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HOW SOCIAL MEDIA TRANSFORMS THE GLOBAL MARKET: THE CASE OF SOCIAL COMMERCE

Abstract:
The purpose of this article is to figure out how Social Networks change the global trade's trends and e-commerce. Using case-study method, business models analysis and Business Model Canvas construction, it was found out how exactly s-commerce companies, such as Pinduoduo, Facebook* and TikTok, affect the ways of running a business and set the trends for it today. The main sources of information were annual and quarterly reports of the selected companies in the open access via official websites, as well as interviews and a number of scientific publications.

Keywords:
Social commerce, e-commerce, social networks, business model canvas, case-study, transformation of business, Pinduoduo, Facebook, TikTok

Introduction

Since the rapid development of information technology and global communications networks, mainly the Internet, and the complex automation of economic sectors have led to a revolutionary breakthrough in the organization and running of business, as well as commercial activities, and also contributed to the appearance of a new direction of business – e-commerce. The concept of e-commerce includes all trade and financial transactions, a chain of business processes that take place in the online space. One of the first authors who reviewed the theoretical aspects of this phenomenon, defined e-commerce as the process of business transactions related to profit-making and maintaining this process by facilitating the interaction between business partners [1].

In today's world, one of the main drivers of e-commerce growth has become its subdivision – Social Commerce (s-Commerce). «Investopedia.com», an online media source for investors, business owners and CEOs, defines it in this way: «Social commerce uses networking websites such as Facebook*, Instagram* and Twitter as vehicles to promote and sell commercial products and services» [2]. However, the idea of social commerce is much wider and deeper.

The thing is that s-commerce opportunities now are taking on the role of a replacer of social interaction between sellers and buyers through usage of social networks. That has become one of the business development trends since people are spending more time online now and the content consumption has increased dramatically [3].

Therefore, the paper addresses an issue that social media infrastructure not only has an effect on the communication format, helping entrepreneurs attract the customers' attention, but also on the way of doing business. And according to the analysis there was figured out how Social Networks change the way of doing business; how exactly it affects e-commerce.

Methodology of the Research

The paper studies social e-commerce applying case-method. In recent years this method has taken a leading position as a qualitative research method in areas that require investigation of complex organizational realities, including the field of entrepreneurship. And this area closely overlaps with the issues raised in the article. Using business model analysis and Business Model Canvas construction helped to describe social commerce effects on the quality and ways of doing business today.

The chosen companies are: Pinduoduo Inc., which first started the application of social commerce in practice and became «The World's Largest Social Commerce Platform» [4]; Facebook and TikTok, which are the main trendsetters in this field today.

In addition, the analysis of these cases fully explores the typology of business modeling. The Facebook case is an example of building a business in «Social media platforms», which is a B2C model where social networks offer e-commerce functionality to merchants, an online storefront and smart product discovery, for example. The TikTok case demonstrates another type – «App with a reseller ecosystem». This model can be both B2C and C2C, here with verbal recommendations and carefully selected product lists (unique, personalized algorithms), small businesses and individual resellers can sell products across multiple platforms. Finally, analyzing the case with Pinduoduo, it is considered the type of business model «Social commerce app without intermediaries» – it is the situation when a platform connects producers with buyers without need for an intermediary. Here, for instance, consumers are encouraged to come together and make bulk purchases to reduce their costs.

A comparison table based on Osterwalder's business model canvas [5-6] for each company is shown below (Figure 1), which gives a general idea of these businesses: what they do, who they sell to, how much they spend, where they get profits from, etc.

