



**ANALYSIS OF THE PROFIT MODEL OF SOCIAL  
E-COMMERCE--TAKING PINDUODUO AS AN EXAMPLE**

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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE MASTER'S DEGREE OF BUSINESS  
ADMINISTRATION GRADUATE SCHOOL OF BUSINESS  
SIAM UNIVERSITY  
2023**



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This Independent Study has been Approved as a Partial Fulfillment of the  
Requirement of an International Master of Business Administration in International  
Business Management

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## Declaration

*I, Zhu ruifang, hereby certify that the work embodied in this independent study entitled “ANALYSIS OF THE PROFIT MODEL OF SOCIAL E-COMMERCE--TAKING PINDUODUO AS AN EXAMPLE” is result of original research and has not been submitted for a higher degree to any other university or institution.*



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May 20, 2023

**Title:** Analysis of the Profit Model of Social E-Commerce--Taking Pinduoduo as an Example  
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**Degree:** Master of Business Administration  
**Major:** International Business Management

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22 / 8 / 2023  
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## ABSTRACT

The traditional e-commerce traffic expansion market is becoming increasingly saturated, and the new social e-commerce model has become a popular trend, injecting new vitality into the e-commerce market. Pinduoduo has explored the consumption psychology of contemporary people and developed into one of the most typical social e-commerce platforms in the e-commerce industry today. The purpose of this paper is to take Pinduoduo as a case study to analyze the profit model of social e-commerce, and study how to improve the profit of social e-commerce businesses and achieve long-term development through an effective profit model. The traditional e-commerce model is not enough to adapt to the development of the times. The theoretical basis of the new social e-commerce is still weak and not systematic. Most studies on the profit model of social e-commerce are still lacking. Therefore, the paper has the following research objectives: 1) To analyze the current situation of Pinduoduo social e-commerce profit model; 2) To analyze the problems in the profit model of Pinduoduo social e-commerce; 3) To provide effective suggestions for the profit model of social e-commerce.

Mainly using documentary methods. Based on the problems existing in the current Pinduoduo profit model, first, it is found that controlling marketing expenses can further improve the problem of net profit loss, such as controlling marketing costs and reducing market expenditure. Second, a single Marketing channel leads to slow profitability. We can combine online and offline development with multi-channel development, and increase value-added services to enrich profit sources. Finally,

improving customer purchasing power, customer satisfaction, and product quality are key factors. Therefore, whether it is traditional e-commerce or social e-commerce enterprises, finding different profit sources can provide a foundation for their further development.

**Keywords:** social e-commerce, marketing expenses, marketing channels, customer purchasing power, pinduoduo.

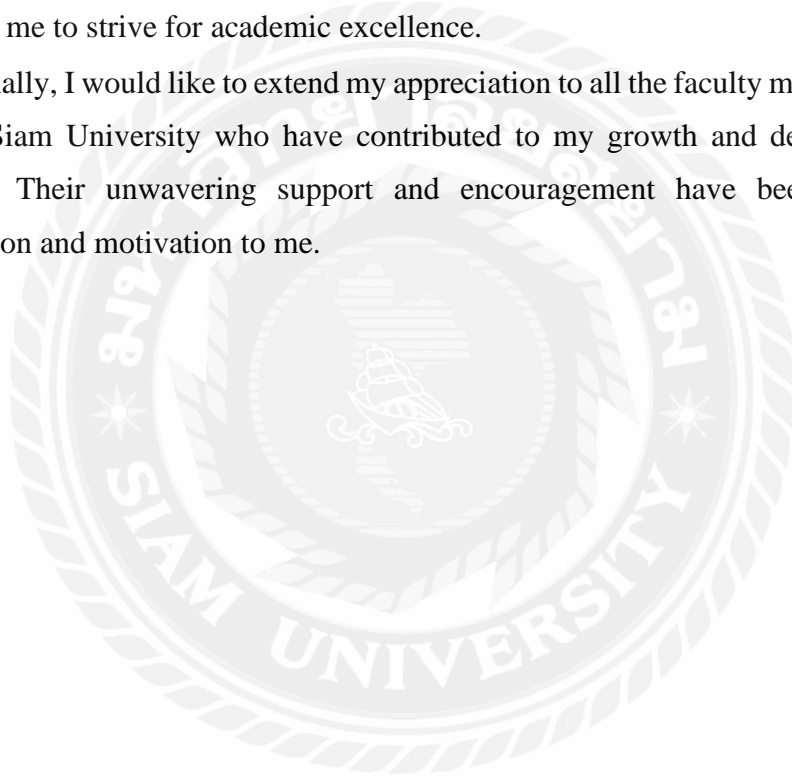


## **ACKNOWLEDGEMENT**

I would like to express my deepest gratitude to my advisor, for his invaluable guidance, support, and encouragement throughout my independent study. His insightful comments and constructive criticism have significantly improved the quality of my work.

Additionally, I am grateful to Associate Professor Dr. Jomphong Mongkhonvanit, Dean, Graduate School of Business, for his support and encouragement throughout my studies. His dedication to the graduate program and commitment to excellence have inspired me to strive for academic excellence.

Finally, I would like to extend my appreciation to all the faculty members and staff of the Siam University who have contributed to my growth and development as a student. Their unwavering support and encouragement have been a source of inspiration and motivation to me.



