

Analyzing the Reasons for Pinduoduo's Stock Market Rise

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Abstract: Due to global consumption trends, people prefer to buy items with lower prices and greater cost-effectiveness. Pinduoduo focuses on sinking the market and takes low prices as its company philosophy. The purpose of this research was to explore how Pinduoduo surpassed Alibaba in U.S. stock market capitalization. Temu, a foreign cross-border e-commerce platform that Pinduoduo launched, will serve as the case study for a thorough analysis. Pinduoduo's stock market information, Temu downloads, product sales, and other data will be used for analysis and observation. The analysis shows that Temu's advertising investment in promotion, product discounts, and after-sales services for products has caused Pinduoduo's stock market to rise. For Pinduoduo to maintain and continue its stock market rise in the future, the suggestions given are to continue advertising, reduce product discounts and promotions to increase Temu's net profit, and set up 24-hour customer service and professional translation to provide more complete after-sales services.

Keywords: Pinduoduo, Temu, Advertising Investment, Discount, After-sales Service

1. Introduction

1.1. Research Background

People's consumption has decreased since the pandemic, and they are more likely to purchase more cost-effective things once the economy completely recovers. Pinduoduo, against this backdrop, is an e-commerce platform that primarily serves the sinking market and sells low-priced items. On November 29, 2023, Pinduoduo's stock market increased by more than 4%, and its market value increased by more than 4%. With a market capitalization of US\$192.1 billion, it once eclipsed Alibaba to become the biggest Chinese concept stock in the US stock market [1].

For the past two years, Pinduoduo has served as a third-party social e-commerce platform in China. Because the rate of growth is visible to everybody, several scholars have attempted to investigate Pinduoduo as a research object. Younghoon Chang, for example, previously utilized Pinduoduo as a study object to investigate Pinduoduo's sustainable development [2]. Furthermore, in 2021, Cheng employed Pinduoduo as a study object to investigate and assess Pinduoduo's business model and future development plan [3]. Pinduoduo was utilized as the study object in 2022 by Yoon, S., to investigate the link between Pinduoduo platform features, Pinduoduo platform attitude, product satisfaction, and reuse intention [4].

1.2. Research Gap

Despite the existence of several studies on Pinduoduo, there are still research gaps in this field due to the lack of attention from the academic community and the scarcity of studies on this specific event. This essay aims to address this research gap by examining the circumstances under which Pinduoduo eclipsed Alibaba in terms of U.S. stock market capitalization. This article examines pertinent studies from a business model standpoint. The objective of the research is to ascertain the underlying business model factors that have contributed to the abrupt surge in Pinduoduo's market valuation. The importance of analyzing Pinduoduo's stock market beyond Alibaba lies in facilitating broader investor comprehension, hence enabling future understanding by other investors as well. The corporation gains knowledge from its business model.

1.3. Fill the gap

This article will take Pinduoduo as a case and combine it with relevant information about the cross-border business Temu promotes to analyze why Temu's business model is so successful and how it affects Pinduoduo's stock market. Then, based on the reasons, this paper analyzed, this paper will provide further reasonable opinions on Pinduoduo and what Pinduoduo should do next to continue its upward trend.

2. Case Description

Pinduoduo is an e-commerce company headquartered in Shanghai, China. Huang Zheng founded it in 2015, and on July 26, 2018, it first went public. Pinduoduo, which is heavily involved in agriculture, started out as a platform for the retail of agricultural products before creating a new model that included Pinduoduo. Over time, it has evolved into a full-category, comprehensive e-commerce platform, with its unique features being agricultural and sideline products. It is the biggest global business platform for pure mobile e-commerce. Pinduoduo works directly with suppliers, eliminating the intermediate links on traditional e-commerce platforms and reducing the cost of goods. Users who want to purchase high-quality goods at discounted costs can start group purchases with friends, family, neighbors, etc. Pinduoduo has a business strategy known as C2B, which means it doesn't get involved in the manufacturing or running of any products. Merchants first post details about unproduced products on Pinduoduo, wait for users to group together successfully, and then concentrate on buying raw materials from providers of raw materials in order to make goods in large quantities. Ultimately, the retailer handles the order on his own and sends the merchandise straight to the delivery service.

