

Research on brand differentiation strategies that can be implemented for e-commerce transformation - Using PDD as a case study

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Abstract:

In order to promote the transformation of China's e-commerce industry, this study proposes a feasible strategy for brand differentiation based on the current status of China's e-commerce, which is transitioning from high-speed growth to high-quality development. Under the guidance of a brand differentiation strategy, a brand differentiation strategy design system is constructed through case summaries and development analysis of PDD. Based on the theory of brand differentiation, this enables PDD to emerge as a leading company in a saturated and competitive market. When the market is highly homogenized, showcasing unique brand characteristics and differentiated features is the key to success. Through the theory of brand differentiation, combined with PDD's brand development journey and differentiation strategy, we can identify the unique characteristics of the brand. This provides innovative ideas and serves as a reference for the transformation of China's e-commerce.

Keywords: brand differentiation, brand strategy, e-commerce transformation, PDD

1. Introduction

Against the backdrop of Internet technology and the rapid development of the global economy, China's e-commerce industry experienced rapid growth from the early 2000s to 2010, reaching a mature stage and becoming an integral part of China's trade. Since the explosive growth of the e-commerce industry has tapered off, the 2021 "14th Five-Year Plan" for e-commerce development in China indicates a shift from high growth to high-quality development. The main focus now is for e-commerce enterprises to seek breakthroughs and achieve high-quality development. Taobao, as the market leader, is constantly seeking new ideas and strategies to capitalize on the initial opportunity. However, as the market volume and scale continue to expand, it is approaching saturation in terms of capacity. Unlike Taobao, PDD, which was established in 2015, capitalized on the opportunity and gradually gained prominence in 2019. It steadily captured the downstream market, strengthened brand building, and employed brand differentiation strategies to achieve "reverse high-end." In such a competitive e-commerce market, taking a "differentiated, personalized" approach is key to successful development.

2. Literature Review

Since 2016, the e-commerce industry has experienced a significant boom. However, e-commerce business growth has gradually leveled off, shifting from high

growth rates to a focus on high-quality development. As a result, the pursuit of a breakthrough has become the primary concern for various e-commerce enterprises in the current development of the e-commerce sector. From the perspective of brand differentiation, it is undoubtedly essential for the transformation of e-commerce. The term "differentiation strategy" refers to the approach taken by an enterprise in the production and operation process to create distinct differences between its products or services and those of its competitors, thereby establishing a unique and distinctive personality and strategy[2]. This paper mainly focuses on the transformation of China's e-commerce enterprises, using PDD as an example to illustrate how e-commerce advantages can be leveraged for differentiation. It proposes feasible strategies for the transformation of China's e-commerce enterprises, providing a theoretical reference for subsequent transformations in the industry.

In recent years, both domestic and foreign scholars have conducted fruitful research in the field of differentiation strategies. For example, in 2019, Nebojsa S. Davcik, in "Impact of Product Differentiation, Marketing Investments, and Brand Equity on Pricing Strategies: a Brand Level Investigation," demonstrated that brand equity and new product development for differentiation have an impact on firms' marketing performance and are also positively correlated with premium prices. This viewpoint offers a new perspective that helps us better understand the nature of differentiation strategy.

In addition, numerous foreign scholars have conducted comprehensive studies on differentiation strategy, and their research results offer valuable insights and inspiration.

Upon analyzing these research findings, we discover that despite the progress in implementing a differentiation strategy, there are still numerous issues and challenges. In order to promote the transformation of China's e-commerce, the first step is to enhance brand influence. This involves fundamental improvement in product quality, as well as differentiation in quality, which is also crucial. Furthermore, based on the varying behavioral differences among consumers, adjust the product positioning to target specific consumer segments. After thoroughly integrating the product's unique advantages and positioning, the goal is to leverage the brand's influence, reinforce the inherent brand advantage, and establish a distinctive brand to enhance the external image of the enterprise and create a lasting brand effect. Using PDD as a case study, we analyze and examine its brand differentiation strategy based on the company's development history and marketing methods. This analysis illustrates the impact of brand differentiation on the competitive e-commerce market, highlighting the benefits and concluding that brand differentiation is a valuable method for e-commerce transformation.

