones wear out consumers' patience. Therefore, Pinduoduo should introduce corresponding policies and strictly implement them as soon as possible to improve the quality of the goods.

Second, Led by Tik Tok, live-streaming products have gradually entered people's lives, and major e-commerce platforms have also joined the market. Pinduoduo should seize the opportunity, especially for agricultural products, to let consumers know more quality products through live-streaming. At the same time, it can also help the development of local tourism, make contributions to society, and enhance the value of the brand.

5.2. Place

First, although Pinduoduo does well in the price of the freight, more and more consumer groups pay more attention to the timeliness of express delivery. Generation Z is a group of people born between 1995 and 2009. At present, there are about 260 million people of Generation Z in China. They have more material wealth and strong consumption power. [14]Generation Z are becoming more and more interested in shopping on JD.com, which usually delivers goods every other day. Pinduoduo is not supposed to concern about short-term interests if it cares about long-term development. It needs to build its own express and warehouse to improve the quality of logistics and efficiency. In this way, more and more Generation Z will tap into Pinduoduo.

Second, COVID-19 has changed people's lives. Many people now prefer contactless delivery. At present, many schools have realized the use of intelligent delivery vehicles to avoid the gathering of students and save time. Pinduoduo should also increase investment in research and build its own complete express delivery system based

on the above suggestions to make its brand more competitive.

6. CONCLUSION

In this paper, the author used STP and 4Ps theories to analyze the marketing strategy and implementation of Pinduoduo. With the continuous progress of technology and the increase of Internet penetration in rural areas, Pinduoduo has keenly found that people in third-tier cities and below are gradually entering the online shopping market and has positioned its target group as a low-paid group and people who care about cost performance. At the same time, the specific implementation of the market plan is carried out according to the target groups. Through the C2M business model, Pinduoduo significantly reduced the prices of various commodities, and reduced the prices of various electronic commodities and cosmetics through “ten billion subsidies”, attracting a large number of low-income people. Give considerable freight subsidies to consumers in third-tier cities and below to seize the sinking market. Fission marketing and promotional songs have greatly increased brand awareness.

Of course, the study has a few limitations. First, this paper only focused on STP and 4Ps theories, and did not combine with other marketing theoretical models, which could not fully show Pinduoduo’s marketing ideas and means. Second, this paper simply puts forward some theoretical suggestions for the future development of Pinduoduo. Later, data analysis and modeling can be used to conduct in-depth research on how Pinduoduo should develop in the future under the impact of COVID-19.

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