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Based on COVID-19, Analysis of the Strategic Model of E-commerce Enterprises—A Case Study of Xiaohongshu (RED)

CHEN Chuyue
University of Melbourne, Melbourne, Australia
OUYANG Haitao
University of George Mason, Fairfax, United States
TAN Jiaqi
University of Toronto, Toronto, Canada
WU Fan
Macau University of Science and Technology, Macau, China
ZHAN Yuqian
School of Chang'an University, Xi'an, China

Due to the impact of the COVID-19 pandemic, e-commerce and social media pervade people's daily life, while offline businesses suffer from loss from traffic. In this paper the SWOT analysis method is employed to examine the strengths, weaknesses, opportunities, and threats for RED, which, as one of the top content social e-commerce platforms in China, achieves outstanding performance under the COVID-19 pandemic. This paper tackles RED's unique marketing and operating strategies, as well as its weaknesses that relate to operation and costs, and threats that relate to competitors and commercialization. Beside these disadvantages, profitable opportunities also arise from internal and external environment. At the end, the paper provides suggestions for capturing profitable opportunities under the pandemic and Chinese new regulations on cross-border e-commerce.

Keywords: RED (Little Red Book), SWOT analysis, e-commerce, strategic analysis

Introduction

In 2019, a sudden pandemic caused by the coronavirus disease (COVID-19) struck the worldwide retailing industry intensively. In order to prevent and slow down the viral transmission, people are required to stay at home and many offline businesses are mandated to stay closed. Such situation inevitably creates lucrative opportunities for online retailing business. And now, the pandemic has been controlled, but the idea of less flow and less aggregation has been deeply rooted in the hearts of people, so many people still do not want to go into the crowds. Chinese e-commerce industry presents an overall increasing trend under the fact.

CHEN Chuyue, Bachelor degree, Faculty of Arts, University of Melbourne, Melbourne, Australia.
OUYANG Haitao, Bachelor degree, School of Business, University of George Mason, Fairfax, United States.
TAN Jiaqi, Bachelor degree, Faculty of Arts and Science and Rotman School of Management, University of Toronto, Toronto, Canada.
WU Fan, Bachelor degree, Faculty of Humanities and Arts, Macau University of Science and Technology, Macau, China.
ZHAN Yuqian, Bachelor degree, School of Earth Science and Resources, School of Chang'an University, Xi'an, China.

COVID-19 leads the whole world to the new pattern after the pandemic has greatly disrupted the consumer psychology and behavior of global consumers, and has also had a profound impact on the global retail landscape. Such a complex and changeable market environment has brought China's e-commerce industry to a new stage of development and challenges. In 2020, national online retail sales reached 11,760.1 billion yuan, an annual growth rate of 10.9%. Against the background of a 3.9% decline in total retail sales of consumer goods in 2020, online retail can still maintain a year-on-year growth rate of 10.9%, reflecting the strong development of the domestic e-commerce market. The e-commerce service industry is an emerging service industry that has gradually emerged with the development of e-commerce. It is the general term for various professional services provided for the development of e-commerce activities. The service revenue of e-commerce trading platform continued to grow rapidly, reaching 841.2 billion yuan—a growth rate of 27.0%; the market operating income of electronic payment, e-commerce logistics, and information technology services in the support service sector was 1.80 trillion yuan, an increase 38.1%.

The status of the e-commerce service industry market continues to maintain steady growth, and the market scale is further expanded. At present, these industries have strong professionalism and flexibility, and it needs to have marketing experience, sales ability, financial strength, and IT development ability at the same time. On the other hand, service providers have higher flexibility than the self-built teams of the brand. In the future, if the market situation changes or the sales plan is adjusted, the brand side will also have stronger initiative and be more flexible in the process of contract renewal negotiations (Shi, 2021); secondly, cooperation with service industry providers is the best way for international brands to enter the Chinese market. For them, they have certain disadvantages in terms of marketing experience, cost control, customer service, and policy understanding when they enter the Chinese market. With local advantages, service providers can help international brands quickly formulate marketing strategies suitable for the Chinese market, thereby reducing brand operating costs for international brands, and opening up e-commerce channels (Lisa, 2021); finally, the benign relationship between brand, service providers, and e-commerce platforms will continue to cooperative with each other. They have formed a dynamic circular ecosystem. Under the trend to the importance of online sales channels, brands hope to expand the market by leveraging on the flow advantages of e-commerce platforms and the professional operations of service providers to open up e-commerce channels, and they can concentrate more resources on product research and development (Shenzhen Stock Exchange, 2021).