3. Case Studies

3.1 Introduction to Poundland

Founded in April 2015, PDD was established during the mobile era. It initially operated as a retail platform for agricultural products, delving deeply into the agricultural sector and pioneering a new model for retailing agricultural products, which became a hallmark of PDD. Over time, it evolved into a comprehensive e-commerce platform encompassing all product categories, with a unique focus on agricultural and sideline products. PDD is a purely mobile e-commerce platform that has achieved significant scale globally. As of June 2021, PDD had 849.9 million annual active users and 8.6 million merchants, establishing itself as the e-commerce platform with the largest user base in mainland China. In 2022, PDD's total revenue was 130,557.6 million yuan (about 18,929.1 million U.S. dollars), an increase of 39% compared with 93,949.9 million yuan in 2021. This indicates significant potential for the company's development and profitability. In July 2023, PDD was listed as the 107th company in the 2023 Fortune China Top 500 Listed Companies list. In the same industry, the number of users, merchants, and sales are among the highest in domestic e-commerce.

3.2 Analysis of the advantages and disadvantages of Poundland's development environment

From the perspective of the entire e-commerce industry, it is currently in the saturation stage and is undergoing a transition from rapid growth to a focus on high-quality development. The e-commerce platform operates Taobao, JD, Tmall, and others, leading to intense market competition. At the same time, each e-commerce platform has its own advantages, but now, the shops on these platforms are increasingly similar, leading to a noticeable phenomenon of product homogenization. Correspondingly, when an enterprise is trapped in the homogeneity of competition, consumers' strong intention to enhance personalized demand and enterprise brand building puts forward a higher demand. The enterprise's brand building has thus put forward a higher demand[1]. When PDD was founded, China's e-commerce infrastructure in all segments was already mature, allowing the company to access a full range of adequate supply. This is PDD's advantage. For a new company, this type of development environment has both advantages and disadvantages. In a mature industry environment, the space for enterprise development will be limited. Many large enterprises have already developed and grown, making it challenging for new entrants to carve out a share of the market. Furthermore, currently, major Internet e-commerce companies such as BABA and JD have made significant strides in big models, big data, and other technological advancements in the e-commerce industry over many years. Their established roots make it difficult for a young enterprise like PDD to compare. Therefore, in order for PDD to lead the industry, it must seek new opportunities to establish a distinct brand image separate from the larger enterprises, leveraging its youthful advantages and creating its own brand differentiation. The brand's unique differentiation. As Huang Zheng, the founder of PDD, once said, "Our team may be 20 years behind Ali's team, but I believe we have the opportunity to create a new form of traffic distribution, new forms of user interaction, and new internationalization that will set us apart from Ali." [3]

3.3 Analysis of Poundland's strategy for brand differentiation

3.3.1 Develop a brand identity with a focus on promoting the digitization of agriculture

PDD chose to initially focus on an agricultural products retail platform, influenced by the industry environment and other factors at the beginning of the enterprise. This decision led to the creation of a new model of agricultural

products retailing featuring PDD, which gradually evolved into a comprehensive e-commerce platform encompassing all categories, with a focus on distinctive agricultural and sideline products. In August 2021, PDD announced the establishment of the “10 billion agricultural research” project, which delves deeper into the agricultural supply and industrial side. In August 2021, PDD announced the launch of the “10 Billion Agricultural Research” project, which delves into agriculture, examines the supply and industrial aspects of agricultural products, and aims to facilitate the transformation and advancement of the rural industry through scientific and technological research and development. The company also continues to drive the widespread adoption of agricultural science and technology. To date, PDD remains committed to supporting the digitalization of agriculture.

PDD has made significant efforts in developing agriculture, and as a result, many users initially associate the platform with group purchases of fruits, rice, and other agricultural products. This association also aligns with the brand name “PDD.” In recent years, PDD has expanded into the agricultural industry chain. Through the “farmland Yunpu + origin direct dispatch” operation mode, it facilitates the connection of production and marketing with users’ purchasing and origin direct dispatch. This

approach reduces intermediate operation costs and, simultaneously, employs the “Cloud Puzzle” method to offer users a lower price equivalent to the wholesale price, providing them with greater peace of mind. By adopting the “Cloud Piecing” method, we can simultaneously offer users more secure goods at a lower price, equivalent to wholesale prices.

