

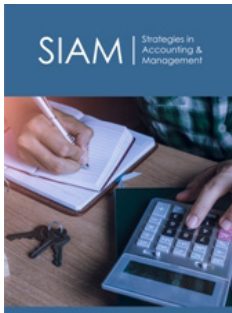
A Note on Disruptive Innovation Model of PDD Case

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Case Report



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Pinduoduo e-commerce platform (NASDAQ: PDD) is a typical latecomer related with disruptive innovation. When Pinduoduo entered China's e-commerce field in 2015, it already had various e-commerce platforms such as Taobao and others, among which Taobao and Jingdong had a market share of more than 90%. Pinduoduo was facing the market competition situation of oligopoly. Second, Pinduoduo is an undisputed disruptor of the market. Pinduoduo adopts distributed AI technology that is different from other e-commerce companies. It starts from the low-end market with the Pinduoduo mode and develops a low-end market of e-commerce with more than 300 million users in just three years by relying on low-cost commodities [1-3]. At present, the market coverage of Pinduoduo has gradually expanded from the early low-end consumer groups to the middle and high-end consumer groups, with the characteristics of disruptive innovation from the non-mainstream market to the mainstream market; Thirdly, the company of Pinduoduo is registered and operated in mainland China, which is convenient for researchers to observe. More importantly, Pinduoduo successfully launched in the US in July 2018, making its public data more accessible to researchers. Finally, in the e-commerce industry, Taobao (for the first time) took 5 years to go public and Jingdong took 10 years. However, only three years, Pinduoduo successfully landed on NASDAQ in the United States with 344 million active buyers and became the third largest e-commerce company in China after Alibaba and Jingdong. Pinduoduo is a successful business case in the digital age, so how to use business theory to analyze this case? We believe that disruptive models of innovation are good.

In this short note, we select the disruptive perspectives-based business models to analyze the case of PDD. Three business models Clayton Christensen proposed: solution shops, value-added process and facilitation network that can be used to explore and analyze the case of PDD, see the PDD disruptive innovation model below:

In the PDD disruptive innovation model above, the solution shops refers to a team of experts hired by the organization to diagnose and resolve decidedly unstructured problems through the destruction process. For Pinduoduo, its rapid development is inseparable from Huang Zheng (Founder and CEO) and the team of technical experts who support it. Prior to the establishment of Pinduoduo, Huang Zheng was a successful serial entrepreneur and worked with Pinduoduo's senior management team for over 10 years. At the same time, Pinduoduo has a young and creative entrepreneurial team. The average age of the workers is 26. Seventy percent of its members graduated from prestigious universities, and most have an educational background in computer science and big data mining. At the same time, the company also has a large number of employees who have been employed by global well-known companies such as Google, Baidu, Alibaba and Tencent, and they have rich experience in e-commerce and social networking industry. Therefore, PDD has the technical advantage of a team of experts to help PDD consult and provide a differentiated and disruptive path for achieving success through disruptive innovation (Figure 1).

The value-added processes (VAP) measures an enterprise's ability to add value to customers and suppliers, thereby generating revenue streams. PDD's first value-added stream is its customers. Pinduoduo translates as "buy together", alluding to the platform's unique discount

points for group buying. Users use WeChat scans to persuade their friends to join them in the purchase. This model, while lowering prices for consumers, creates a large number of orders, enhancing economies of scale and increasing profits for retailers. Users become unofficial recruiters on the platform, which makes Pinduoduo's cost per user acquisition lower than its rivals. The second value-added stream is PDD vendors. The "social + e-commerce" mode maximizes unnecessary and abnormal operating costs with the

internal subversive innovation logic of "providing lower prices and better products", which not only increases consumers' satisfied shopping experience, but also increases the income of small and medium-sized enterprises (farmers). Based on this new model, Pinduoduo supports merchants by providing consumer insight, research and development advice and preferences to help them customize products for their target customers [3-6].

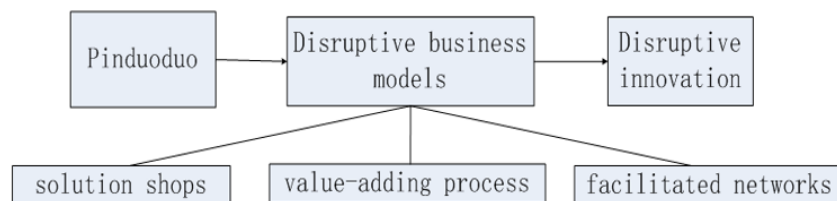


Figure 1.

The facilitated networks highlight the importance of social networks for disruptive innovation. Pinduoduo is more than just a digital shopping platform, it's actually a social e-commerce app that uses a "group buying" model and uses social sharing on Chinese social networks. By successfully integrating social features into its business model, Pinduoduo is revolutionizing the traditional solo online shopping experience, which it calls a "team buying" model. App users can unlock heavily discounted products by inviting friends and family to form shopping groups. Pinduoduo also offers other incentives, such as red envelopes, coupons, lucky draws and free products for inviting contacts. Pinduoduo's business model is also aimed at the low-end market, which is a huge user group. With low price and team purchase as the main features, the user focus and retention are achieved with the help of WeChat interaction. In general, this note uses Christensen's three business model theories to analyze the case of PDD that helps us better understand the entrepreneurial process, which leads to the disruptive innovation in the e-commerce industry. We found that by creating a solution store (supporting teams of experts), a value-added process (discounted pricing), and enhancing the convenience network

(social commerce), the model of disruptive innovation, PDD model has been impacted among second - and third-tier urban and rural customers, thus disrupting the status quo of e-commerce.

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