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# **1. Introduction**

## **1.1 Research Background**

In recent years, the rapid development of social e-commerce has continuously changed the traditional e-commerce business model and gradually led to the new trend of e-commerce (Qin, 2023). Traditional Chinese e-commerce platforms such as Alibaba and JD.com are moving towards the mid to high-end market, with more and more high-end brands and top merchants gathering traffic. It is becoming increasingly difficult for ordinary merchants to obtain traffic, and the cost of traffic on traditional e-commerce platforms is increasing. At the same time, the online retail consumer market is becoming saturated, traditional e-commerce online dividends are being reduced, and customer acquisition costs are rising. There is an urgent need to find new low-cost and low-threshold e-commerce sales platforms (5G Era Chinese Business Theory, 2022). Pinduoduo, centered around the social group of "social fission low-priced blockbusters", has developed rapidly. It fully utilizes the new model of social e-commerce, relies on the huge social traffic on WeChat, seizes market opportunities, and quickly attracts a large number of potential consumers and merchant resources in lower-tier cities. With astonishing speed, it has developed into the second-largest e-commerce retail platform in China, second only to Alibaba (Wu, 2023) in market value. The paper studies the profit model of Pinduoduo, analyzes its advantages and disadvantages, and provides some suggestions for the development of Pinduoduo. It is believed that it also has a certain reference value for other social e-commerce enterprises.

## **1.2 Research Problems**

The paper conducts in-depth research on the profit model of the social e-commerce platform industry. Currently, there is relatively little research on the sub industry of social e-commerce platforms in academia and relevant literature, mainly focusing on the research of e-commerce profit models, and the research on their profit models is also relatively limited. Although Pinduoduo has a high position in the social e-commerce industry, its marketing expenses are high and it mainly obtains customers through subsidies and coupons, which leads to a decrease in profits (Tu, 2023). Secondly, Pinduoduo's positioning has always been focused on cheap and fast consumption. The overall purchasing power of the consumer group is weak, and the purchasing potential is very limited. Even on the basis of good platform rules and a large number of users, merchants' profits are lower than other platforms



(Deng&Zhang, 2019). Finally, the main sources of profit for Pinduoduo are advertising revenue and transaction commission income. A single channel leads to unprofitable profits, mainly due to the slow growth of advertising revenue. Despite the increase in total operating revenue, the year-on-year growth rate of operating revenue has decreased too quickly and the market expenses have skyrocketed in the cost expense profit margin, resulting in the inability to cover profits (Wu, 2023). The e-commerce platform industry is constantly developing and exploring, and the evolution of its profit model is becoming increasingly mature. This paper attempts to conduct in-depth research and provide reference for other social e-commerce enterprises.

### **1.3 Objective of the study**

The paper uses a literature research method, and the goal of the study is to understand the profit model of social e-commerce using Pinduoduo as an example. China's e-commerce is in a rapidly developing era, and the traditional e-commerce model is no longer sufficient to adapt to the development of the times. The theoretical foundation of the newly developed social e-commerce is still weak and unsystematic (Martina, 2022). More importantly, most studies still lack insight into the profit models of social e-commerce. Therefore, the paper has the following research objectives:

1. To analyze the current situation of pinduoduo's social e-commerce profit model.
2. To analyze the problems that arise in the profit model of pinduoduo social e-commerce.
3. To provide effective suggestions for the profit model of social e-commerce.

### **1.4 Scope of the study**

The paper uses the SWOT analysis method to analyze and study the future development strategy of Pinduoduo, and deeply analyzes the profit factors and profit model characteristics of Pinduoduo's enterprise. The research scope is conducted in a profit model conducive to social e-commerce. Attempt to use Pinduoduo as an example to find effective profit models for social e-commerce through research on the current development status and emerging issues, and provide suggestions for other social e-commerce platforms.

### **1.5 Research Significance**

There is currently relatively little theoretical research on the profit model of e-commerce both domestically and internationally, and academic exploration in this area is still in the initial research stage, without forming a unified conclusion and framework. Especially for the relatively new e-commerce operation model of social e-commerce, there is not much literature, and there is currently a clear definition of the profit model of social e-commerce (Abdul, & Xie, 2020). Therefore, the main theoretical significance of the topic selection in this paper lies in the in-depth analysis of the profit model of the social e-commerce enterprise Pinduoduo through the study of its profit model and proposing corresponding improvement measures. It is hoped that this case study can enrich the research ideas of the social e-commerce profit model and provide some effective suggestions for the sustainable development of social e-commerce enterprises.

## **2. Literatures Review**

### **2.1 Concept of social e-commerce**

Social e-commerce is a combination of social tools and e-commerce tools (Yang & Liang, 2022). Apply social elements such as attention, sharing, communication, and activities to e-commerce trading activities. Social e-commerce refers to the use of social tools provided by internet platforms to build a network of interpersonal relationships, which can then introduce high-quality customer groups into business activities or e-commerce trading activities. Social e-commerce can actually be seen as a new type of e-commerce business model. From the perspective of customers, socialization is reflected in consumers' choices of merchants and products before purchasing their desired products. Throughout the entire shopping process, information exchange occurs between consumers and merchants, and after purchasing the products, they share real product evaluations and user experiences. From the perspective of e-commerce enterprises, they can use social media tools to conduct targeted advertising marketing and promote product sales based on the shopping experiences and preferences shared by consumers (Wu, 2023).

Social e-commerce fully utilizes the role of social media, and how to properly utilize social media for the benefit of enterprises has become the key to social e-commerce. The poor use of social media and the dissemination of negative information can seriously hinder the development of enterprises; The good use of

social media can give a company a good image, become the most effective marketing tool, attract customers, promote sales, and establish a brand image.