The reason PDD chose to focus on agriculture is that it remains the cornerstone of our country, impacting the food and clothing needs of billions of people and the employment of hundreds of millions of farmers. Although the overall employment in the primary industry continues to decrease, it still accounts for more than 20 percent, a significant figure that cannot be ignored. By focusing on agriculture, PDD can rapidly amass a large number of user resources at a low cost in the early stages and expand its brand influence. Especially during the COVID-19 outbreak, people have increasingly turned to e-commerce to purchase agricultural products, which has also contributed to the growth of PDD’s user base. In the long term, PDD’s focus on digital agricultural development has become integrated into the brand image, leading users to prioritize PDD when purchasing agricultural products online.



Figure 1 Industrial Composition of Employed Persons in the Country 2018-2022

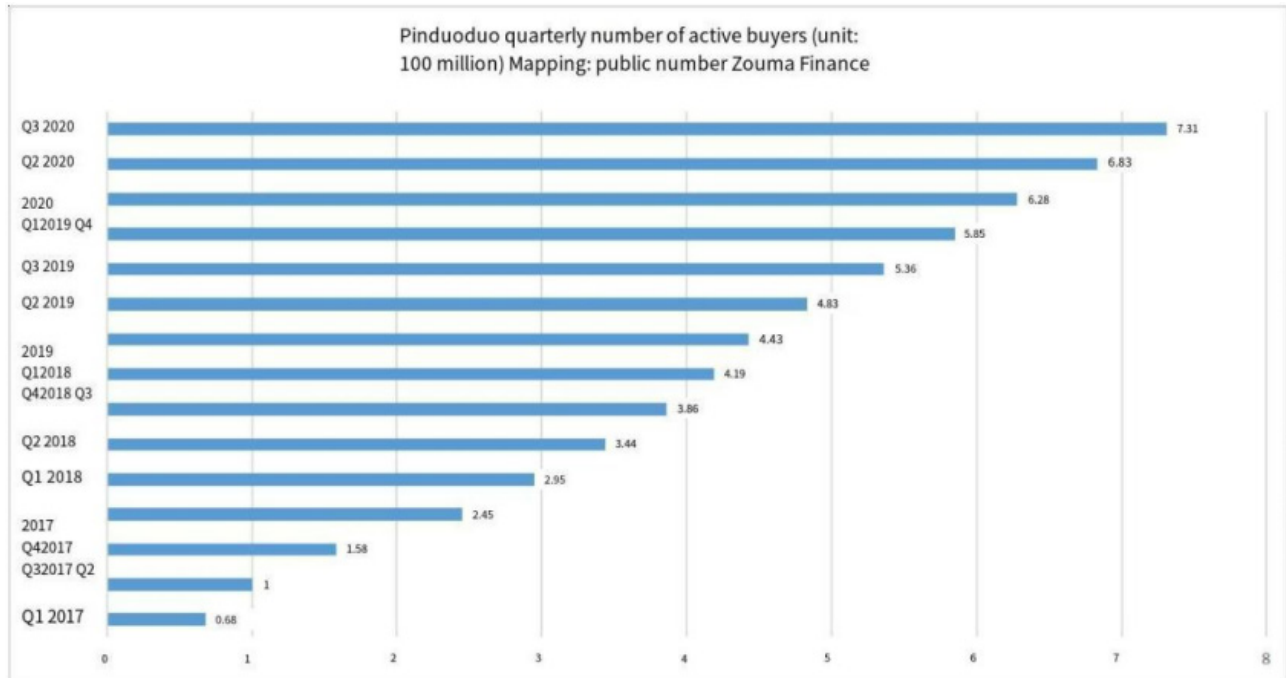


Figure 2 Number of Active Buyers by Quarter, 2017Q1-2020Q3

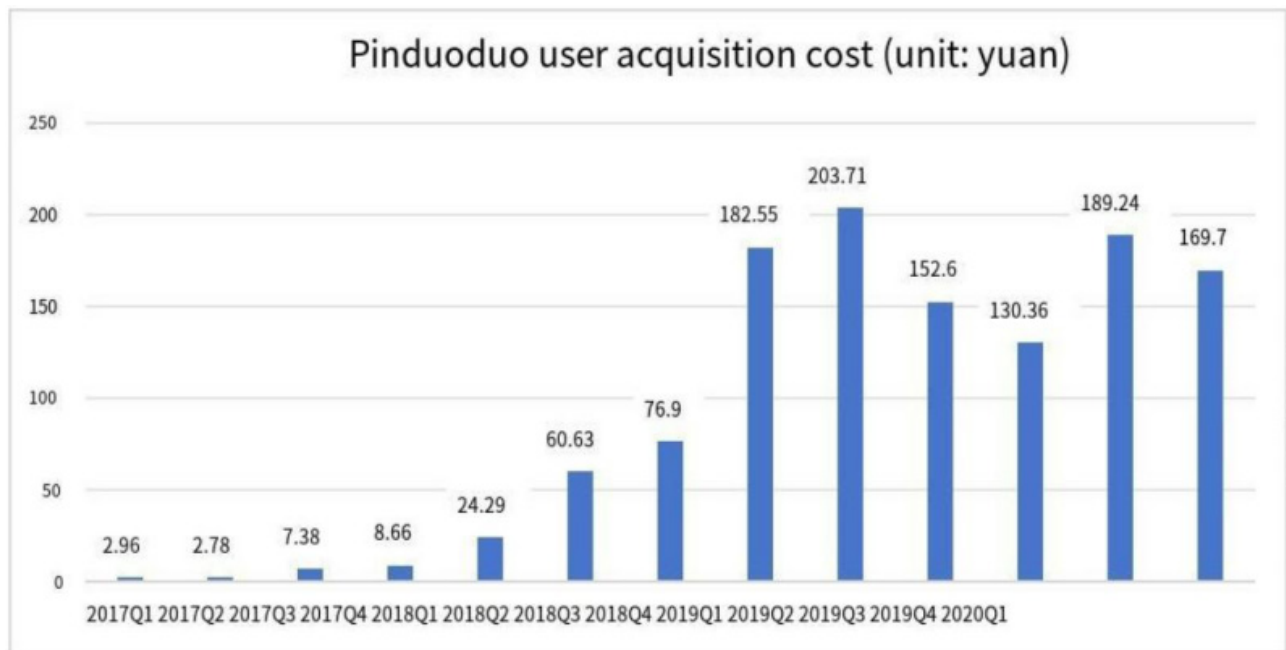


Figure 3 2017Q-2020Q1 Poundland user acquisition costs

3.3.2 Seize the declining market with “low price” signboards

PDD initially focused on the agricultural sector, beginning with group purchases of fruits, rice, and other agricultural products. This strategy enabled the company to rapidly attract a large customer base in the early stages. The development of agricultural policies is advanced, but the level of online penetration for agricultural products and

other e-commerce is low. There is vast potential for future market development, as agricultural products are typically high-frequency, low-consumption items, which can help enhance user stickiness and improve user activity. Driven by this strategy, PDD has attracted a user base that aligns with its main approach of high volume and affordability. PDD’s advertising slogan, “buy with a group, cheaper,” also reflects the brand’s emphasis on group buying

and low prices, setting it apart from other e-commerce platforms. This positioning provides a foundation for PDD to transition into a comprehensive e-commerce platform for further growth. The foundation. Due to the aforementioned factors, PDD’s user base is more skewed towards lower-tier cities and middle-aged and elderly users compared to other e-commerce platforms. China’s declining market segments are actually very diverse. JD sees this as an opportunity to quickly attract customers and promote the brand by offering small subsidies, and to capture a significant portion of the non-mainstream internet shopping crowd in the declining market. This strategy not only helps to pull in customers rapidly but also enables the company to successfully occupy a large user base.

