[**https://productmint.com/pinduoduo-business-model-how-does-pinduoduo-make-money/**](https://productmint.com/pinduoduo-business-model-how-does-pinduoduo-make-money/)

# The Pinduoduo Business Model – How Does Pinduoduo Make Money?

Last Updated on November 10, 2021 by [Viktor](https://productmint.com/pinduoduo-business-model-how-does-pinduoduo-make-money/)

**Executive Summary:**

Pinduoduo (拼多多) is an online marketplace that allows users to purchase goods directly from manufacturers through group buying. Pinduoduo makes money from online marketing services, transaction services, as well as merchandise sales. The company operates on a marketplace business model.

Founded in 2015, Pinduoduo has grown to become China’s largest marketplace (measured by active buyers). It went public in 2018.

## **What Is Pinduoduo?**

Pinduoduo, which can be roughly translated to “Together, More Savings, More Fun.”, is an [online marketplace](https://productmint.com/the-marketplace-business-model-a-complete-guide/) that promotes group buying.

In a traditional marketplace setting, customers make individual purchases from sellers on the platform (or, in some cases like Amazon, buying directly from the marketplace).

The sellers on the marketplace, in turn, source the goods from manufacturers across the globe. Consequently, manufacturers only sell their products to sellers in bulk in order to turn a profit.

On top of that, sellers often have to invest heavily in advertising and logistics – costs they ultimately pass on to consumers.

Pinduoduo turns that concept on its head by allowing the customer to purchase directly from manufacturers. Merchants on the platform set two prices, namely for individual as well as for team purchases.

A team needs to be formed within a 24-hour timeframe and contain a set number of buyers willing to pay the price set by the manufacturer.

Users can shop from a variety of categories, which not only include things like clothing or electronics but also groceries (in particular fruits).

Lastly, Pinduoduo also incorporates games into its app experience. Users can play a game called Duo Duo Orchard, which requires them to plant and nurture a virtual tree with droplets that they earn from using the app.

Pinduoduo is solely available on mobile devices and can be used on any smartphone that supports Android or iOS.

## **How Pinduoduo Started: Company History**

Pinduoduo, headquartered in Shanghai, China, was founded in 2015 by Colin Huang as well as Chen Lei.

Huang was born in 1980 to factory worker parents on the outskirts of Hangzhou, a city in China’s eastern province of Zhejiang (where its fiercest competitor Alibaba is also based).

He was also considered to be a star student, winning Mathematics Olympiad competition medals, which eventually got him into the highly selective Hangzhou Foreign Language School (HFLS).

Huang went on to study Computer Science at the prestigious Zhejiang University where he was selected as a fellow at the Melton Foundation. The foundation selected young students from various emerging regions around the globe. Each fellow was given a computer and internet access so they could explore the web and message other fellows.

This eventually led Huang to intern at Microsoft in both Beijing and its Redmond headquarters. Afterward, he went on to do his master’s at the University of Wisconsin. In 2004, after earning his CS master’s degree, Huang went on to join Google as a software engineer.

At the time, Google was readying a launch in China and tasked Huang to be part of that. Just six months after joining Google, it went public. Huang stayed on for another three years during which he was able to accumulate enough wealth to finally venture out on his own.

The straw that broke the camel’s back and made him decide to leave Google was when he had to fly from Beijing, where he moved to in 2006, to Google’s headquarters to have its founders Larry Page and Sergey Brin sign off in person to change the color and font size of the Chinese letters displayed on search results.

In 2007, he started a consumer electronics site called Oukou, which he managed to exit three years later. That’s also where he ended up meeting Chen Lei who joined Oukou as an architect engineer and followed Huang in the subsequent businesses he would incubate.

Huang’s second company, Leqi, helped foreign brands market their online stores on Chinese eCommerce platforms such as Tmall and JD.com.

He would then go on to start Xunmeng, a gaming studio that created web-based role-playing games. Xunmeng would form the basis for many of the gamification elements that are now present in Pinduoduo’s app experience.