## **2.2 Concept of profit model**

The profit model is a way for enterprises to obtain profits, identifying and managing their actual profit points. Identify the source of profits, profit points, production processes, and production methods of a company during its operation (Yang, 2021). The profit model is a cost structure, revenue structure, and target profit divided by the relevant stakeholders of the enterprise. The profit model is divided into two ways: spontaneous and conscious. Most of the spontaneous models are in the early stages of enterprise development, which is immature and lacks a clear understanding of the company's profit model. The construction of profit models also has a certain degree of spontaneity, leading to a lack of correct understanding of profit models and the inability to optimize and adjust them in a timely manner. The conscious model refers to the ability of enterprises to independently conduct specific tests on their profit situation, in order to timely update and improve their profit model. It can be seen that enterprises using the conscious model can have a clearer and more complete understanding of the profit model, and this understanding is also more stable and flexible (Zhao, Li&Yang, 2022).

Effective analysis of a company's profit model mainly involves five elements, namely profit targets, profit sources, profit points, profit leverage, and profit barriers. The actual situation of each enterprise is different, and there are differences in profit models. However, successful profit models all have three common points: successful business models can create unique value; Establish profit barriers, increase industry barriers, and reduce the replicability of profit models; The key to the success of a profit model lies in its implementation. Profitability is the ultimate goal of a company, and choosing an appropriate profit model can maintain its sustainable development and growth.

## **2.3 Profit Model of Social E-commerce**

Social e-commerce is a process where users are the main body and communicate and share products through the circle of acquaintances between users, in order to achieve more efficient conversion of sales results. From the current market situation, the profit models of social e-commerce mainly include the following three types:

- (1) Advertising revenue

Whether it's social e-commerce or traditional e-commerce, advertising revenue is a very high source of profit for enterprises. Due to the aggregation of numerous homogeneous users, social e-commerce platforms are more attractive to businesses and advertisers, and more and more companies are starting to focus their advertising on internet community platforms. Data shows that in the profit structure of social e-commerce enterprises, advertising revenue accounts for about 80% of revenue. The more common forms of advertising include traditional static graphic and textual advertising, insert dynamic advertising, media form combination advertising, and embedded advertising that embeds product information into videos or games (Liu&Zhao, 2020).

#### (2) Commission commission

This profit model platform does not directly sell goods to consumers, but rather shares the profits of sellers and buyers by providing an efficient platform for communication, and trading between buyers and sellers. Due to not selling products themselves, social e-commerce platforms do not need to spend a lot of money and effort building their own logistics system and supply chain. Represented by B2C and C2C platforms, they provide massive product information to attract consumption, and extract fixed transaction fees based on consumer order amounts. Such typical social e-commerce platforms such as Xiaohongshu (Gao, 2017).

#### (3) Value added services

There are two main ways to profit from value-added services: membership fees and virtual services. Membership fees refer to paying fees to the platform to become a member of the platform in order to obtain special or high-end services. Nowadays, membership fees are increasingly becoming a trend, and platform paid members can earn profits as long as the proportion of all users is no less than 8 percentage points, which has attracted major social media sites to adopt this model. Virtual services are only value-added virtual services provided to users, which guide consumers to purchase virtual goods to obtain profits, which is the most common in games. For example, Tencent attracts players to purchase gaming equipment and also issues virtual currencies to further stimulate consumer purchasing demand (Yang, 2021).

## **2.4 Pinduoduo Company Introduction**

Pinduoduo is a third-party social e-commerce platform that focuses on C2M group shopping and is affiliated with Shanghai Xunming Information Technology Co., Ltd. It was officially launched in September 2015 (Zhou, 2022). Pinduoduo, with its

unique social group as its core model, mainly focuses on billions of subsidies, agricultural products, and high-quality products from different regions. It was officially listed on the NASDAQ Stock Exchange in July 2018. On March 20, 2023, Pinduoduo released its unaudited financial results for the fourth quarter and full year ended December 31, 2022. The financial report shows that in the fourth quarter, the total revenue was 39.82 billion yuan, a year-on-year increase of 46%; The net profit attributable to ordinary shareholders was 9.4537 billion yuan, a year-on-year increase of 43%. In 2022, the total revenue was 130.576 billion yuan, a year-on-year increase of 39%; The net profit attributable to ordinary shareholders was 31.5381 billion yuan, a year-on-year increase of 306% (Zhou, 2020).

## **2.5 SWOT Analysis of Social E-commerce Pinduoduo**

### **2.5.1 Strength**

(1) Fully utilize the advantages of the consolidation model

Pinduoduo fully utilizes the advantages of the Pinduoduo model. (1) For business operators, the consolidation model increases the flow of goods and allows for a large amount of destocking. Merchants purchase from factories that make foreign trade orders, and the purchase price is relatively low. Selling at a low price will also result in a certain profit; Pinduoduo then sells a portion of the brand's backlog of inventory goods. In order to minimize economic losses and sell as much as possible, the selling price is usually very low. To some extent, Pinduoduo has initially implemented a product customization model under the reverse C2M business model. (2) For shoppers, the group buying form of Pinduoduo allows them to obtain the desired products at a lower price compared to traditional individual purchasing methods. (3) For the Pinduoduo platform, the Pinduoduo method can bring about large-scale fission, thereby gaining more customers, which to some extent reduces the cost of customer expansion. The platform will return the saved expenses to users in disguised form, such as using festivals to carry out a series of subsidy activities. The majority of Pinduoduo's listed Pinduoduo products are products with low prices but large shipments, which can attract more users. Therefore, the platform can easily obtain more user purchase information (Chen, 2022).