Based on this strategy, PDD has introduced the “low-priced explosive + 10 billion subsidies” approach, which still holds significant potential in the domestic market, particularly the “10 billion subsidies”. This initiative, offering substantial subsidies from major brands and ensuring authenticity, has attracted a large number of consumers and successfully captured the attention of young users. The company has not only attracted consumers but also successfully appealed to young users, thereby improving the overall purchasing power of consumers to a certain extent. PDD has rapidly penetrated the market with low acquisition costs and has swiftly expanded its presence from rural areas to urban centers, taking advantage of the lack of information in the consumer market. Over the past 8 years, PDD has prioritized “low prices,” as stated by Huang Zheng: “Consumption upgrade is not about enabling people in Shanghai to live a Parisian lifestyle, but about ensuring that people in Anqing, Anhui Province have access to kitchen paper and quality fruits.”[3]

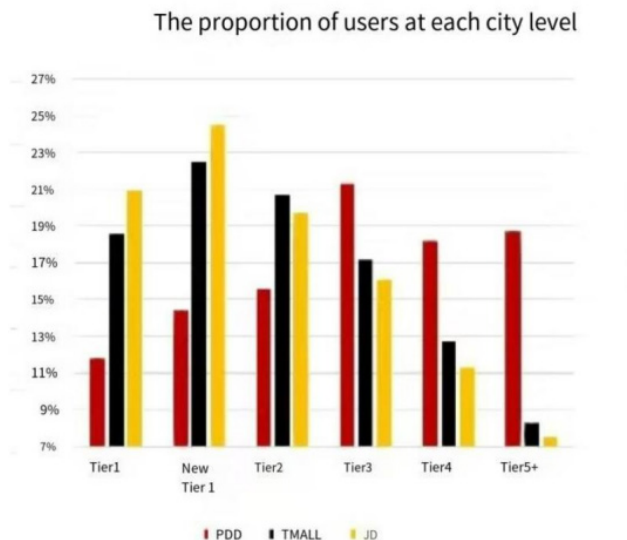


Figure 4 Percentage of Users by City Tier

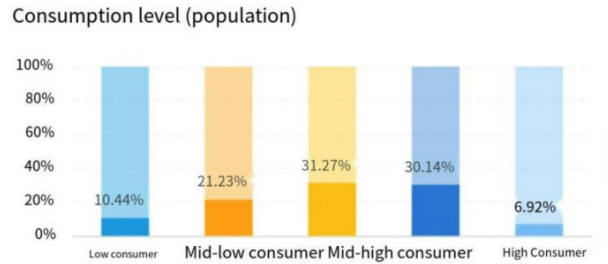


Figure 5 Consumption Levels by Population Groups

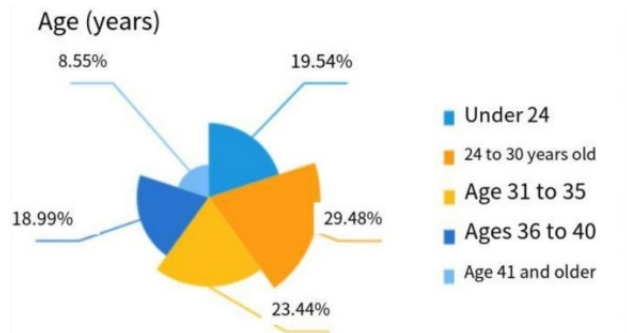


Figure 6 Age Groups of Users

4. Conclusion

This thesis begins by analyzing the e-commerce industry environment during the early stages of PDD’s development. PDD is a young enterprise that started late, and the environment during the early stages of its development shares certain similarities and has reference significance when compared to the current stage of development of other e-commerce enterprises. In the face of fierce competition in the e-commerce industry, PDD’s success is primarily attributed to its precise and differentiated strategy. PDD’s brand differentiation strategy focuses on promoting the digitalization of agriculture, emphasizing low prices, and targeting the underserved market. This successful case provides valuable lessons for SMEs to learn from and replicate. By identifying and developing the brand’s unique characteristics within the industry, businesses can uncover untapped opportunities, attract diverse target user groups, and expand their market presence. If you aim to thrive in the competitive e-commerce industry, it is essential to assess your strengths and weaknesses and tailor a brand differentiation strategy to your specific circumstances. This approach will enable you to stand out in the industry.

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