	PINDUODUO	**FACEBOOK**	**TIKTOK**
Business Model	**C2M**	**B2C**	**B2C+C2C**
Customer Segments	Customers with low income	Internet Users (globally)	Worldwide users
	Manufacturers	Marketers/Advertisers	Marketers/Advertisers
	Marketers/Advertisers	Brands	Brands
			Creators (Tiktokers)
Value Proposition	Group Shopping	Global community	Video-based content
	Gamification	Sharing	User-generated content
	Up to 90% discount / for free	Engagement	Monetization
	Farmers support	Shoppable posts	Low barriers to fame
		Business infrastructure	Easy&Fun
Channels	App	App	App
	Website	Website	Website
	WeChat (mini app inside)	Global sales force	TikTok for business
Customer Relationships	Many games	Same-side network effects	Global community
	Live-streams	Cross-side network effects	Creators' video-based marketplace
	Special offers and discounts	User-generated content	Free-based communications
Revenue Streams	Ads revenues (CPM, CPV)	Ads revenues (CPM, CPV)	Ads revenues (CPM, CPV)
	Fees	Fees	Fees
		Payments for users' experience statistics	Payments for marketing
Key Resources	AI	AI and IPs	AI and IPs
	App	App	App
	Off-season products	Big data + Custom-build data	Algorithms
	Distribution network	Selling platform	Selling platform
	Patents	"The Hacker's Way"	UGC database + network effects
Key Activities	Daily sign-up points	Platform development	Optimization of recommendation algorithms
	Price cutoff	Data analysis	Platform maintaining
	Card prog's and games	Management	Providing business tools
	Servicing and development	Sales	Data collection & servicing
	Delivery		
Key Partners	WeChat (app+payment)	Ads agencies	Ads agencies
	Software services	OEMs	OEMs
	Farmers	Content partners	Content partners
	Dealers	Subsidiaries	API partners
	Manufacturers	Developers	Developers (tiktokers)
	Stakeholders	Marketing partners	E-commerce companies
Cost Structure	Advertising	Data Centers	Data Centers
	R&D	R&D	R&D
	Software services	Marketing and sales	Creators Fund
	Rent	IT-infrastructure	Staff

Figure 1 - Business model comparison table
Made by the Author of this Paper.

Pinduoduo Case: The Fastest Growing s-Commerce App in China

Pinduoduo Inc. (PDD) is the holding company of a Chinese mobile e-commerce platform, founded in 2015 by Huang Zheng in Shanghai. Today the company has shown an unprecedented example of growth: in 5 years, the value of the company exceeded 93 billion dollars [7]. In 2020, Pinduoduo became the largest e-commerce platform in China after Alibaba. In April 2021, Pinduoduo surpassed Alibaba to become China's largest e-commerce site by active users per year. Also, the company announced its first quarterly profit of $372 million in 1Q 2022 [8].

The company represents an innovative C2M approach. The entire model is based on a few key principles: 1) Human-oriented platform designed to stimulate potential demands; 2) Understanding of what different groups of users want; 3) Claimed benefits for consumer (more tailored products and lower prices); 4) Claimed benefits for merchants,

manufacturers, logistic providers (better inventory planning and management, lower production cost, better quality, better pick-up & delivery planning).

One of the secrets of the company's success is group buying. Users can create a community, for example, among their friends on the social network, or join an existing team. All team members will receive the product at a discounted price. It is worth noting that PDD's early success is in some ways related to WeChat – the company used it for payment platform and mini-app. The scheme of the PDD business model is very simple [9]. A promotional campaign with a product at a super-low price is created on condition that a certain number of orders are collected. The number of orders often exceeds a thousand, or even tens of thousands. Large volumes of group orders give sellers more opportunities to lower prices, and low prices attract even more customers. Working in such a business model, Pinduoduo collaborates with various manufacturers in different industries to develop products specifically designed for their users. This creates a cycle that benefits everyone.

Beyond that, this business model has several factors that ensure its sustainability. First, the price sensitivity of low-income consumers and their prioritization of "value for money". Low-income consumers are more likely to devote their time to getting lower prices (by sharing links to products). Against the backdrop of the post-consumer crisis, covid-19 crises, people have a desire to save money on their purchases. This consumer demand is fully met by the Pinduoduo business model. Secondly, instead of treating WeChat as a broadcasting medium for advertising, PDD identifies demand-side network effects - customers do the marketing for them. Third, gamification performed on the PDD mobile platform affects an important set of retail outcomes, entertaining customers, accelerating repeat purchases, retaining customers and driving in-store engagement.

