

Win-win cooperation: Pinduoduo invests US\$200 million in GOME

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About the deal

On 19 April, 2020, Pinduoduo announced that it will subscribe to US\$200 million in convertible bonds issued by household appliances and electronics retailer GOME Retail Holdings Limited for a tenure of three years. If these bonds are converted, Pinduoduo will be allotted approximately 1.28 billion GOME shares or about 5.6% of its existing issued share capital¹.

Both parties also inked a strategic partnership such that Pinduoduo will help bring the entire GOME product range onto its e-commerce platform; products including those made by big names such as Siemens, Sony, Gree, Media and Haier will be available on Pinduoduo platform at lower prices. In addition, Pinduoduo will also help GOME further roll out its digitization strategy; it will extend its technological capability to help GOME upgrade its supply chain and tailor its product range to better adapt to consumer needs and preferences. GOME will integrate its logistics, warehousing, delivery and assembly services with Pinduoduo, and serve merchants on Pinduoduo.

Previously, Pinduoduo raised US\$1.1 billion in a private share placement in March 2020. This deal will mark its first investment in another company since Pinduoduo was founded in 2015. Pinduoduo and GOME have been working together since as early as 2018. For instance, GOME launched its official online flagship on Pinduoduo platform in October 2018, where 172 commodities were available, covering televisions, washing machines and air conditioners². And on 21 March, 2020, the two companies jointly held a promotional campaign to give away 500 million yuan worth of discounts and consumption subsidies on more than 6,000 items including household electronics, computers and cosmetics³.

Comments from Fung Business Intelligence

The partnership between Pinduoduo and GOME is another example of increased cooperation between Internet companies and brick-and-mortar commercial giants. Recently, increasing numbers of online and offline retailers are working more collaboratively together to increase operational efficiency and improve user experience – they are leveraging each others' user base, supply chains, and technological capabilities, with an aim to enrich product offerings and provide consumers with a more convenient shopping experience⁴.

“This strategic partnership is a win-win-win”, says David Liu, Vice President of Strategy of Pinduoduo.

The deal enables Pinduoduo to strengthen its position in household appliances sector, while allowing GOME to further its “Home • Living” strategy and fend off competition

The partnership strengthens Pinduoduo's position in the home appliances sector by introducing GOME's vast range of products on its platform. Currently, Pinduoduo is not a strong player in the home appliances space. As part of the deal, GOME's entire product range – which includes products of top brands – will be listed on Pinduoduo. This not only can help the e-commerce platform attract more customers, but also to increase the average spending of active buyers and GMV of Pinduoduo.

Many consumers today might still perceive that Pinduoduo is selling low-priced, low-quality home appliances. Teaming up with GOME can help Pinduoduo build a better image and better fend off competition in the home appliances sector, including Tmall, JD.com and Alibaba-backed Suning.com.

As for GOME, the partnership enables the company to leverage Pinduoduo's 585 million user base, together with its 2,600 offline stores, social e-commerce platform ME Shop and the GOME app create an all-round, online-to-offline “Home • Living” one-stop solution for its customers. This helps GOME to better compete with its top rival Suning.com.

GOME can help Pinduoduo provide better shopping experience, logistics services and after-sales services to customers

With this strategic partnership, GOME's extensive offline retail stores can serve as venues for Pinduoduo users who may want to touch and feel, and see demos in person before making a big-ticket item purchase online through the platform⁵. Moreover, GOME's offline stores can also act as pick-up locations for online orders and storefront warehouses for fast delivery service of online orders to customers living within 3-5 km of the store. This enables Pinduoduo to build a stronger foothold in the home appliances sector without the need to invest heavily in building its own logistics infrastructure for medium to large-sized home appliances.

Meanwhile, GOME will integrate its logistics, delivery and assembly services, namely Anxun Logistics and GOME Housekeeper, with Pinduoduo and provide services to merchants on the platform. This allows Pinduoduo's customers to enjoy better after-sales service.

