

Chapter 1

Introduction

Background and Significance of Research Problem

In today's era of personalization and differentiation, people increasingly rely on recommendations and word-of-mouth between acquaintances. Compared to search results, people tend to believe recommendations more. Consequently, the emergence of social e-commerce has taken place. 2017 China Social E-Commerce and Micro-Business Industry Development Report define social e-commerce as "the sales of goods or services through the use of Internet social tools, based on interpersonal networks is one of the important manifestations of new e-commerce". Social e-commerce integrates e-commerce and social media, creating a social transaction model that prioritizes trust. The efficient customer acquisition and fission capabilities of social e-commerce have attracted many companies to join. Since 2018 social e-commerce has been sought after by capital, with the listings of social commerce companies such as Pinduoduo, Yunji, and Mogujie pushing social commerce to the forefront.

The scale of the industry grew rapidly, with China's social e-commerce industry reaching 626.85 billion yuan in 2018, a year-on-year increase of 255.8%, becoming a dark horse in the online shopping market. As social e-commerce continues to integrate social traffic and e-commerce transactions, the proportion of social e-commerce in the online shopping market continues to increase. From 2015 to 2018, the market share of social e-commerce in the overall online shopping market increased from 0.1% to 7.8%. On February 22, 2021, the China Association for Trade in Services released the Social E-Commerce Business Service Specifications,

which clarifies that social e-commerce is an e-commerce activity based on interpersonal networks that uses Internet social tools to sell goods or services and obtain legitimate interests (China Association for Trade, 2021). Social e-commerce covers the entire process of e-commerce, including information display, payment and settlement, and express logistics. After years of continuous exploration and trial, development, and error correction, social e-commerce has fully exerted its strength and has become an inseparable part of China's e-commerce field. According to the 2021 China Social E-Commerce Industry Development Report: Research on Key Enterprises, the overall scale of China's social e-commerce in 2020 reached 3.7 trillion yuan, the number of consumers approached 700 million, and the number of employees exceeded 70 million.

Pinduoduo is a leading company in the social e-commerce industry, known for its impressive scale and speed of development. Pinduoduo holdings Inc (NASDAQ stock code: PDD) has recently published its annual report for 2021. According to the report, as of the end of 2021, Pinduoduo had 868.7 million active buyers, which is a 10% increase from the previous year's 788.4 million. In 2021, Pinduoduo Group's total revenue was RMB 939.499 billion, which is a 58% increase compared to RMB 594.919 billion in 2020 (Pinduoduo 2021 Annual Report, 2022, pp. 8-12).

Although Pinduoduo's business is growing rapidly, it highlights many problems in terms of service quality. The company's product quality issues have been repeatedly brought to the public's attention. These issues often reflect poor after-sales service, such as untimely service, inadequate feedback, and delayed resolution time (Pinduoduo 2021 Annual Report). These problems have seriously affected the overall image of Pinduoduo's business. To address these issues, Pinduoduo should strengthen the management of service quality, select and strictly screen quality merchants to settle in Pinduoduo, improve customer service experience, and create a "quality e-commerce" that truly allows customers to shop with peace of mind. As a

major unit of the group's continuous business growth, Pinduoduo should pay more attention to improving service quality, implementing it on the ground, catering to leading technological innovations in the e-commerce industry, further improving operational efficiency, and achieving economies of scale.

This study focuses on the social e-commerce company Pinduoduo and its customers. Starting from the perspective of service quality, this study proposes a model of the impact of service quality on customer loyalty. Using a questionnaire survey, the study analyzes the relationship between service quality and customer loyalty and explores the role of service quality in customer loyalty. The practical exploration of this study can help Pinduoduo improve service quality from various aspects, strengthen the stickiness and adhesion of old customers, provide service recommendations, and improve customer loyalty.

Research Objectives

To investigate the effect of service quality on customer loyalty of social commerce with the case study of Pinduoduo.

Research Hypothesis

1. H1: There is a significant positive relationship between reliability and customer loyalty on Pinduoduo.
2. H2: There is a significant positive relationship between responsiveness and customer loyalty on Pinduoduo.
3. H3: There is a significant positive relationship between assurance and customer loyalty on Pinduoduo.

4. H4: There is a significant positive relationship between reputation and customer loyalty on Pinduoduo.

5. H5: There is a significant positive relationship between information quality and customer loyalty on Pinduoduo.

Scope of the Study

The research, “The Effect of Service Quality on Customer Loyalty of Social E-commerce—A Case Study of Pinduoduo”, will employ questionnaires to collect data from an expected sample group of 386 respondents which will be conducted during September to October in 2023. These samples will comprise Chinese customers who have shopped on Pinduoduo within the past 6 months.

Conceptual Framework

The following figure shows the conceptual framework of the study.