(2) The "New Brand Plan" was upgraded and C2M went further. In December 2018, Pinduoduo collaborated with 1000 factories to develop the "New Brand Plan"

and successfully implemented it. As of October 2020, Pinduoduo's implementation of the "New Brand Plan" has become increasingly mature, and the number of cooperative Pinduoduo factories has gradually increased, from the initial 1000 to 1500. The products have been upgraded, and customized products have better met the personalized needs of consumers. The number of orders is increasing day by day, with a total sales of 460 million units. As the plan matures and improves, the Pinduoduo platform has attracted more consumers and businesses. The "New Brand Plan" has successfully driven the development of China's manufacturing industry and achieved comprehensive upgrading and transformation. In October 2020, Pinduoduo decided to increase funding again and comprehensively optimize and upgrade the "New Brand Plan". The implementation of the "New Brand Plan" has integrated consumers with consistent consumption goals, attracting a large number of customers to the platform. The platform implements a targeted feedback strategy, and the C2M model relies on a group approach to bring about large-scale development. The Pinduoduo platform tightly grasps the advantage of "low price" and achieves spiral circular growth. Up to now, Pinduoduo has a huge user base and involves a wide range of consumer groups. The platform has collected a large amount of user data to implement upgrading and transformation strategies for the supply side, ensuring the upgrading and optimization of the new brand plan.

(3) Targeted poverty alleviation promotes the upward trend of agricultural products. If Taobao Tmall's advantage is clothing, JD.com's advantage is 3C Electronics, then Pinduoduo's basic focus is agriculture. Pinduoduo made its fortune as a fresh e-commerce platform and became the largest agricultural product sales e-commerce platform in China in less than 5 years. Pinduoduo, in response to the national implementation of the rural revitalization strategy and the goal of winning the poverty alleviation battle, has invested a large amount of resources both online and in reality, and has reached cooperation with nearly a thousand agricultural production areas in China. Through online marketing and other methods, it has solved the problem of difficult production and sales of agricultural products, created an online platform for the "Central Processing System for Agricultural Products", and innovatively developed the "mountain village direct community" model that directly connects production areas and users, Implement targeted poverty alleviation plans by helping farmers sell agricultural products. Pinduoduo adopts the "collective purchase" model

to virally gather a large number of customers and orders in a short period of time, achieving large-scale pairing between farmers and customers, directly connecting products from the fields to the final consumers, and changing the drawbacks of overly dispersed production demand for agricultural products. Through this supply chain model that connects directly from the source to the end, the added value of the retained value chain continues to increase, which can effectively drive the development of productivity in production areas, achieve optimal allocation of production factors, especially talent resources, and promote the sinking of enterprises. Pinduoduo took the lead in winning the large-scale rural market, and in the current era of sluggish growth in the first and second tier markets, deep cultivation in the lower tier market is a huge breakthrough.

(4) Traffic is skewed towards small and medium-sized businesses

Chris Anderson proposed that for a curve, we tend to focus more on the head or main profit direction, while paying much less attention to the tail or subsequent profits, which is the famous long tail theory. In fact, although the absolute value of tail merchants is relatively small, the relative quantity of tail merchants cannot be ignored, and the total amount of tail aggregation accounts for a considerable proportion of the overall. At the beginning, Alibaba's market positioning was also in the mid to low-end market of China. However, due to issues such as counterfeit goods, the low-end market has gradually been abandoned in the long development cycle, and it has begun to attack the top merchants and brand goods market. The traffic is more inclined towards the mid to high-end market, leaving a large number of small and medium-sized merchants with less and less survival space. The establishment of the Pinduoduo platform has become a foothold for small and medium-sized businesses. Merchants, new entrepreneurs, and urban new proletarians abandoned by Alibaba JD are flocking to the Pinduoduo platform in large numbers to save operating costs and obtain more traffic. Pinduoduo follows Alibaba's initial market strategy, targeting low-income groups in third tier and below urban areas, fully utilizing the benefits of the long tail effect, and quickly occupying the low-end market (Zhang&Liu, 2021).

### **2.5.2 Weakness**

(1) WeChat is no longer a proprietary traffic portal for Pinduoduo

Tencent has always been committed to investing in the internet and e-commerce industries. Although there have been many failures, there are also successful cases,

such as Pinduoduo. Pinduoduo is based on the "social+group" model, with early traffic mainly relying on WeChat. Seeing the success of this model, Tencent considered replicating more "Pinduoduo". JD launched Jingxi, a social e-commerce platform targeting the low-end market, in September 2019 and collaborated with Tencent. Jingxi's traffic initially came from the primary WeChat portal. From here on, it can be found that Jingxi and Pinduoduo have many similarities in their business models. They connect consumers and e-commerce through social media and online shopping platforms, providing ample communication space between consumers and manufacturers, and deeply exploring the effective value of products. Compared to Pinduoduo, Jingxi has a first level entrance on WeChat. Jingxi has a more direct entrance compared to Pinduoduo's second level submenu entrance, so Jingxi can have more WeChat traffic. Moreover, the previously condoned Pinduoduo Link induced sharing on WeChat has also been completely banned.

(2) The "social+group" model is easy to imitate

Unlike Alibaba, which has already formed a relatively mature e-commerce ecosystem, JD.com has a stable e-commerce industry giant position of "self operated+platform+self built logistics", and Pinduoduo's main "social+group" model utilizes acquaintances' social circles to quickly obtain traffic users and quickly open the market. This innovative business model is easy to imitate. In addition to the earlier Xiaohongshu, Wexuan and Taojiji, JD just launched Jingxi, and Tiktok also launched group buying on the platform, so businesses can bring goods through Tiktok live broadcast. On the application platform, consumers can make payment by placing an order, and the delivery method can be selected from the store or through third-party payment.