The deal strengthens Pinduoduo's C2M strategy, enabling it to better compete with Taobao

The deal furthers Pinduoduo's push into consumer-to-manufacturer (C2M) model, a business initiative increasingly adopted by e-commerce operators. By connecting factories with consumer insights, such as consumer preferences and demographics, factories are able to produce more precise products to target consumer at a competitive pricing, and the products can be sold on the e-commerce platform directly. The model has become popular particularly in China. Pinduoduo has been one of the pioneers of the C2M model. With its large consumer database, Pinduoduo has the capability to analyze consumer preference and help Chinese manufacturers customize their product design with its consumer insights.

Meanwhile, GOME is a market leader in the home appliances sector. It has accumulated a large amount of consumer data which can be generated into insights for Pinduoduo. In addition, Pinduoduo can leverage GOME's procurement expertise to source from or tailor products with manufacturers based on customers' needs. It is worth noting that a number of Pinduoduo's major competitors, such as Alibaba and JD.com, have been accelerating the expansion of their C2M strategies recently. For instance, in March 2020, Taobao officially launched the "Taobao Special Offer Edition app" (or Taobao Tejia), for direct-from-factory deals. Alibaba also said that consumer-driven product innovation at competitive prices is a part of its push to help traditional manufacturers digitize⁶. Meanwhile, JD.com's Jingxi also upgraded its C2M strategy in April 2020 to line up with factories to sell their products to the domestic market on its platform⁷. It is crucial for Pinduoduo to react accordingly; and GOME provides a fast route for Pinduoduo to access more consumer data especially in the home appliances sector.

Pinduoduo can help GOME expand its reach in lower-tier cities

GOME has been focusing on tier-1 and tier-2 cities for long⁸. Recently, it has stepped up efforts to expand in lower-tier cities by adopting franchise business model and selling through its social e-commerce platform ME Shop. Pinduoduo mainly targets consumers in lower-tier cities and rural markets, where around half of its customer live in lower-tier cities. By cooperating with Pinduoduo, GOME can quickly expand into lower-tier markets.

Quotes

“This strategic partnership is a win-win-win. Consumers win because they get a wider range of top domestic and international brands at competitive prices, GOME wins because they can broaden their access to our 585.2 million users, and Pinduoduo wins because we enhance our foothold in household appliances and electronics⁹.”

David Liu, Vice President of Strategy of Pinduoduo

“We are responding to the government’s call to speed up the rebound in consumption, and that was the motivation behind our collaboration with Pinduoduo. We believe that there will definitely be an explosion of pent-up demand after the coronavirus outbreak¹⁰.”

Wang Bo, Vice President of GOME

About Pinduoduo

Founded in 2015 in Shanghai, Pinduoduo is the second most used e-commerce platform in China and the fastest growing e-commerce platforms. It was listed on the NASDAQ in July 2018. It is a social commerce platform offering mainly group buying products at reduced prices, and it targets shoppers in lower-tier cities and rural markets. Its GMV exceeded 1 trillion yuan for the 12-month period ended 31 December, 2019. The company saw a 40% increase in active buyers in the same period to 585.2 million, while annual spending per active buyer jumped 53%. Currently, its number of active buyers is second only to Alibaba's Taobao and Tmall of 711 million, among all other e-commerce platforms.

About GOME

Founded in 1987 and listed on the Hong Kong Stock Exchange in July 2004, GOME Retail Holdings Limited is engaged in the retail business of electrical appliances and consumer electronics in China. Sales revenue of GOME was approximately 59,483 million yuan in FY19, down 7.57% yoy. GOME has been actively transforming from a traditional "home appliances retailer" to a "Home • Living" one-stop home solution, service solution and supply chain solution service provider; it strives to provide customers with quality goods and services covering home appliances, home decorations, home accessories and home services. As of the end of 2019, the company has over 2,600 offline retail stores across 776 cities in China.

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