The field of corporate strategy has been studied in detail by worldwide scholars. The founder of SWOT is Albert Humphrey, who was an American business and management consultant. According to Helms and Nixon (2010), SWOT analysis (or SWOT matrix) is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning. The SWOT model can be applied to various fields; for example, in the paper written by Görener, Toker and Ulucay (2012), the SWOT model is used to analyze manufacturing companies, using the model, comprehensively analysis of the strengths and weaknesses of manufacturing companies in the industry, a clear perspective on the opportunities and challenges that manufacturing companies will face in the future. As this example shows, the SWOT model can be used in a wide range of ways. It can be used in different industries or in specific companies. It can help subject of analysis to coalesce their resources and actions on their strengths and the areas with the most opportunities, making the entire strategy visible.

The COVID-19 pandemic hits offline retail businesses brutally, while online retail businesses rapidly penetrate people's daily life. Under such circumstance, how to stand out from all the competitors becomes a dire problem, and customization and innovation are the crucial keys. RED, as one of the leaders in content social e-commerce platform in China, has outstanding performance during the pandemic period. In this essay, SWOT model will be applied to analyze how RED achieves such accomplishments through its unique business structure and strategies; moreover, challenges and prospect will be examined. At the end, takeaways will be offered for companies that want to learn from RED's success.

Data & Method

Data

RED was founded in 2013 by Wenchao Mao and Fang Qu in Shanghai. As the leading rookie in China's cross-border e-commerce today, RED has readjusted its positioning after the COVID-19; it has adjusted its positioning to become a social e-commerce platform for sharing goodies. Under the new positioning, RED has created a new development model for China's e-commerce platform, which has been highly praised by people. So, for Chinese e-commerce platforms, there is a lot to learn from the growth path of it.

RED takes life content as the entry point, they use KOL and KOC to spread the Seeding (A person is "seeding" when he/she recommends and shares a product which makes you fall in love with it in an instance). This behavior is allowing products to be highly integrated with life. This approach makes users think that the platform has a higher sense of reference and trust. As the platform focuses mostly on female users, it gathers young and strong spending power. Therefore, it has become a platform chosen by brands such as cosmetics, mothers, and babies whose audience is female-led, and cosmetics is a popular content among users (Shi, 2021). In addition to live broadcasts in the beauty category, diversified development and deployment of all live broadcast categories will become the future trend.

Method

SWOT analysis is an analytical tool and to been seen as a strategic management tool, and it's including analysis of the company's strengths, weaknesses, opportunities, and threats (Zeng et al., 2020). It is generally used in campaign analysis, situation analysis, and campaign future planning. SWOT analysis is used to category the significant environmental factors of internal and external organizations (Pickton & Wright, 1998). Internal elements attribute strengths and weaknesses of the organization. Thus, external elements attribute opportunities and threats of the environment, and both help to define the helpful or harmful to achieving the objectives. It is usually arranged in a 2×2 table or matrix. Campaigns can check each element based on SWOT analysis, and to contribute to the expected performance, and the level of each factor is or is not within the organization's control (Leigh, 2009).

In SWOT, all internal factors (strengths and weaknesses) should be brought together, and then external forces (opportunities and threats) should be used to evaluate these factors (Astika & Suharyo, 2021). Through this, it can help companies focus on their resources and actions on their strengths, and convert them into value (Zeng et al., 2020). On the basis of determining variables of internal and external information, the company should use the four basic concepts of leverage and inhibition to analyze this SWOT model (Coman & Ronen, 2009).

The leverage effect appears when the internal advantages and external opportunities are coincided with each other. In this kind of environment, the campaign could use their internal advantages to lift up the external opportunities, and seek greater development by combining the advantages and opportunities (Coman & Ronen, 2009). Inhibition means preventing, hindering, and controlling. The campaign's advantages cannot be used if the environmental opportunities do not cooperate with the internal advantages (Miller, 2007). The campaign may need to provide their resources in this situation to adapt the external opportunity, to promote the conversion of internal disadvantages to advantages.

