

The Impact of the Digital Economy on E-Commerce Development

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Abstract

The establishment of Taobao in 2003, to Pinduoduo in 2015, shows the rapid development of the digital economy and people's increased needs. Taobao was launched as a C2C (consumer-to-consumer) marketplace, a website for the whole world. Both overseas and Chinese users can buy directly from this site. In just two years it has taken over most of the Chinese market and with it has reduced economic poverty in other parts of China. The initial success of Taobao laid the foundations for e-commerce in China, with the British magazine *The Economist* calling it "China's biggest online bazaar". Since then, many e-commerce companies have tried to replicate Taobao's success, but unfortunately many have failed, but Pinduoduo has managed to rival Taobao. The biggest advantage of C2B (consumer to business) is that it eliminates many intermediate steps and maximizes benefits. This means that Pinduoduo uses a collocation model to gather a large number of users, who then work together to place orders with the company at a group price, which greatly reduces the cost of sales.

Keywords: e-commerce, Taobao, Pinduoduo, digital economy, C2C (consumer to consumer), C2B (consumer to business)

1. Introduction

With the development of the times and the increasing influence of the digital economy market, e-commerce is becoming more and more developed. Chinese e-commerce has also risen to prominence, with some of the more successful ones being Taobao, Pinduoduo, and others. Many e-commerce companies have developed various models, such as Taobao's consumer-to-consumer (C2C) model, and Pinduoduo's consumer-to-business (C2B) model. Then, what is

the difference between C2C and C2B? The full name of C2C is consumer to consumer. The website acts as a platform on which sellers post their products and consumers can buy them directly (B2B, B2C, C2C, and C2B business models: What's the difference? 2020). The most successful of these is Taobao, established by Jack Ma, which will be analyzed in detail in Part 2. Consumer-to-business is known as C2B, which is a consumer-to-business model of operation. Businesses profit from the price that consumers

are willing to name themselves, while consumers profit from the flexibility of the service. In addition, the website becomes a collaborative platform (What is a C2B business model?). This allows for a more accurate understanding of consumer needs and thus a more efficient service and more accurate marketing model. Companies can also save money by better understanding their customers' ideal prices. Consumers can also purchase the products they need at a lower price. Unlike C2C, the C2B business model is not as widespread. In the third section, the reasons why C2B is not popular, and its disadvantages will be analyzed through the example of Pinduoduo.

2. Taobao's Business Model and the Challenges It Faces

2.1 Analysis of the General Internet Environment

Taobao was originally established as a consumer-to-consumer website by Jack Ma in 2003. At that time, online shopping had not yet started in China. This was a side reflection that consumers did not have a good understanding of how to shop online. In addition, the majority of people with spending power at that time were those born in 1970. It was difficult for consumers to accept and try new things quickly at that time. Therefore, online shopping was not given a lot of recognition. There were always difficulties to be solved, so Taobao introduced free entry for merchants for three years, attracting many small and medium-sized businesses. As this strategy pushed Taobao to its first successful step, it was announced in 2015 that Taobao would continue to be free for another three years.

2.2 Analysis of the Sales Model

With the development of the digital age, more and more people are using the Internet. And instead of sticking to a single website for sales, merchants have started using media traffic-live streaming to market their goods. According to research data, the adoption of live-streaming strategies has increased online sales by 21.8% (Liu, 2022). This illustrates that strategies with live streaming in e-commerce can enhance the connection between online product sales and increased profits.

Firstly, figure 1 clearly shows that in 2018, online sales were approximately double that of offline sales, but by 2021, online sales had grown spectacularly, reaching 12,012 million yuan, and

although offline sales were also growing, the growth was much less than online. From 2,572 million yuan at the beginning, it only grew to 3,368 million yuan, a difference of 3.5 percentage points compared to online sales in the same period. This reflects the rapid development of the digital internet and the fact that people are receptive to new things. From an economic point of view, the live streaming of goods has reduced the intermediate links, so the price will become the most competitive, which makes it possible to reduce the cost of the channel, so that consumers can buy the goods they need at a lower price, and this advantage will greatly attract people to buy. At the same time, the brand side can also play a lower price brand awareness.

Live selling will also be a factor in promoting economic development. In China, there is a large gap between the rich and the poor in many cities due to population distribution and regional differences. It would then be possible to sell these agricultural products with the help of Taobao's live-streaming platform. This allows consumers who are not in the same geographical area to see these products, and consumers can purchase specialties from different places without having to leave home. Secondly, the retailer saves on third-party transportation costs, which also greatly reduces the rate of damage to the goods.

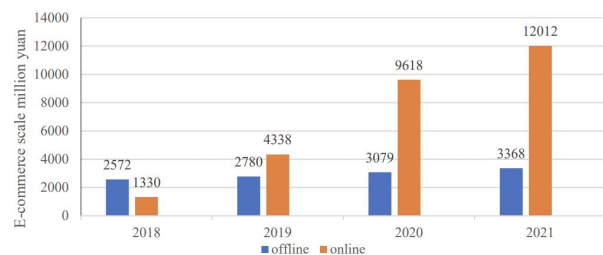


Figure 1. Comparison of the scale of online and offline consumption from 2018 to 2021. (Liu, 2022)

Secondly, Taobao is not limited to selling goods live, it has launched the "Double Eleven Shopping Festival". Since 2016, Taobao's sales have reached 100 billion yuan, or US\$15 billion. As of last year, it even peaked at 268 billion yuan (US\$40.2 billion) in 24 hours. And this year's total sales are nearly double last year's, at US\$74 billion (China's double 11 shopping festival tests consumption strength 2021). These figures are a clear indication that the

overall economy is continuing to grow thanks to e-commerce. Moreover, the sales performance in 2022 is not only unaffected by the epidemic but is on a continuous rise. Digitalization is undoubtedly an indispensable trend that will continue to play a huge role in the retail sector.