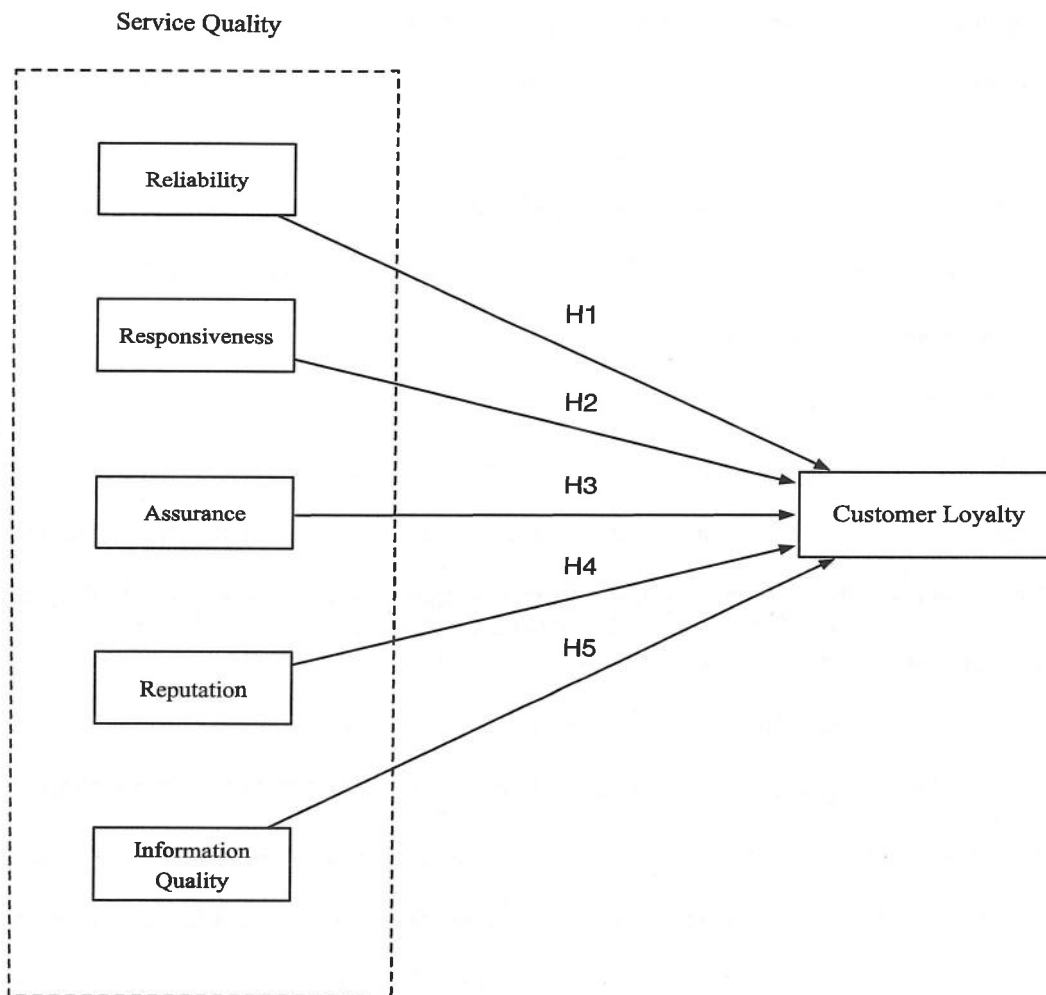


Figure 1.1 Conceptual framework

Source: Adapted from Kheng, Mahamad, and Ramayah (2010)

Definition of Terms

1. Service quality refers to the extent to which an organization's service delivery matches or exceeds customer expectations. Customers purchase services to meet specific needs and consciously or unconsciously hold certain standards for how a company fulfills those needs. Companies with high service quality provide services that satisfy or surpass customer expectations.

2. Social e-commerce refers to an emerging group buying business model that allows customers to save money by coordinating bulk purchases with friends. This model leverages social relationships and interactions such as following, liking, sharing, commenting, and engaging with others.

3. Customer loyalty refers to customers' satisfaction, perceived value, and behaviors that benefit an e-commerce business. It comprises two factors: 1) Repeat purchase: Repeatedly making purchases from the same e-commerce site. 2) Word-of-mouth: Spreading positive information about an e-commerce site to others. Customers shop at the site and recommend it to people they know.

4. Reliability refers to the probability that a system or product can operate normally for a certain period of time under specified conditions of use. In layman's terms, reliability refers to the degree to which a system or product will not fail during use.

5. Responsiveness refers to the spontaneity of service providers to help customers and provide convenient services.

6. Assurance refers to an employee's knowledge, etiquette, and ability to express confidence and trustworthiness.

7. Reputation refers to the reputation, prestige and image that a person, organization, brand or product has in the eyes of the public. It is determined by a

number of factors, including experience, quality, performance, moral character, social responsibility, integrity, reputation and so on.

8. Information quality refers to the assessment of accuracy, completeness, timeliness and credibility of information.

Expected Benefits

With the case of Pinduoduo, this study will introduce the relationship model between service quality and customer loyalty based on the actual situation of the operating environment of social e-commerce companies. It will propose targeted hypothesis testing, and finally form empirical research.

This will provide social e-commerce enterprises with direction for efforts to increase customer loyalty by improving service quality, promote the formation of a good enterprise service closed-loop, and enhance the company's market competitiveness.