Huang, who was already financially independent at that point, would continue to experiment with other business ideas. In early 2015, he incorporated Pin Hao Huo, the de-facto predecessor of Pinduoduo.

On Pin Hao Huo, they would primarily sell fruits which they stored in their sole warehouse near Shanghai. In one of their first big planned campaigns, which was aided by an $8 million fundraise in May 2015, they would go on to advertise heavily discounted lychees on WeChat.

Unfortunately, Pin Hao Huo’s systems, due to the influx of orders, broke down. The team struggled to make deliveries and so the lychees turned rancid due to the summer heat, which in turn forced them to refund most orders.

Around the same time that they launched Pin Hao Huo, they also formed another entity to experiment with the concept of group buying: Pinduoduo. Humbled by their failure, they decided to put their focus on Pinduoduo.

In September 2015, they raised a first institutional round of funding worth $8 million. That was followed up by a second massive fundraise in June 2016 during which Pinduoduo raised $110 million from investors like Sequoia Capital China.

Three months later, the company announced that it would merge with Pin Hao Huo, which brought in the latter’s catalog of products (primarily farm produce) onto Pinduoduo’s platform. By the end of 2016, Pinduoduo had already managed to attract more than 100 million users while monthly sales reached around $362 million.

The platform’s rapid success allowed the team to raise another funding round (Series C) of about $213.7 million in February 2017. By the end of the year, Pinduoduo had already surpassed 200 million users – in just two years of being operational.

The growth came, in large parts, because of its close partnership with WeChat creator Tencent (a lead investor in its Series C round). Not only were users able to post Pinduoduo links within the messenger but WeChat actively blocked the insertion of links from competing platforms like Alibaba’s Taobao Marketplace.

On top of that, users would also receive cash or free products if they were able to bring a certain number of new members alongside with them.

Lastly, Pinduoduo also focused on attracting users from China’s [lower-tiered cities](https://en.wikipedia.org/wiki/Chinese_city_tier_system). These users, which were traditionally ignored by the bigger players, were also more price-conscious and, at times, lived in remote areas of the country. With group purchases, it suddenly became economically more sensible for sellers to ship there.

Also, users in these cities also tend to be older and thus less adept at using new technologies. Platforms like Taobao and Tmall were quite complex to navigate while Pinduoduo, vis-a-vis its mobile-first strategy, was more straightforward.

As a result of its astronomic growth, Pinduoduo was able to raise another massive funding round. This time, in April 2018, mostly existing investors poured in another $1.4 billion into the company, valuing it at $15 billion.

However, with increased relevance also came greater scrutiny. Right from the start, Pinduoduo had to battle the distribution and sale of counterfeited products. One method of cracking down on those sellers was to label them in quality ranks A, B, C, and D, in which A is equal to the worst.

In June, 14 store owners protested in front of the company’s headquarters in Shanghai over what they deemed were inappropriate rankings assigned to them. Despite the backlash, Pinduoduo’s growth remained undeterred.

Just weeks after the protest, in July, Pinduoduo went public on the Nasdaq stock exchange at a valuation of $24 billion. The IPO netted the platform another $1.6 billion in extra cash. The IPO came with its own set of problems, though.

Diaper maker Daddy’s Choice filed a complaint with a federal court in New York, stating that Pinduoduo knowingly allowed the sale of knockoff products.

At the time of IPO, Pinduoduo was already the second-largest online marketplace right after Alibaba. As such, it had surpassed well-established competitors like JD.com, which went public before Pinduoduo was even started.

As previously stated, most of these users came from lower-tiered cities. Pinduoduo, in order to establish itself with more affluent users in cities like Beijing and Shanghai, began onboarding international brands onto its platform. Dubbed Duoduo International, the platform would host authentic products from brands like Apple or Nike.

Additionally, Pinduoduo heavily invested in TV commercials and discounts. For instance, iPhones on its platform were often heavily discounted in order to attract tier one and two city customers.

The platform also continued to gripe with the effects of fake products. In April 2019, the United States added Pinduoduo to its notorious markets list, which flags platforms that are known to have a high share of fake products on it.