Result and Discussion: SWOT Analysis

Strength

Unique brand advantages. As a personalized e-commerce platform, RED has an exclusive "service community" for users to share their shopping experience and product recommendations. In the context of the pandemic, where people can only shop online, RED has the advantage of having an interactive online community with good word-of-mouth, where people can connect with other users while shopping and sharing their shopping experience, unlike other shopping platforms. RED has an interactive community, which is a comprehensive community with high traffic and diversity (Chen, 2020), allowing users to learn about the products they have not purchased online, and to save their favorite products by collecting and liking them, and then to choose novel products for consumers by comparing them, so that consumers can avoid bad word-of-mouth reviews caused by poor shopping experience, and also save the time of comparing different e-commerce platforms. This way, consumers can avoid bad word-of-mouth reviews caused by poor shopping experience and save time in comparing different e-commerce platforms.

Precise positioning. Under the trend of rejuvenation, the younger generation, as the main consumer group of RED, has been increasing the proportion of users in RED, with women accounting for 85.3% of monthly active users and men 14.7% (Shi, 2021), which shows that the main users of RED are young women with strong spending power. In the platform of RED, the proportion of beauty and skincare users in each city reaches more than 60% (Shi, 2021), and beauty and skincare products are products with strong purchasing power, so RED's products are mainly positioned in beauty (Su, 2020). RED adopts the UGC form of operation; users can create their own content. Therefore, when users visit the RED community content, RED will use big data analysis to accurately push to the type of products you often browse, so as to achieve precise positioning.

The marketing strategy. Under the impact of the pandemic, compared to other traditional e-commerce platforms, RED does not need to invest a lot of advertising money to attract traffic; it can attract consumers through the original content of users in the platform's own community. As KOL is the core promotion model of RED, each KOL is continuously outputting characteristic contents in various fields, and they are the main target of advertisers. Under the UGC model of RED, all KOLs are recommending products with graphic or video product content, so that consumers can feel the most intuitive and detailed product experience, and the quality content makes users stickier. RED's KOLs in RED are mainly divided into six types, namely waist KOL, primary KOL, head KOL, famous KOL, star, and brand account (Shi, 2021). The head KOL is mainly the net RED with high fan base and influence; they not only promote products through live broadcast and video, but will also increase consumers' understanding of the product through the text to the product table to explain, so the RED in the context of the epidemic can promote the sales of the platform products through KOL content sharing and live broadcast, which is also one of the factors of the RED more and more popular.

Weakness

Limitation of operating model. RED has a special operating model. There are many notes and short videos to reflect the daily life and the products what they feel great and want to recommend to the readers. But this operating model influences the conversion rate of RED users; especially this APP does not have the link led to the products what the bloggers seed. According to the research, in terms of user conversion, 80% of RED's revenue comes from advertising and 20% comes from e-commerce (Shi, 2021). The profit model is relatively single.

Uncertain of the quality. It is difficult to guarantee the quality of the products. The RED has the characteristics of seeding; many people will blindly follow the crowd and many businesses will choose to build the hype before the product is released. Hence, merchants will select a large number of the part people of the waist KOL to recommend their products. However, if the bloggers just want to make money and do not know more about the products, to guarantee the quality of the products that they recommend to the customers is difficult. Besides, notes posted on the platform are not verified for authenticity and may contain false propaganda, which will affect the sense of the customer.

Cost increases. According to the article, China will impose a 25% tax on some goods (Li, 2021). It will lead to that enterprise capital flow cannot be timely turnover. After the establishment of the bonded warehouse, although it gets consumers a good deal, the high taxes and fees brought by the commodity bonded area will cause a substantial increase in costs. And it reduces profit margins. For RED, it includes the overseas goods. It is easier for customers to distrust the platform when fakes appear.

