

# Stock story: Pinduoduo

February 2024

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Investment manager Linda Lin explains how Pinduoduo's accessible and innovative ecommerce model is poised to take advantage of the large consumer base in China's 'lower-tier' cities.

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**Linda Lin:** China is one of the most populous nations in the world, and it is rapidly digitising. But China's 'lower-tier' cities, home to large, lower-income populations, have been largely ignored by ecommerce businesses. We believe that these users are the incremental growth engine in China.

Pinduoduo is a company that has spotted a unique opportunity to serve China's untapped population in the lower-tier cities. It provides buyers with value-for-money merchandise and fun, interactive shopping experiences. Instead of searching for products, you can discover items by chance on your newsfeed, driven by powerful algorithms. The shopping experience is like an online version of a night market. It's an exciting, engaging, and highly social experience, encouraging you to make team purchases with your family and friends.

The business also helps local communities and small businesses to benefit from the productivity gains brought by the digital economy. China leads the world when it comes to spending on its online retail and digital infrastructure, including 5G, digital payments, and social networks. More people are shopping online, and Pinduoduo is taking a larger chunk of that overall market.

Pinduoduo has cracked the power of social recommendations and it is exploiting this on an unimaginable scale. This innovative business model was created by the founder Colin Huang, an ex-Google engineer and game entrepreneur. From the company's inception, Colin and his team had an ambitious long-term vision to use mobile technology to transform the manufacturing model in China. The platform uses data to understand the consumer's preferences, matching demand directly with suppliers from farms and factories across the country. It is now applying the same model to global markets and is seeing rapid growth in its international app, Temu.

Despite being founded just eight years ago, Pinduoduo is currently valued at \$190bn and boasts over 900 million users – a milestone that took industry giant Alibaba two decades to achieve. This means we are now more confident, given its current scale and strengthening competitive advantages. And with ecommerce currently only accounting for 30 per cent of the total retail sales in China, the room for growth is enormous.

Pinduoduo still has vast room to evolve from here. The growing ecommerce landscape in China, combined with the ambitions of Pinduoduo's young management team, could make this company one of the most innovative technology leaders globally over the next decade.

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