The e-commerce market is very competitive, especially in China. It is especially important for new players to stand out with something new to attract customers. And Pinduoduo has mastered this technique. The platform brings social networking and commerce closer together, capitalizing on a new source of revenue - users living in small towns. The Internet is making its way to Chinese villages. It's likely that the bargain-hunting app will continue to grow. Having created a niche for itself that thrives on high volume merchandising, the platform will be especially prominent in places with few inhabitants.

Facebook Case: Online Purchases are Easier than Ever Before

Facebook (FB) – the most popular social network in the world, functioning since February 2004. And at the moment, the number of its active users per month is 2.94 billion, as of March 31, 2022 [10]. The original purpose of the creation pursued by Facebook is the communication between users. The system allowed users to exchange messages and files with each other, share information, post photos and read news. Later FB with the development of information technology and the process of digitalization, like any other social network, began to be used for business, namely for social commerce [11]. Today almost every company has a page on this platform and uses tools for promotion, thus attracting users to their products.

Speaking of the business model, it is impossible not to mention the fact that the "Hacker's Way" is a key focus of Mark Zuckerberg's business strategy [12]. The concept implies constant development by the company's programmers in hacking ways that help make the service better for its users. In the company's understanding, hacking is equivalent to ingenuity, which implies generating innovative solutions to problems. This is how the company's values of becoming fast, bold and open - values inspired by "hacking" - were formed. And, of course, this aspect affects the efficiency of Facebook and the construction of its business model.

Facebook users help the company make money, and therefore, increasing the user base is the brand's top priority. With its ever-growing user base, Facebook can generate more revenue per user. Thus, the main source of revenue for Facebook is advertising, which includes the use of user data for targeting. In addition, Facebook applies a customer data management model. It assumes that users use the service free of charge, and the company earns money by selling data on their actions to marketers or by its own advertising.

Facebook uses a combination of photos, posts, likes, videos and messages to win more screen time and give advertisers a great opportunity to interact with potential customers. In doing so, the company has made sure that the customer doesn't go beyond the social network, namely using the platform to sell products within the social network itself - and Facebook is an example of a company using Shoppable Post for the first time in the history of social networking and social commerce. In that way, these social commerce tools are producing great results [13]. That's because the embedded stores on FB contain product collections, personalized recommendations and a directory of sellers selling on the platform, giving consumers a number of shopping tools in one place. It also gives consumers more opportunities to connect with and buy from sellers through messaging and live shopping, taking a whole new level of the way sellers communicate with customers.

TikTok Case: The Future of Social Commerce

TikTok was launched by ByteDance, a company founded by Zhang Yimin, a former software engineer, in 2016. This social network grew in popularity in 2018 when another ByteDance app, Musical.ly, merged with TikTok [14]. Today it is available in 150 countries and 75 languages, reaching the 1 billion user mark worldwide [15]. Moreover, now TikTok is the second most installed non-gaming app worldwide with close to 62 million installs [16].

Originally launched as a platform for sharing short videos, primarily synchronous and dance videos, TikTok has evolved into a full-fledged video service with content available to all types of viewers. Zhang Yiming, founder and CEO of ByteDance, has implemented an AI platform in TikTok that can detect users' interests and provide them with more relevant videos. As with any potential social network, TikTok's business model began with advertising to make money.

However, TikTok's other sources of revenue are app purchases (TikTok coins) and e-social commerce offerings. Today, TikTok combines several business solutions to help advertisers maximize community engagement. TikTok for Business is a platform that combines the creativity and authenticity of a social network by offering several tools for different types of businesses. Namely "Hashtag Challenge", "Branded Effect", "Brand Takeover", "TopView", "In-feed Video" [17]. Moreover, at the end of 2020, TikTok began a partnership with the popular e-commerce platform Shopify [18].