Opportunity

New opportunities arising from the external environment. Affected by the pandemic, people were forced to stay at home; more and more people prefer to shop online, prompting the development of an online economy where many offline transactions are shifted online. The e-commerce platform is gradually expanding its audience. Many elderly consumers would love to shop online; the pandemic has changed people's consumption habits, which is a great opportunity for cross-border e-commerce. It not only promotes the development of the platforms, but also puts higher requirements on the credibility of the platform. According to data from the General Administration of Customs P.R. China (2020), only in 2020 China's cross-border e-commerce import and export is 1.69 trillion yuan, an increase of 31.1%, of which exports 1.12 trillion yuan, an increase of 40.1%, imports 0.57 trillion yuan, an increase of 16.5%. Therefore, for cross-border e-commerce platforms, more efforts are needed to create a convenient, fast logistics and high-quality goods. Only in this way can we let more users feel the charm of online shopping.

New opportunities arising from the policy. In the past two years, the Chinese government has introduced many policies to support the development of cross-border e-commerce platforms. For example, in July 2020, the latest notice issued by the Ministry of Commerce and the General Administration of Customs stated that the pilot scope of cross-border e-commerce retail imports will be further expanded. With this expansion, the scope of cross-border e-commerce retail import pilot will be expanded from 37 cities to 86 other cities (regions), covering 31 provinces (2021). The introduction of this policy has given cross-border e-commerce platforms more opportunities to expand imports and reduce the comprehensive transaction costs of imports.

In additional to this, in 2021, China will accelerate the construction of the cross-border e-commerce pilot zone, introduce well-known cross-border e-commerce platforms, and build a cross-border e-commerce industry

chain with online and offline integration (Ministry of Commerce and the General Administration of Customs, 2021). The emergence of these two policies is a very good opportunity for e-commerce platforms, which are given more room to grow. Policy has opened more cities as trading areas for e-commerce, promoted the transformation and upgrading of foreign trade growth, and built cross-border e-commerce into a new engine for high-quality foreign trade development.

New opportunities arising from the operating mechanism. As a social e-commerce platform that focuses on consumption, RED has chosen the development path of "content + social + e-commerce" to build a PGC sharing platform, creating a sharing community with high activity and high user stickiness (Wu, 2021). Under the new positioning, RED has created a new development model for China's e-commerce platform, which has been highly praised by people. The core of the mechanism is community operation pluses content marketing, so in the future, community operation and content marketing will become a major trend in the development of the future e-commerce platform.

Community operations opportunity. RED unique community sharing mechanism has also become the main reason why users trust RED, providing a basis for brands and the platform to commercialize. Through the content community and the products sold in the mall, RED achieves the business closed loop from seeding to weeding. By the unique seeding method of RED, users will be influenced by KOL and KOC when they consume, which further helps brands achieve exposure, expands brand awareness, discovers potential consumers, accelerates user decisions, shortens the marketing path, and enhances the effectiveness of marketing (Shi, 2021).

For e-commerce platforms, the opportunities inherent in content marketing are endless. Here are some key factors of building content platform:

PGC (Created, organized, and managed by official accounts) content will be classified according to the topic; platform itself has opened several official accounts.

PUGC (three types of creators creating content: The first is the bloggers invited from the MCN platform, the second is the official KOC cultivated by platform, and the last is a well-known KOL).

UGC (The main source of content, gathering a large number of notes produced by users; RED official will also have a special policy to support users to generate more content) (Iresearch, 2020).

For e-commerce platforms, these three key elements can be used to add lustre to content marketing. Thus, for future e-commerce platforms, they need to grasp the opportunities, keep up with industry trends, and take the path of community operations and content. With the above opportunities, the future of the e-commerce platform is sure to be brighter and shinier.

Threat

As a social platform that incorporates e-commerce and live broadcast, RED faces threats from not only comparable platforms, but also top competitors in these two areas. In addition, excessive commercial advertisings pose threat to RED.