(3) Without its own logistics system

Compared to the two major e-commerce giants Alibaba and JD, Pinduoduo does not have its own logistics system. Logistics runs through all links of the supply chain, affecting the efficiency and cost of each link. Logistics itself accounts for 10% -20% of product costs, but the impact on delivery is 100%. The importance of logistics is self-evident. Alibaba has established Cainiao Express Station and collaborated with 13 mainstream domestic express delivery companies in the industry. It has invested in Yuantong, Shentong, and Zhongtong, and owns over a quarter of the shares of Baishi Express, controlling nearly half of the voting rights. JD has built its own logistics



system, covering the entire country. It integrates the entire process of warehousing, transportation, and distribution, with fast and short delivery times, enhancing JD's control over logistics. At present, Pinduoduo can only rely on major express delivery platforms. Once the logistics platforms raise prices together, Pinduoduo, which focuses on low-priced products, will be curbed.

(4) The impression of counterfeit goods being rampant and shoddy is deeply ingrained

On the Pinduoduo platform, item prices are mostly lower than market prices, but in this mode, it is difficult to guarantee whether merchants will choose to reduce production costs driven by more benefits, which will lead to a decline in product quality. The emergence of this problem stems from the early development strategy of Pinduoduo. In the initial stage, Pinduoduo adopted a "no threshold" and "zero margin" strategy to attract merchants to settle in, which attracted a large number of small merchants to settle in. However, due to the lack of threshold, many illegal merchants entered, and the goods on the platform were mixed in quality, which was easy to cause quality problems and consumer complaints; And Pinduoduo's customer service quality is poor, and their after-sales attitude is not good, presenting a clear perfunctory attitude towards consumers, reducing their user experience; Pinduoduo's logistics services also have significant problems, such as non-standard express delivery, slow logistics, and early receipt issues. All of these have damaged the image of the company. Pinyin

The impression of excessive counterfeit and shoddy production is deeply ingrained, and it is a difficult project to eliminate these negative impressions and enhance consumers' trust.

### **2.5.3 Opportunities**

(1) There is still significant market space in the retail e-commerce market  
Through investigation and research, it is believed that the e-commerce market has not yet reached the industry ceiling. Due to the pandemic in 2020, e-commerce reached a new level of penetration due to its convenience penetrating into all aspects of home life. Compared to 2019, it increased by 2.38 percentage points year-on-year. With the continuous penetration of the Internet into people's daily lives, the e-commerce market will further expand.

(2) The e-commerce shopping model is shifting from "people looking for goods" to "goods looking for people"

In recent years, the benefits of traffic have been much lower than before. The cost for merchants to obtain paid customers has remained high and is on the rise, and traditional e-commerce models cannot further promote the development of the industry. The "people searching for goods" model cannot fully meet customers' shopping needs. Traditional e-commerce platforms can only serve as a good tool in terms of customer purchasing needs, but there is a slight lack of cost in obtaining paid customers and stimulating user consumption. The emergence of social e-commerce has broken the inherent pattern between consumers and products, changing from the original need for consumers to actively seek product information to actively present familiar product information to consumers. When there are customer orders, it attracts other customers to browse and place orders, greatly increasing customer purchase volume and reducing merchant acquisition costs. In addition, there is also a subtle "shopping for people" model that guides consumers to shop, that is, live streaming e-commerce. In this model, merchants utilize the fan effect and trust of the top anchor to push product links to consumers after the recommendation of the top anchor, promoting the purchase of the product. Under this promotion, the product and brand are more easily accepted and trusted by the public. With the development of network technology platforms, the live streaming e-commerce industry has developed rapidly, which shows that the "finding people with goods" model is very suitable for the current development trend.

(3) The sinking of express delivery service network

The increasing income and consumption of rural residents have laid a solid economic foundation for the sinking of the express delivery service network. In 2014, the country began implementing the "express delivery to rural areas" project, and the coverage rate of express delivery outlets in townships has increased from less than 50% in 2014 to 2

96.6% in 2019. Postal services in rural areas and express delivery to rural areas have expanded the channels of communication between urban and rural areas, transforming a large amount of rural demand into consumption, and accelerating the transition from offline to online consumption in rural areas. In addition, China's logistics and warehousing are scattered, and many urban goods are not accessible in rural daily life.

The emergence of logistics has led rural consumption to shift from market buying to online shopping. Pinduoduo's high cost performance products dominate, providing rural netizens with a centralized platform for online shopping. Rural consumer demand is released, and online shopping channels continue to upgrade rural consumption, From pursuing "having goods" to pursuing "improving the quality of life".

#### **2.5.4 Threat**

##### **(1) Intense competition may lose market share**

At present, domestic e-commerce platforms such as Alibaba and JD.com hold the majority of the market share in the e-commerce industry. In addition, there are many vertical e-commerce companies such as Vipshop, Jumei Youpin, NetEase Kaola, and others with strong development momentum. The e-commerce industry is even more fiercely fought internally. In order to seize more market share, major e-commerce companies are doing their best. Pinduoduo must attract and retain buyers, merchants, and other participants on the platform through competition. Pinduoduo's current or potential competitors include major e-commerce companies in China, major traditional and physical retailers in China, and Chinese companies that are not currently engaged in e-commerce business in China, but may enter the e-commerce business field or are starting their e-commerce business. These known or unknown competitors may have more competitive advantages, such as richer operational experience, stronger brand influence, and a larger user base. Competition

Competitors can leverage their brand awareness, experience, and resources to compete with Pinduoduo in various ways, including investing and acquiring to expand their product and service range. The intensification of competition may reduce Pinduoduo's profitability, market share, user base, and brand awareness. China's economy is developing rapidly, and the market is updating rapidly. Pinduoduo has a shallow foundation and has not yet formed an absolute competitive advantage.