According to Pinduoduo's annual financial statements, revenue has been growing since its listing in 2018. In the first quarter of 2023, Pinduoduo made 37.64 billion yuan in sales, a year-on-year increase of 58.2%; in the second quarter, its revenue was 52.28 billion yuan, a year-on-year increase of 66.3%. Pinduoduo published its performance report for the third quarter of 2023, ending on September 30, on November 28. According to the study, Pinduoduo's income for the third quarter increased by 93.9% year over year to 68.84 billion yuan. On November 29, 2023, Beijing time, Pinduoduo's U.S. stocks rose by more than 4%, with a market value of US\$192.1 billion, once surpassing Alibaba. Alibaba fell by 2.09% on November 28, with a market value of US\$191.8 billion, making Pinduoduo the largest market value in the US stock market. Chinese concept stocks [1].

At the same time, Pinduoduo promoted the cross-border business Temu. On September 1, 2022, Temu was launched in North America for the first time. In more than a year, it has entered the United States, Canada, Australia, the United Kingdom, France, and other European and American countries, Japan, South Korea, and other Asian countries, as well as the Philippines, Malaysia, and other countries in Southeast Asia, and has entered more than 40 countries and regions. In addition, Pinduoduo has accelerated its layout for overseas consumer festivals such as Halloween, Christmas,

and Black Friday and launched price subsidy strategies to enable overseas consumers to buy cost-effective products. Temu has adopted a fully managed model since it launched on the US site. Seller's package their own products, reserve prices, and then send samples to Temu for review. After passing the review, the sellers supply the goods, and finally, Temu puts them on the shelves for sale. After ranking as the fifth breakout app in the first half of 2023, Temu, a shopping app, climbed to third place in the third quarter, according to Data.ai. It is the most groundbreaking application in EU markets such as France, Germany, Italy, and Spain [5].

3. Analysis on the Reasons

3.1. Reason for Promotion Strategy of Advertising Investment

This article posits that Pinduoduo's stock price has increased due to strategic policy modifications made by Temu in advertising investment and marketing strategy. Temu just arrived in the United States and has augmented its advertising expenditure for promotional purposes. Temu made its debut at the Super Bowl, three months after its first release. The average expenditure for advertisers to air a 30-second advertisement at Super Bowl LVI in 2023 is projected to be \$7 million [6]. The 30-second advertisement features a stylish woman using Temu to effortlessly alter the attire of both herself and those around her, accompanied by enchanting vocals. Subsequently, Temu initiated a trend on the American Internet with the catchy tagline "Shop like a Billionaire." Based on Sensor Tower statistics, it has consistently held the top position in the Apple and Google Play stores in the United States since the beginning of January 2023.

The Super Bowl advertisement by Temu led to an instantaneous increase in the number of downloads and active users of its mobile application. In addition to advertising during the Super Bowl, Temu also advertised on various platforms, such as Facebook, Instagram, YouTube, and others. Overseas software is adorned with advertisements to enhance its global reach. Joshi, in their 2010 study, demonstrated the significance of advertising by examining the direct and indirect impacts of advertising expenses on the value of a firm. In addition to its direct sales revenue, the company's advertising operations will have an impact on its stock price [7]. In 2010, Xueming Luo demonstrated a positive correlation between advertising investment and firm value through a study examining the actual impact of advertising spending [8].

3.2. Reason for Promotion Strategy of Product Discounts

According to this report, one of the reasons for the increase in the stock price of Pinduoduo is that Temu has made some strategic policy revisions in terms of product discounts in the marketing plan. Temu has made certain strategic changes in this area, causing Pinduoduo's stock price to soar. Temu has always sold items at lower and more advantageous pricing in terms of marketing and has also implemented a number of preferential programs. To entice more people when Temu originally debuted, it offered services such as unique discount packages for new users, free delivery, and 1-cent items. Temu also developed a referral incentive in which existing users may earn prizes for introducing new members, potentially increasing user stickiness and experience. Temu was able to develop quickly because it used the same approach as Pinduoduo in China, providing best-selling, incredibly low-cost products to entice customers.