Competitors. RED's transition from content social platform to content social e-commerce platform forebodes that it could be hit by traditional e-commerce giants, such as Tmall, Taobao, and JD.com. According to LeadLeo's report, transitional e-commerce companies are experiencing slow growth due to increased consumer acquisition costs and gradual loss of traffic; in order to break these bottlenecks, inclusion of content marketing in business strategies seems to be necessary (Shi, 2021). Owing to this reason, it is reasonable to

predict that traditional e-commerce companies will pay more attention to content creations, participate in content social e-commerce industry, and compete with already existed participants, for example, RED. Top traditional online retailing companies have enormous traffics, advanced technology, and most importantly, ample well-connected networks with retailers and advertisers, which are resources that RED cannot outclass. A lot of cases are that many users are fascinated by the product that is shared in the RED community, but the platform offers no purchasing link; therefore customers have no choice but switch to other e-commerce platforms for purchase. If top traditional online retailers indeed take part in the competition, RED will face threats of falling behind and loss of users.

Challenges with new business—live broadcast. Live broadcast has great potential in Chinese e-commerce market; according to Shi (2021), Chinese live broadcast e-commerce has reached a gross merchandise volume of 1.05 trillion in 2020. Moreover, owing to the COVID-19 pandemic, market penetration of e-commerce accelerates, and businesses that have live streaming functions, such as Taobao, JD.com, Kuaishou, TikTok, etc., have a market share of over 90% (Jin, 2020). As a new platform that just steps into the field of live broadcast e-commerce, RED is facing huge challenges from these sophisticated live broadcasting platforms. Since Taobao, Kuaishou, and TikTok began their live streaming e-commerce earlier than RED, these platforms had accumulated a lot of live streaming experience and built a solid audience foundation and reputation. Popularity is one of the most important factors that attract traffic and brands' cooperation, and people tend to choose to view or purchase items that are famous and well-known. As a living broadcast novice, RED lacks experience and reputation. Such shortcomings can cause RED to be left behind in online retailing industry as Chinese live broadcast business is expected to grow positively (Jin, 2020). Inability to outstand from experienced live streaming platforms indicates that RED might face the threat of losing popularity.

Over-commercialization. RED also faces difficulty in balancing the presence of advertisements and UGC (user-generated content). Excessive advertising on RED is causing annoyance to users; however, it occupies 80% of RED's income (Shi, 2021). Users' experience is a crucial factor to establish customer stickiness, which contributes to the platform's development and long-term success. Profit realization via advertisement for content social platforms is a common way to maintain their survival, but overmuch commercial content can overshadow users' original contents that are purely based on their own experience, and over-commercialization is a disadvantage for RED, which is a platform that flourishes through UGC with excellent quality. Over-commercialization would give users a sense that those key opinion leaders are paid to say good things about a product; the actual product can differ from what they describe. Thus, users might gradually lose interest in using RED, and this will weaken customer stickiness and hurt the platform's long-term development. Hence, how to balance commercial advertising and user-generated content is a current threat faced by RED.

Conclusions

Owing to its interactive community, precise positioning of users, and trend-leading characteristic, RED dominates the content social industry in China; on the other hand, it faces weaknesses relating to operating model, product quality, and cost. Moreover, with integration of live broadcasting function and online store, RED, as a fledging in these new areas, faces tremendous threats from competitors. Nonetheless, opportunities arise from the increasing demand of online shopping due to the pandemic and supportive policies regarding cross-border e-commerce.

For other platforms that want to learn from RED's success, the power of content marketing can be utilized to achieve such goal. Content marketing can maximize the distinctive messages that brands want to deliver to their target customers, and it is a crucial factor for the development of content social platforms; for example, for content e-commerce platforms that focus on entertainment, these platform should focus its content marketing on the topics with social and entertainment attributes, take users' interests as the core, use explosive topics to attract traffic, and market the product to users in an entertaining format; for e-commerce platforms that focus on lifestyle, they should use a wide range of topics to reach a wide range of user groups and provide a broader marketing environment for brand marketers.

For other e-commerce platforms, they can use the power of content marketing to maximize the benefits, and take a differentiated marketing path based on the brand tone.

For example, the social e-commerce platform that focuses on consumption can directly learn from the experiences of RED. As for content e-commerce platforms that focus on entertainment, the platform should focus its content marketing on the topics with social and entertainment attributes, take users' interests as the core, use explosive topics to attract traffic, and market the product to users in an entertaining format. For e-commerce platforms that focus on lifestyle, they should use a wide range of topics to reach a wide range of user groups and provide a broader marketing environment for brand marketers.

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