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Meet Pinduoduo, Alibaba's newest competition

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Chinese online retailer Pinduoduo has found amazing success with its "collective buying" shopping model, but now it needs to innovate or suffer the consequences. Photo: Shutterstock

By [Adina-Laura Achim](#)

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Pinduoduo is not just the new kid on the block anymore. The U.S.-listed online retailer that specializes in offering group discounts has climbed to third in China's ecommerce landscape, sitting only behind titans such as Alibaba and [JD.com](#).

With its "collective buying" shopping model, Pinduoduo has won some impressive victories in a time of overwhelming competition.

Regarding market share, Pinduoduo had achieved the seemingly impossible: organic growth despite a preexisting duopoly.

According to [CNBC](#), Pinduoduo reached 585.2 million active buyers during 2019.

Meanwhile, JD.com had 362 million in the same period, with Alibaba coming in first with 711 million annual active consumers.

[EMarketer](#) highlights that Pinduoduo ranked third in terms of retail ecommerce sales share in 2019, which represented 7.3 percent of the market.

Developing a winning market segmentation strategy

In a time when ecommerce players and retailers have focused their attention on buyers from high-tier cities, Pinduoduo turned its attention toward price-sensitive and deal-conscious shoppers in lower-tier cities.

Retailers operating in China have too often neglected the low-end consumer base.

So instead of chasing affluent, [Tier-1 consumers](#), Pinduoduo went against the tide and implemented a strategy similar to the Groupon business model, where consumers get unique deals and discounts if they engage in "social shopping."

Interestingly enough, the model that failed in Western societies Groupon gave up on it but it became a smashing

success in China's low-end market.

Thanks to rising tensions between **China and the U.S.**, tariff increases and the ongoing **COVID-19** outbreak, prices in China have ballooned, leaving consumers with little disposable income left.

In other words, uncertain economic conditions are boosting discount retailers and value-oriented brands with budget-friendly strategies. That is why Pinduoduo is winning big while the rest of the industry struggles.

In 2019, Pinduoduo revealed that 45 percent of its gross merchandising value (GMV) came from Tier-1 and Tier-2 cities. This means that 55 percent comes from cities that are Tier-3 or lower.

While life in major first-tier cities is defined by long working hours and a life-work imbalance, **inhabitants of China's lower-tier cities tend to have more time for leisure activities.**

"Life in small cities is much simpler," said Xiao Ye, a mother of one, to Technode. "The young people here like to hang out at bubble tea shops. The girls watch dramas and reality TV shows on their phones, and the guys play [the video game] Honor of Kings on their phones."

Technode argues that instead of "spending on gyms or in bars as the urbanites would do in their spare time, China's small-town youngsters () are pouring money into various forms of online entertainment: videos, games, music, literature, and anime."

Pinduoduo understood this insatiable craving for online entertainment and came up with a personalized offer that brought various gaming elements to the shopping experience.

From digitally growing online farms and trees that help users win real fruits to video games that lead to discounts and promotions, the gamification of the retail experience has been fully realized by Pinduoduo. They understood that younger consumers expect brands to deliver a total integration of gaming elements and omnichannel shopping.

Can Pinduoduo become the new Alibaba?

If Pinduoduo does not continue innovating, some particular challenges could hinder its sales growth, development and profit margins.

At some point, the company's massive growth rate will not be maintained solely by lower-tier consumers.

As such, Pinduoduo will have to embrace the consumption upgrade trend and branch out with higher-end products that target affluent consumer segments.

Using lower price points resonates with lower- and middle-income households, but the affluent class demands top-quality goods and services. Therefore, they can find more effective ways to approach that class of consumers than a collective-buying model.

Soon, Pinduoduo will have to redesign its entire digital marketing strategy and embrace a luxury plan that employs an out-of-the-ordinary approach.

So far, the company has used word-of-mouth marketing (WOMM) and personal recommendations. Make no mistake, this is a great approach to reduce customer acquisition costs (CAC), but wealthy consumers demand more than straightforward and unsophisticated word-of-mouth advertising.

As such, Pinduoduo will be forced to invest millions of dollars in digital storytelling, social media campaigns and influencer marketing to reach a higher class of consumers.

Additionally, if Pinduoduo wants to become an ecommerce giant like **Alibaba** or **Tencent**, it has to find additional ways to generate revenue. Putting all its eggs in one basket is a dangerous game that is routinely discouraged by seasoned investors.

For instance, Alibaba's core is **ecommerce**, but the Chinese titan also "operates in the cloud-computing business and digital-media and digital-entertainment businesses," according to **Investopedia**.

As stated by **CNBC**, 100 percent of Pinduoduo's revenue comes from "online marketplace services." Taking into account that the company still is not cost-effective, mapping a path to profitability is the most crucial task right now.

A new approach could elevate Pinduoduo's brand and lead this surprising company to new heights.

On the other hand, if it does not innovate, Pinduoduo can expect brands such as Alibaba and Tencent to incorporate some elements of its "collective buying" shopping model into their own business models. Naturally, this will help

Alibaba and Tencent maintain their competitive edge while most likely sending Pinduoduo into oblivion.

In the end, the dictum "innovate or die" has never been more true than in Pinduoduo's case.

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