##### **(2) The Impact of the Epidemic on the E-commerce Industry**

This epidemic has had a certain degree of impact on e-commerce enterprises, and according to the announcement of the World Health Organization, the epidemic will become a long-term infectious virus, so China's economy will be affected by the long-term impact of the epidemic. Under the attack of the epidemic, no industry can take chances, and the overall environment has become even more difficult. In the

social e-commerce industry, initially the epidemic caused the express delivery industry to shut down, making it difficult for the public to go out, and resulting in a stagnation of online and offline consumption; In the past, the e-commerce industry immediately resumed work and production after the Chinese New Year. Although the Chinese epidemic has been effectively controlled and the online industry has recovered, offline enterprises have been delayed in resuming work due to the impact of the epidemic. Many consumers have ample free time, but their income has sharply decreased. Emotional consumption has gradually shifted to rational consumption, with consumption downgraded and purchase and repurchase rates declining one after another. The epidemic has a significant impact on the middle and low end consumer groups, with the middle and high end being relatively stable. The individual economic strength of consumers determines their ability to resist risks during the epidemic. Pinduoduo mainly focuses on the low-priced market, with relatively low user income levels and weak risk resistance, which will be impacted to a certain extent.

## **2.6 Theoretical framework**

This paper will use the SWOT analysis method to conduct a comprehensive analysis of Pinduoduo's strategic competitive situation, formulate development strategies based on its own competitive advantages, and position the enterprise. Based on the internal and external competitive environment and conditions, situation analysis refers to the investigation and listing of various main internal strengths, weaknesses, and external opportunities and threats closely related to the research object, arranged in a matrix form, and then analyzed by using the idea of system analysis to match various factors and draw a series of corresponding conclusions, which usually have a certain degree of decision-making. By using this method, comprehensive, systematic, and accurate research can be conducted on the scenarios in which the research object is located, and corresponding development strategies, plans, and countermeasures can be formulated based on the research results. S (strengths) is an advantage, W (weaknesses) is a disadvantage, O (opportunities) is an opportunity, and T (threats) is a threat. According to the complete concept of enterprise competitive strategy, strategy should be an organic combination of what an enterprise can do (i.e. organizational strengths and weaknesses) and what it can do (i.e. environmental opportunities and threats). In the process of operation, enterprises

should formulate corresponding development strategies, maintain their uniqueness, ensure strong competitiveness in the market, and create greater economic value. The models adopted by e-commerce enterprises are easy to imitate and surpass, but specific enterprises have different and unique resource advantages within them, and their development strategies are not easy to imitate.

### **3. Research Methodology**

The paper mainly uses documentary methods. This paper first introduces the research content from the background, significance, research methods, and content. Next, based on the relevant theories, combined with the development of Pinduoduo, we analyze the profit model of Pinduoduo, and analyze its reasons for the current situation, so as to put forward suggestions to optimize the profit model of Pinduoduo.

Through the research of scholars on profit models,, we can find that e-commerce based on internet technology has become a global development trend, and the rapid development momentum is remarkable. As a result, many e-commerce enterprises have emerged to compete for the market, attracting academic attention. Many scholars have begun to study e-commerce and analyze the profit models of e-commerce enterprises. In recent years, e-commerce enterprises have become a research trend among scholars at home and abroad. The existing research literature on profit models mainly focuses on traditional e-commerce enterprises. Although there are many researchers, there is always no unified explanation for the profit models of socialized e-commerce enterprises, and the theoretical models have their own characteristics. Secondly, the specific analysis of e-commerce profit models presents common characteristics, without detailed and in-depth analysis, lacking characteristic analysis, and the conclusions drawn from the analysis are too broad and lack specificity. The most important thing is that Chinese e-commerce enterprises are in a rapid development stage, and there are differences in the domestic market environment, national conditions, consumers, and many other aspects. Many foreign theoretical literature lacks universality for Chinese e-commerce, and domestic scholars' research on e-commerce profit models is more suitable for the Chinese market situation. However, most academic researchers analyze traditional e-commerce enterprises, and there is little research on the new e-commerce model of

social e-commerce, There is a lack of relevant theoretical literature on the profit model of social e-commerce.

Therefore, it is very important for the paper to provide a profit model reference theory tailored to the development of Chinese social e-commerce enterprises, the development environment of the Chinese market, and the national conditions of China. Based on a large amount of existing theoretical literature, this paper conducts in-depth exploration of the profit model of social e-commerce through research and analysis of typical cases, providing some feasible references for the profit model of existing or future development of social e-commerce enterprises.

## **4. Finding**

### **4.1 Current situation of profit sources for social e-commerce Pinduoduo**

The source of profit refers to where a company's revenue channels come from. Pinduoduo's income mainly comes from the following aspects.

#### **(1) Online marketing services**

Online marketing advertising services are the most important source of profit for Pinduoduo (Zhu, Zhang&Zhang, 2022). The Pinduoduo platform provides various advertising and marketing services, such as the product ranking of search results on the Pinduoduo platform, as well as a series of marketing advertising positions such as banners and links, or the display of corresponding keywords. The display location or related marketing price is determined by the online bidding system of the platform after the merchant bids. The advertising fee models mainly include CPC and CPS models, namely click to click settlement model and sales settlement model. The CPC mode provided by Pinduoduo has two methods: search and scenario, with the main tool being Duoduo Direct Delivery; Provide CPS mode for small merchants, with the main tool being Duoduo Jinbao (Yang, 2021). Pinduoduo has scientifically utilized technologies such as big data and cloud computing to achieve efficient marketing and advanced intelligent product advertising in the market. By utilizing digital intelligence technology to achieve accurate prediction results, the intelligent calculation of advertisements can not only limit the limit range, but also set limiting conditions. By combining creativity and accuracy, advertisements can be placed, resulting in great success in Pinduoduo's marketing. In 2017, the revenue from online marketing services was 1.209 billion yuan, accounting for 69.30%. In 2018, the revenue from online sales and services was 11.515 billion yuan, accounting for 87.8% of the total

revenue. In 2019, the online sales and service revenue was 26.813 billion yuan, accounting for 89% of the total revenue. The overall trend is that the proportion of online marketing service revenue is increasing year by year (Zeng, Hong,&Zou, 2019).