Four months later, Pinduoduo took an important step in separating itself from Alibaba. When the company first started out, it relied on Alibaba’s logistics network called Cainiao. In August, it migrated all orders on its platform to its own system. Apart from greater transparency and delivery speed, this also added a potentially lucrative line of revenue as Pinduoduo could charge merchants for logistics services.

The firm’s continuous expansion was funded by a debt raise of $1 billion in September. The company also set up outlets in countries like the United States, the United Kingdom, Germany, and Japan to directly cooperate with suppliers based there. Even Amazon, which pulled out of China months prior, decided to set up a store on Pinduoduo. It ended 2019 with close to 500 million users.

At the turn of 2020, Pinduoduo finally embraced the live streaming trend as well after seeing Alibaba and others derive bigger and bigger portions of their revenue from it. Farmers, in particular, benefitted from the solution as they could show prospective customers how their produce was made.

The rivalry between Alibaba and Pinduoduo reached new heights in March when employees of the latter reported that they were blocked from accessing Taobao. To further establish itself and take advantage of increased online activities due to the novel coronavirus, Pinduoduo raised $1.1 billion in a private share placement.

Pinduoduo used portions of that investment to purchase $200 million in convertible bonds issued by home appliance retailer Gome to be able to distribute its branded products on Pinduoduo’s platform.

In July, five years after starting the business, founder Colin Huang stepped down from his position as CEO to become Pinduoduo’s board chairman. His replacement became fellow co-founder Chen Lei who had previously been its CTO.

The company capped the year off by turning another cost center, payments, into a revenue-generating outlet. In December, it launched its own digital wallet called Duoduo Pay to the more than 731 million members on its platform.

2021, however, has certainly been more challenging. In January, two of the firm’s employees died (one by suicide, the other one collapsed). Another one was fired because he posted a photo of the employee being carried away. The deaths reinstated a debate about China’s harsh working requirements, which is exemplified by its [996 culture](https://en.wikipedia.org/wiki/996_working_hour_system).

Then, in March, co-founder Huang stepped from his role as chairman to follow his passion and set up research labs on biotechnology in cooperation with Chinese universities. Days after his departure, Pinduoduo finally surpassed Alibaba in terms of annual buyers with 788 million (compared to Alibaba’s 779 million).

Another by-product of Pinduoduo’s ever-increasing relevance was heightened regulatory scrutiny. As part of China’s crackdown on the tech sector, which saw them blocking the IPO of Jack Ma’s Ant Group amongst others, the Shanghai Consumer Council issued a warning to the company. For instance, Alibaba and Pinduoduo had forced merchants on their platform into exclusivity clauses, which prohibited them from joining competing services.

Despite the regulatory hurdles, Pinduoduo managed to have its first-ever profitable quarter in August 2021. The company remains China’s leading marketplace in terms of users while employing close to 10,000 people.

## **How Does Pinduoduo Make Money?**

Pinduoduo makes money from online marketing services, transaction services, as well as merchandise sales.

The company operates on a marketplace business model. That means it matches buyers with suppliers, which are the merchants on its platform.

It then gets compensated for facilitating those transactions. Much like its Western counterparts, such as Amazon or eBay, it has also transformed its cost centers (e.g., payments) into payment-generating avenues.

Being a highly-frequented marketplace with hundreds of millions of users also allows Pinduoduo to charge the supplier for promoting their goods and services.

Let’s, therefore, take a closer look at each of the firm’s revenue streams in the section below.

### **Online Marketing Services**

The majority of the revenue that Pinduoduo generates comes from online marketing services that enable sellers to bid for keywords that match product listings appearing in search results.

These ads then appear across Pinduoduo’s platform in the form of banners, links, as well as company logos.

The actual placement, as well as the price paid by merchants, is ultimately determined via an online bidding system.

Whoever bids the highest for a certain placement is then granted that slot for a predetermined amount of time.

Promoting a product, given the firm’s extremely low fees (more on that in the next chapter) as well as its high user numbers, can be extremely lucrative for merchants.