Temu also welcomed numerous bloggers to perform reviews and share their thoughts, increasing its popularity and allowing customers to buy with confidence. Temu paves the way with low-cost items. Preferential policies will enhance not just sales but also downloads and income. "Low-priced" items may gain more likes from customers, allowing them to purchase more things at the same price, similar to Temu's advertising pitch. Choi also investigated the influence of customer goal orientation on product selection and discovered that consumers prefer lower-priced items [9].

3.3. Reason for Product Strategy

Temu's strategic product improvements have resulted in an increase in Pinduoduo's stock price. Temu has implemented a post-purchase support system to facilitate communication between its vendors and buyers, who are unable to interact in person. Temu possesses a chat room located on the product sales page. Users have the ability to engage in communication with vendors at any time and from any location in order to inquire about or express grievances over the items. Temu further offers the contact information, including email addresses and phone numbers, of both vendors and purchasers. Temu also offers a policy for returning and exchanging items. Should the buyer experience an unsuitable size or receive damaged goods, they are eligible for a complimentary return and exchange service, provided they adhere to Temu's return and exchange policy. The platform will cover the cost of shipping for returns and exchanges. According to Temu's official website, customers may take advantage of a complimentary return policy within 90 days of their purchase.

Furthermore, Temu also offers thoughtful post-purchase assistance. Temu promotes and urges vendors to offer post-purchase support. Sellers have the ability to furnish consumers with product instruction manuals or offer a range of after-sales warranty services. Additionally, Temu has established a method for resolving disputes. In the event of a disagreement between a vendor and a customer, they can seek mediation on the Temu platform as a means of safeguarding consumer rights. The dispute resolution method successfully resolves issues between sellers and buyers, ensuring fairness and impartiality on the site. These post-purchase services have the dual benefit of efficiently resolving consumers' issues and enhancing their purchasing experience.

Shokouhyar's research examined how several factors related to the quality of after-sales service affect customer happiness. The study found that after-sales service quality had a notable impact on customer satisfaction. Consequently, delivering superior after-sales service would enhance customer satisfaction [10].

4. Suggestions

4.1. Suggestion on Advertisement Investment

Considering the initial reason examined, this essay suggests that Temu should persist in allocating resources towards advertising as a means of promotion. Given that Temu has been online for barely a year, the duration is rather brief. The primary catalyst for the surge in Temu downloads may be attributed to its initial advertising campaign, which introduced the American audience to Temu's notion of "affordable prices and complimentary shopping" and enticed people to download the app for their shopping needs through an enticing advertising tagline. In order to address concerns over the cheap pricing of Temu products and potential privacy and security issues, Temu can implement targeted advertising campaigns in various regions to increase brand awareness. Temu can maintain its collaboration with bloggers from various locations to carry out extensive reviews. By presenting authentic review outcomes and leveraging the influence of these bloggers, customers no longer perceive their shopping experience as uncertain and can make purchases with assurance. Strategically positioning ads can enhance the download rate of Temu.

Furthermore, Temu has the opportunity to promote during the Super Bowl on a second occasion, emphasizing its goods' affordability, superior quality, excellent value for money, exceptional customer service, and prompt delivery. Create a universally appealing advertising tagline that effectively cultivates a positive corporate image for Temu.

Shahzeb Hussain conducted a study to investigate the impact of advertising credibility on corporate credibility, brand credibility, and corporate image [11]. The results of his research indicated that advertising credibility had a positive influence on all of these parameters [11].