## (2) Transaction Services

Trading services are another major source of profit for Pinduoduo. Pinduoduo provides comprehensive services related to transactions for small and medium-sized e-commerce on the platform and charges corresponding merchant fees (Ji, 2021). In order to continuously improve the user experience, Pinduoduo provides rewards, such as discounted rates, to merchants who have high-quality, cost-effective products and provide five-star satisfactory services to users. Pinduoduo charges different standards of entry deposit for merchants based on different categories. Generally, the deposit is between 1000 and 2000 yuan for each category, and 10000 yuan for fresh and virtual goods (Wu, 2020). The commission income in the Pinduoduo transaction service is basically a commission extracted by the Pinduoduo platform from each transaction of merchants. For each transaction of merchants, the platform extracts a commission from the settled merchants, usually charged at 0.6% of the product value. In 2017, Pinduoduo's trading services amounted to 531 million yuan, accounting for 30.5% of the total revenue; In 2018, Pinduoduo's trading services amounted to 1.604 billion yuan, accounting for 12.2% of the total revenue; In 2019, Pinduoduo's trading services amounted to 3.328 billion yuan, accounting for 11% of the total revenue.

## (3) Product sales

Pinduoduo launched a "Pinduo Good" strategic marketing campaign from 2015 to 2017, mainly targeting online sales of products such as fresh fruits, vegetables, and highly perishable products. The products in the event come from suppliers and are resold by Pinduoduo merchants to users to complete a series of sales chains. The income from self operated business is very small, and can only be considered insignificant compared to the total profit. In the following two years, its revenue was only 457 million yuan and 3 million yuan respectively. Driven by this marketing campaign, Pinduoduo gradually transitioned to a social e-commerce model, successfully completing the business transformation in the first quarter of 2017, and no longer engaging in product sales business thereafter (Zhang, 2021).

## **4.2 Problems in the Profit Model of Pinduoduo in Social E-commerce**

### **4.2.1 Pinduoduo Company has high marketing expenses**

Pinduoduo has been in a loss state since its establishment, and a significant reason for this is the huge marketing expenses (Shao, 2023). After Pinduoduo started its 10 billion subsidy campaign in 2019, the huge subsidy expenses even accounted for the majority of marketing expenses. From the ratio of Pinduoduo's marketing expenses to operating profit from 2017 to 2019, it can be seen that marketing expenses accounted for more than half of the profit, and the ratio continued to rise. By 2019, due to the 10 billion subsidy campaign, it reached 88.77%, which means that almost all of the company's profits were spent on marketing. This is the most important reason for continuous losses. In addition, as an e-commerce retail platform, Pinduoduo has never had its own payment system, so it must pay a significant fee to a third-party payment platform (Zhao, 2021). Data shows that the proportion of transaction fees paid by Pinduoduo to third-party payment platforms in costs is rapidly expanding at a rate of about twice every year. The huge marketing expenses and significant payment platform fees have greatly affected Pinduoduo's profitability (Zheng, 2020).

#### **4.2.2 Weak customer purchasing power**

Pinduoduo, relying on the development and growth of third and fourth tier cities, has entered the market with its affordable characteristics and gained the love of most people. However, due to the relatively low user value, the per capita transaction volume of Pinduoduo has always been lower than that of Alibaba. The per capita consumption expenses of Alibaba, JD.com, and Pinduoduo are 9267 yuan, 5760 yuan, and 1720 yuan, respectively. The average consumption expenses of Pinduoduo buyers are only 33% of Alibaba, 20% of JD (Zhou&Cao, 2017). The overall purchasing power of the consumer group is weak. Pinduoduo mainly focuses on female consumers aged 30-50 in lower tier cities, who have limited potential for future income growth and limited purchasing potential. When the traffic dividend gradually increases and reaches its peak, if the economic value of users is not increased, the development of Pinduoduo will be severely limited. With the correction of the phenomenon of selling fake goods and high imitation brands on the Pinduoduo platform, Pinduoduo can only offer high customer prices, and the selling point of "low price" is gradually becoming less obvious. Pinduoduo's advantages will definitely be greatly weakened (Chen, 2021).

#### **4.2.3 Pinduoduo Company has a single profit channel**

Since giving up self operating income in 2017, Pinduoduo's main sources of profit have been advertising revenue and transaction commission income. Among



them, advertising revenue accounts for nearly 90%, making it the top earner (He,&Jiang, 2023). Compared to the two major e-commerce platforms, Alibaba and JD, Pinduoduo has a unique logistics revenue and product self operation revenue, with a relatively balanced income structure. Alibaba was the first to occupy the e-commerce market and has a solid consumer base. In comparison, Pinduoduo's revenue source appears to be relatively single and overly dependent on advertising revenue (Chen,&Liu, 2021).