Social media is increasingly driven by Visual Effects, and nowhere is this more obvious than in TikTok, which specializes in rich and varied short-form video content. E-commerce brands that capitalize on this opportunity can build a large number of interested subscribers and eventually build a community around their products. TikTok's audience is also typically younger than other social platforms, which creates an opportunity for brands hoping to generate revenue from a younger audience. It's hard to overstate how popular TikTok is with young people, especially Generation Z [19]. Third, the TikTok-Shopify partnership will likely lead to a number of new social commerce features in the future, but for now, feed video ads are the best chance to boost e-commerce sales on TikTok. Thus, it's important to develop a knowledge of short video ads that grab users' attention and interest within the first few seconds. The virality of TikTok has, in a sense, forced Instagram to launch Reels and YouTube to launch Shorts to keep up with the widespread craze for short videos.

In that way, Tik Tok – is on the stage of becoming an innovative example of s-Commerce. This is an app with a reseller ecosystem. Here, using verbal product recommendations (by using absolutely unique algorithms) and, small/medium/big businesses and individual resellers can sell products on multiple e-commerce platforms.

Conclusion and Takeaways from the Analysis

To sum up, the technical advantage of s-commerce is that there is no need to create a new online store or integrate it with social networks in order to realize sales. Everything works within the framework of social media platforms. Thus, social commerce is an independent distribution channel in addition to other types. The future of retail is where the customers are located. So, businesses that will combine different channels: web, mobile apps, social media, marketplaces, etc.; will be able to better support transactions with their target customer segment and conduct transactions more efficiently than companies with a less diversified distribution strategy.

This paper also showed in what way do companies use social networks in their business strategy and for what effects it is contributes. Pinduoduo - a pioneer in the field of social commerce, for the first time in the history of business in the field of marketplaces applied the model of group shopping, using which its customers can save up to 90% on their purchases. Facebook, bringing together people from all over the world, has built a business model in which various kinds of network effects are happening, as well as the first social network that has successfully integrated into its platform a shopping platform - Facebook Shops, allowing its users to make direct purchases without leaving the social network. The TikTok case demonstrates how the company is growing its audience, and how quickly its neural network learns and becomes mature. It can be assumed that with each new trend and update, it will become easier and easier for businesses to promote themselves on networks. Now, the information is easily processed by the audience of the social network and the future belongs to visuals, to getting and analyzing information at the blink of an eye. Also, there are described a few trends in the IT environment, and regarding Social Commerce, it can be made some conclusions and forecasts.

First of all, e-commerce has only benefited from the pandemic, greatly. In the near future, the switch to online commerce will be on the fast track. The recovery from the recession will mostly take place under the sign of offline businesses moving to online, even those which at first glance are not very suitable for this.

The second, marketplaces are now the industry leaders in terms of growth rates. Soon, the rapid development of built-in tools for e-commerce, aimed just at competing with marketplaces. In other words, what appears in marketplaces today, with some changes, is worth waiting for in social networks tomorrow. And this is very likely to bring social networks into the lead in terms of the rate of growth in e-commerce.

Third, in addition to direct confrontation, completely different variants of interaction are possible, such as the collaboration between social networks and marketplaces (the example of the TikTok case). Also, as an actual example of such collaboration in Russia, we can name the cooperation of the branch of the Chinese marketplace "AliExpress Russia" and the social network "VK", through which users can make installments on goods from AliExpress using the payment system VK Pay.

Fourthly, at the moment the leader in the growth rate of almost any indicator among social networks is TikTok. And the platform, despite its youth, is already in the process of introducing the most progressive tools of Social Commerce. And the other players will be following, copying the features that will "take off" in TikTok. For example, a number of companies have followed the TikTok experience, including Instagram (the creation of Reels), YouTube (Shorts), Ozon (Ozon Video), etc.

The transformation of purchasing habits will continue, and Social Commerce will play a significant role in that transformation and business as a whole.

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