2.3 Your Own Way of Paying

When shopping on a website, the biggest concern for consumers is in case the payment is not shipped. This can be a key factor in a failed transaction for both parties. Therefore, Taobao created the first payment method of its own: Alipay. When a consumer needs to buy a product, he only needs to place an order and pay only with Alipay. Alipay is then a third-party managed payment platform and the money is only credited to the seller's account once the buyer has confirmed receipt of the goods. If the seller is late in delivering the goods and the buyer is entitled to a refund, then Alipay will reimburse the money to the buyer. Such a transaction greatly increases the trust between the two parties and in this way can increase the efficiency of the transaction.

3. Pinduoduo's Business Model and Its Rise to Prominence

3.1 Pinduoduo's Sales Model and the Development of Its Advantages

Founded in 2015, Pinduoduo is a C2C business model platform that offers the lowest pricing and encourages users to buy goods on the platform at cheaper prices in a group buying model. At the same time, it breaks the dominance of Alibaba and Jingdong (Pinduoduo to launch international e-commerce platform next month—source 2022). Unlike Taobao's enterprise presence, Pinduoduo is primarily aimed at the downstream market. (Pinduoduo stock: Overlooked social e-commerce disruptor (PDD) 2022) shows that the lower tier and remote areas of China account for 70% of the total population of 1.4 billion. This better illustrates that consumers in these areas are not reaching the target market for e-commerce in an era when the mathematical internet has not been developed. The development of Pinduoduo therefore better connects them to the internet and enables lower and middle-class consumers to increase their disposable income. As Pinduoduo is a platform that connects sellers directly to buyers, this light capital structure will significantly reduce

capital expenditure. Price = production cost + production profit + logistics and transport costs, while the Pinduoduo sales model eliminates the transport costs of intermediaries, and thus profits rise. It will also reduce costs in terms of shipping, draws, and other aspects, allowing customers to purchase products at a satisfactory price. In addition, Pinduoduo has created a 'chop-a-dub' benefit model where you can invite your friends to 'chop-a-dub' and receive the corresponding prize for free after reaching a certain number. This has greatly increased Pinduoduo's customer base.

3.2 Risks and Their Disadvantages

The C2C business model, on the other hand, is not common. Such a business model assumes no responsibility for any logistics, sub-warehouses, etc. on the platform, making it much riskier on other hand. As the mainstream users are buyers in the sunken market, then the volume of transactions is also not necessarily guaranteed, plus Pinduoduo's pricing is lower than Taobao's at the same time, so it is difficult to maximize profit returns without the guarantee of customer volume. Secondly, luxury goods do not fit into Pinduoduo's market positioning objectives, then Pinduoduo will lose most of the users who buy luxury brands due to the lack of depth. Thirdly, Pinduoduo focuses on low-price purchases, but the platform does not guarantee the quality of the goods. It is a reasonable assumption that if you buy low-quality or damaged goods, then the platform will lose the customer. Moreover, every shopping platform displays reviews, and when a user fails to post a bad review on it, the seller loses an incalculable number of potential purchasers. In addition, to the above note, Pinduoduo has developed a benefits model of inviting friends for prizes. However, if the invitee does not like this model, then there is a certain reduction in the number of potential target customers.

3.3 Summary

However, Pinduoduo has many shortcomings, and its business model can be easily replicated, but its founders have achieved a total turnover of 100 billion RMB in just over 2 years, compared to Taobao's 5 years. This shows that Pinduoduo has a precise analysis of its market positioning and has found the best market entry point to successfully achieve economic growth. This year Pinduoduo

launched its marketplace in the US (Kharpal, 2022), which was also a huge challenge.

4. A Comparison of Two E-Commerce Models

Pinduoduo, it focuses on a C2B business model. This model is much more favorable for the Downtown market, where the core of C2B is to form a large shopping group with retail customers. Because not everyone will buy thousands of items at once. So, these users are brought together on a platform to buy goods at a group price or at a lower price. It is a win-win situation for both the platform and the buyer. For the seller, the seller has the right to refuse the customer's order. And the purchaser can re-initiate the order at a new price, which is free for both buyer and seller and there is no bundled sale. In addition, it does not simply implement a C2B model, but integrates social into the platform, giving a new mode of experience to a wider range of users.

Taobao, it started off with a C2C business model. One of the big factors that allowed it to grow successfully was consumer service. As you can see from the free shop opening, Taobao saved consumers' costs and thus quickly enlisted people. It thus laid the foundation for subsequent expansion. As it expanded, it also began to implement a B2C model, bringing businesses onto the platform. In this way, businesses and Taobao can create awareness of each other and attract more consumers to come and buy goods. Working with businesses can reduce Taobao's promotional costs.

5. Summary

In conclusion, both Taobao's initial C2C to later B2C business models and Pinduoduo's C2C model has brought growth to the economy. Taobao has had a greater impact on driving the digital economy. Whether it's the entire supply chain management to the promotional programs for events, Taobao's turnover is very impressive. It effectively brings together small and medium-sized businesses and the platform to achieve an almost win-win situation from consumers to merchants. In terms of payments, Taobao has also created its payment platform, which is an added protection for consumers. This has thus established the integrity of online transactions. Although Pinduoduo's business model is not popular, the fact that it has managed

to take the company public in a short time in this fast-moving era of the digital economy shows that its founders also have a lot to offer. Although it is mainly aimed at the lower market, Pinduoduo's turnover is not to be underestimated. The marketing plan it has launched does carry some risks, but overall, the benefits seem to outweigh the drawbacks. The two business models analyzed in this essay have both brought some benefits to economic growth.

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