Many of the merchants on its platform are the actual manufacturers of the product, which means that they can command higher margins on the product.

On top of that, Pinduoduo also puts greater emphasis on the discovery of new products. For instance, the search bar is hidden at the bottom of its front page, which encourages the customer to browse the feed (and thus aids product discovery).

Therefore, recommended items are placed front and center. Additionally, the firm’s recommendation algorithms learn from a user’s past browsing experience to only show them highly targeted and relevant products.

This, in turn, significantly increases conversion rates on the platform. Having one of the first ad spots is thereby an extremely lucrative spot for merchants.

### **Transaction Services**

Another source of income for Pinduoduo comes from transaction services, which are the commission fees it charges merchants when a purchase is completed.

As of the time of writing, the commission fee stands at 0.6 percent, meaning if a product is sold for $100, a merchant has to pay $0.60.

Pinduoduo’s transaction fees are considerably lower compared to other platforms like JD.com and Taobao, which charge anywhere between 2 to 10 percent per sale.

There are a few key reasons for this. First, the overwhelming majority of transactions on the platform are made via group buying. An auction can sometimes have dozens or even hundreds of individual buyers. That means Pinduoduo receives a commission fee for each of those buyers.

Second, Pinduoduo’s customer acquisition cost, as well as user engagement numbers, are significantly better than those of its main rivals. Sharing on WeChat, which doesn’t cost the company anything, is a main driver of sales.

Furthermore, engagement is increased by having customers play games in order to collect discounts. Discounts, in turn, are earned by engaging with the app. Even if Pinduoduo doesn’t make a sell during a user engagement, it is likely to generate revenue when a user clicks on an ad.

Third, Pinduoduo has also managed to significantly decrease its operational cost by launching its own logistics and payment service (Duoduo Pay). Previously, the company had to pay Alibaba and WeChat whenever a customer used its wallets (Alipay and WeChat Pay, respectively).

With its own wallet, it can now scrape those costs from its books. Going forward, it can also generate additional revenue whenever a customer uses the wallet to pay for goods and services outside of Pinduoduo.

Gin the future, getting hold of a user’s financial data also allows them to cross-sell additional services such as insurances.

### **Merchandise Sales**

Lastly, Pinduoduo also makes money from so-called merchandise sales, which are primarily fruits and other fresh produce sold via is Duo Duo Grocery platform (previously Pin Hao Huo).

Pinduoduo has connected more than 16 million farmers with users on its platform. In fact, the company invests a significant portion of its cash balances into ensuring the success of its farming partners.

Different from countries like Australia or Germany, China is dominated by small-scale farms that often cannot afford to purchase advanced farming equipment.

As a result, Pinduoduo takes over that responsibility. In 2021, for instance, it had launched a smart farming competition to motivate farmers to grow strawberries using connected devices aided by machine learning. The winning projects would then be heavily promoted on Pinduoduo’s Grocery platform.

After posting its first quarterly profit in August 2021, Pinduoduo also pledged to give away a total of 10 billion yuan ($1.5 billion) to aid its farmers.

Additionally, the farmers can then also promote their produce through the platform’s live streaming solution. Lastly, Pinduoduo itself also offers various training courses to established and new farmers.

## **Pinduoduo Funding, Revenue & Valuation**

Pinduoduo, according to [Crunchbase](https://www.crunchbase.com/organization/pinduoduo/company_financials), has raised a total of $3.8 billion across six rounds of debt and equity funding.

Notable investors include Sequoia Capital China, Tencent, Cathay Innovation, Hillhouse Capital Group, and many others.

When Pinduoduo went public in July 2018, it was able to raise an additional $1.6 billion. Its business was valued at $24 billion. That valuation has now risen to $115 billion.

For the fiscal year 2020, Pinduoduo recorded revenues of $9.1 billion, up 97 percent from the year prior.



##### Viktor

Hi folks, my name is Viktor! By day, I lead a tech team of 10 for an e-commerce startup. At night, I work on expressing my weird thoughts through this blog. And if there's time, I cuddle my cat.