4.2. Suggestion on Discounts

Based on the second reason analyzed, this article suggests that Temu can reduce its discounts in promotion. In the year since Temu was launched, Temu has invested a lot of money in preferential policies. Although these preferential policies have increased Temu's sales, Pinduoduo's stock price also rose in the third quarter due to Temu's transaction volume. These preferential policies for investing a lot of real money have made Temu's net profit unsatisfactory. The price of Temu's products itself is low, and the preferential policies will put the company at a loss. In the early stage, a large number of preferential policies can be launched to attract users' attention, but this is not a long-term option and will put Temu at a loss. Temu can only launch preferential policies during local shopping festivals, such as a full discount policy of \$10 off for purchases over \$100 on Black Friday. This can also reduce Temu's investment, increase net profits, and make the company better, so that the stock price can rise better. It has been demonstrated that return on equity influences the stock price of bank firms on the Indonesian Stock Exchange (IDX) by researching the effect of net profit margin on that price [12].

Based on the second argument examined, this article advises that Temu cut its promotional discounts. Temu has spent much on preferential policies in the year since its inception. Despite the fact that these favorable rules enhanced Temu's sales, Pinduoduo's stock price surged in the third quarter as a result of Temu's transaction volume. Temu's net profit is poor as a result of these favorable rules for investing large sums of actual money.

Temu can only implement preferential policies during local shopping festivals, such as a full-price discount policy of \$10 off purchases of \$100 or more on Black Friday. Temu might even organize its own shopping event, such as providing a 20% discount on all electrical goods on this day. On November 11th, JD.com will host a shopping festival.

There are several discount activities and product discounts available. This can also lower Temu's investment, raise net earnings, and improve the company's performance, allowing the stock price to grow. By investigating the effect of net profit margin on that price, it has been established that return on equity affects the stock price of bank enterprises listed on the Indonesian Stock Exchange (IDX) [12].

4.3. Suggestions on Product

Based on the third reason examined, this article advises that Temu can continue to strengthen product after-sales services. Although Temu provides somewhat comprehensive after-sales support, there are still certain areas that may be improved. Because the majority of Temu merchants are in China, there is a significant time difference between users in the United States, Europe, and other countries that Temu primarily targets. As a result, most Temu vendors are unable to respond to consumer inquiries swiftly; thus, Temu should establish a 24-hour service hotline or 24-hour online customer care. When the seller ships the goods to Temu's main warehouse in Shenzhen, China, the seller can provide Temu with extensive product information, such as the product instruction manual and any difficulties that may arise after using the product. In this way, if the buyer is unable to contact the seller in a timely manner, he or she can call 24-hour customer care to settle any concerns.

Temu can also offer specialized translation services. Because of the language barrier between the seller and the buyer, the machine translation may be inaccurate, causing both parties to misinterpret the message. At this point, the vendor or buyer can provide translation services and allow human translators to explain things, allowing for effective communication. Temu's revenues grow when clients enjoy a positive purchasing experience.

5. Conclusion

This article examines Pinduoduo's relevant information on Temu, the cross-border business it promotes, against the backdrop of research showing that after the epidemic, people at home and abroad have begun to level up and downgrade their consumption, and people are eager to find the most cost-effective items. Temu's business model analysis looks at how Pinduoduo once exceeded Alibaba in terms of stock market valuation in the United States. By studying the business model of Temu, Pinduoduo's cross-border venture, in terms of promotion, advertising investment, promotion of product discounts, and product after-sales service, the conclusion is that the cause of Pinduoduo's stock market gain is due to business. Part of the rationale, from a model standpoint, is Temu's commitment to promotion, product discounts, and after-sales services.

From a theoretical standpoint, this essay investigates the business reasons why Pinduoduo's stock market gained more than Alibaba's. According to many studies, Temu's advertising and product business strategy helped Pinduoduo's stock market increase. The findings of this article's study will provide investors with a more in-depth understanding of Pinduoduo and Temu, as well as a reference for e-commerce firms looking to create a global e-commerce platform for international operations. However, the breadth of this article's study has certain limits. It solely researches Pinduoduo. Other e-commerce systems have significant limits because each firm has unique traits, concepts, and consumer groups. Following that, in future research, further research will do a more in-depth analysis of Pinduoduo as well as study, comprehend, and evaluate firms of the same kind with various features or business strategies to serve as a better reference.

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