### **4.3 Suggestions for the profit model of social e-commerce**

Through the analysis of Pinduoduo's profitability, it can be seen that the main reason for not making a profit is due to the slow growth of advertising revenue. Despite the increase in total operating revenue, the year-on-year growth rate of operating revenue has decreased too quickly, and market expenses have skyrocketed in the cost expense profit margin, resulting in the inability to cover profits. If Pinduoduo can further control market costs and reduce other market expenses, it can further improve the problem of net profit loss. Hepinduoduo should reduce market expenses, such as higher transaction fees for third-party payment systems, and independent payment systems can reduce marketing expenses. Secondly, the core of Pinduoduo's profitability lies in whether customer needs can be met. At present, Pinduoduo Company focuses on the two characteristics of weak product technology and low price in terms of customer purchasing power. Due to the low door railing of these two characteristics, it can be imitated by most industries, and the product quality is poor. If the feature does not have uniqueness, users can be satisfied everywhere. It cannot be called meeting customer needs. Therefore, in terms of customer purchasing power, Pinduoduo should further consider how to meet user needs and optimize profit points. Thirdly, Pinduoduo's income structure is imbalanced, with flat profit sources and strong dependence on advertising revenue. In terms of profit channels, Pinduoduo focuses more on attracting customers through the interactivity of online strategies from an operational perspective. Only considering online construction, lacking comprehensiveness. The most stable relationship can be established through three points, namely online, offline, and delivery (Wu, 2021). By learning from JD and adding other value-added services, Alibaba can also become an effective way to broaden profit channels.

## **5. Recommendation and Conclusion**

This chapter first analyzes the current situation of the profit sources of social e-commerce Pinduoduo, and finds that the profit sources of community e-commerce Pinduoduo mainly rely on three methods: online marketing revenue, transaction revenue, and product sales. The revenue source is single, and the profit rate is slow. Then the paper analyzes the problems of Pinduoduo's profit model and proposes optimization measures for the existing profit model of the enterprise. Social e-commerce has become a new trend in the development of e-commerce. Social e-commerce and traditional e-commerce mainly rely on different ways of acquiring customers, and there is no essential difference in profit models. As an e-commerce sales platform, they mainly rely on advertising and commission service fees to form profit sources. Whether traditional e-commerce or social e-commerce enterprises, they should actively explore more diverse profit source channels to provide a foundation for their further development and growth.

The paper first analyzes the current situation of the profit model of social e-commerce Pinduoduo through SWOT analysis, identifies the problems in the profit model, and puts forward effective suggestions for the profit model of social e-commerce in this chapter.

### **5.1 Reasonable control of marketing expenses**

Pinduoduo, after experiencing rapid development in the previous stage, should appropriately transform its promotional form, increase research and development expenses, increase investment in technology development, improve the value creation ability of products, research and create cost-effective promotional activities, reasonably control marketing expenses, and reduce the financial burden of the company. When investing in advertising expenses, Pinduoduo should rationally evaluate the return on investment and monetization ability, and reduce unnecessary marketing expenses. In addition, it is urgent for Pinduoduo to develop its own payment system as soon as possible and reduce the expenses of third-party payment platforms.

### **5.2 Meeting user needs and optimizing profit points**

The average national income level in China is still at a low level, and disposable income is still slightly insufficient. It is particularly important to accurately provide

customers with high-quality and affordable goods that meet their expectations. Therefore, this paper suggests improving from the following two aspects.

(1) Developing significant data and discovering user needs. Pinduoduo can timely understand consumer needs through cloud technology. Determine and design consumer preferred products based on different purchasing power and preferences, customize and push the products that users want, and guide users to consume.

(2) Improve customer satisfaction. According to user feedback, whether in after-sales or pre-sales, Pinduoduo's customer service is always very untimely. This goes against the efficiency and convenience that users desire. Therefore, Pinduoduo should increase the training of customer service personnel and integrate services throughout pre-sales, during sales, and after-sales. Especially during the return communication process, it is inevitable that the customer's emotions may be somewhat irrational. If a well trained customer service representative can come up with a good solution and communicate quickly with them, it will greatly soothe the user's bad emotions. At this point, users will receive psychological satisfaction, improve satisfaction, and be more willing to retain, optimizing profit points.

### **5.3 Expanding Enterprise Profit Channels and Enriching Profit Sources**

Firstly, Pinduoduo can appropriately increase the entry cost of merchants and increase the income of Pinduoduo's entry fees. The current policy of Pinduoduo implements a zero entry threshold, which is much looser than Alibaba and JD. On the basis of attracting relatively considerable users, appropriately charging fees to merchants who enter can become another important source of income. Secondly, Pinduoduo can learn from Alibaba's experience of slowing down its online growth rate and starting to develop offline markets. It also implements a combination of online and offline platforms to gain a wider customer base, increase product sales, establish a comprehensive e-commerce platform that combines network and physical platforms, and expand profit channels.

### **5.4 Improving core competitiveness**

Core competitiveness is crucial for the sustainable development of an enterprise, as it allows the enterprise to maintain a competitive advantage and have better resource allocation. Pinduoduo should make full use of its low-priced popular

products and social group mode to quickly increase the influence of Pinxiaoquan, further enhance its social functions, make itself a source of traffic, gradually reduce its dependence on WeChat traffic, reduce the threat of fatal attacks if WeChat blocks its traffic, consolidate its market share in the fresh agricultural products market, and build a complete and mature Pinxiaoquan factory as soon as possible, Establish a minimalist supply chain that connects directly from the supply end to the consumer end, attract more consumer groups, and compete for more competitive market share. Learn from Alibaba and JD to gradually establish a comprehensive social ecosystem model that is unique to oneself, in order to maintain and consolidate market position, establish a solid profit barrier, and strengthen core competitiveness.

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