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SOCIAL NEW RETAILING BUSINESS MODEL AND ITS APPLICABLE REGULATORY PATTERN

WANG RUI

SINGAPORE MANAGEMENT UNIVERSITY

2022

Social New Retailing Business Model and Its Applicable Regulatory Pattern

Wang Rui

Submitted to Lee Kong Chian School of Business in partial fulfillment of the requirements for the Degree of Doctor in Business Administration

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SINGAPORE MANAGEMENT UNIVERSITY
2022

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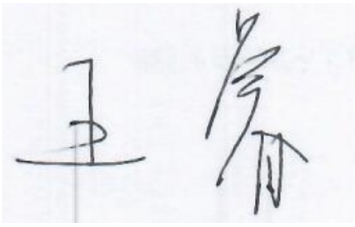
I hereby declare that this PhD dissertation is my original work and it has been written by me in its entirety.

I have duly acknowledged all the sources of information which have been used in this dissertation.

This PhD dissertation has also not been submitted for any degree in any university previously.



Wang Rui

12 April 2022

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Wang Rui

Abstract

With the booming development of mobile Internet in China, social platforms have unlocked new channels for commodity supply chain and retailing and promoted business model innovation. Online social networking has fundamentally changed the way the entire society communicates. Social networking is no longer constrained by space, social platforms have become a stage for many ordinary people to showcase themselves, and the popularity of mobile payment has made mobile phones the wallets of Chinese residents as well. The innovative contents and interaction styles delivered by social software have triggered a qualitative change in the efficiency of everyone's communication and interaction, making it the main portal of traffic, opening up China's immense markets in lower-tier cities and enabling the evolution from retail business model toward online socialization. Relying on China's efficient supply chain system, the communication capability of social platforms has been commercialized, thus facilitating the development of social new retailing business model.

Social new retailing business model is the object of this research. This paper is structured as follows: Firstly, through theoretical analysis and case analysis, this paper defines social new retail as a new retail business model that realizes diversified and multi-level sales of goods or services through the matrix

communication method of social platforms and the innovative application of multi-level direct sales. Secondly, the role of social new retailing in improving the welfare of practitioners is investigated through questionnaire survey and empirical analysis. The results indicate that the extremely low barrier to entry has created employment opportunities for more people with low academic qualification and low income, and that it is beneficial for improving the skills of practitioners, etc. Thirdly, this study focuses on the regulatory pattern applicable to social new retailing. We've found through case analysis, questionnaire, and interviews with social new retailing business owners, legal experts and regulatory experts that the current applicable Chinese regulations are lagging so behind that they are impeding the innovative development of social new retailing business model, which must be adjusted in various aspects, such as legislation and regulatory procedures. Fourthly, corresponding policy recommendations are proposed for the regulators based on the findings of this paper, including revising current regulations and specifying regulatory responsibilities and procedures.

Keywords: Social New Retailing, Welfare of Practitioners, Employment, Regulation

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Acknowledgements

I would like to express my sincere gratitude to my dissertation committee, Professor Shantanu BHATTACHARYA, Professor Zhu Rui, and Professor HUANG Fali, for their guidance and encouragement. I am especially grateful to my supervisor, Professor Shantanu BHATTACHARYA, for his patience at every stage of my study. I would also like to thank all of teachers from CKGSB, I learned a lot from them.

Chapter I Introduction

1.1 Background

1.1.1 The current state of social new retail

On December 28, 2021, the social new retail brand "TST" under Zhang Ting, a famous Chinese actress, was investigated and dealt with for suspected illegal pyramid schemes, causing widespread concern and discussion. "TST" was established in 2013, focusing on the promotion of consumer goods such as beauty and cosmetics. In 2019, the "TST" brand tax payment reached 2.1 billion yuan, and it was awarded the title of Top 100 Excellent Enterprises in Qingpu District, Shanghai in 2019. Why are companies that legally pay taxes subject to regulatory penalties? Is there a conflict between the new social retail business model and the regulatory model?

No institution has yet collected data on the new social retail industry. From my 30 years of experience, China has a large number of new social retail companies, among which there are many cases similar to "TST". I am a business owner who has worked in food and beverage industry for 30 years in China, and I am familiar with the fast-moving consumer goods market in China. Obviously, China has a huge consumer market with a population of 1.4 billion. With the rapid development of Internet socialization, a number of mobile Internet platforms have emerged. These mobile Internet platforms rely on a complete supply chain system to enable customers to learn about these platforms through

social recommendations and other methods. This fast-growing marketing model represents a brand-new retail model of enterprises, which liking Pinduoduo and Yunji. Through the research of their business model, we found that they can grow rapidly in a short period of time, thanks to their full use of the operating rules of social media and Internet technology, innovative use the sales model of traditional multi-level direct sales and system rules have successfully magnified its efficiency.

However, in China, the direct selling model requires the government to issue a license, and the issuance of the license was suspended in 2018. There have been no further clear arrangements for the issuance of the license. What is more serious is the multi-level direct selling and the illegal sales model defined by laws and regulations. There are similarities in the model, but the details of the judgment are vague, and the boundaries are unclear. Because of the uncertainty of the multi-level business model at the level of regulatory identification, many related companies must keep a low profile or even pretend to be as low as possible, and most of them have created greater social value and economic contributions. This makes the development of these companies curbed. Meanwhile, the "pyramid marketing" fraud method aimed at by the government in formulating the "Anti-MLM Regulations" also benefits from the technical support of the Internet, which hides deeper and is not easy to be Detect. Furthermore, the openness of relevant laws and regulations and law enforcement authority has resulted in the selectivity of investigation and

punishment of enterprises suspected of violating regulations, which is manifested in the choice of the object of investigation, the time choice of investigation, and the location of law enforcement agencies. In other words, it is the influence of human factors. This will cause great social injustice and even rent-seeking behavior.

Among the companies, many companies adopt the multi-level direct sales model, most of which are distributed in the fields of health food, health care and medical equipment, skin care products, etc. The products and services they provide to the market follow national laws and regulations, which are loved by consumers. They are also responsible for a huge number of full-time and part-time jobs in direct sales model in China. It is estimated that the value of existing companies that adopt the direct selling model has exceeded 2 trillion yuan and offer over 10 million jobs according to the author's experience in the industry for years since no thorough official statistics of this market has been released. With Internet companies such as "Pinduoduo and Yunji" joining the race, the market scale achieved by using the multi-level direct selling model will grow rapidly.

In view of the current situation of market regulation in relevant fields, the main regulations were formulated around 2005, and the regulatory objects and market environment involved in the regulations have undergone great changes. In addition, the original laws and regulations are vague and incomplete, which cannot adapt to the current market situation, let alone facing the future.

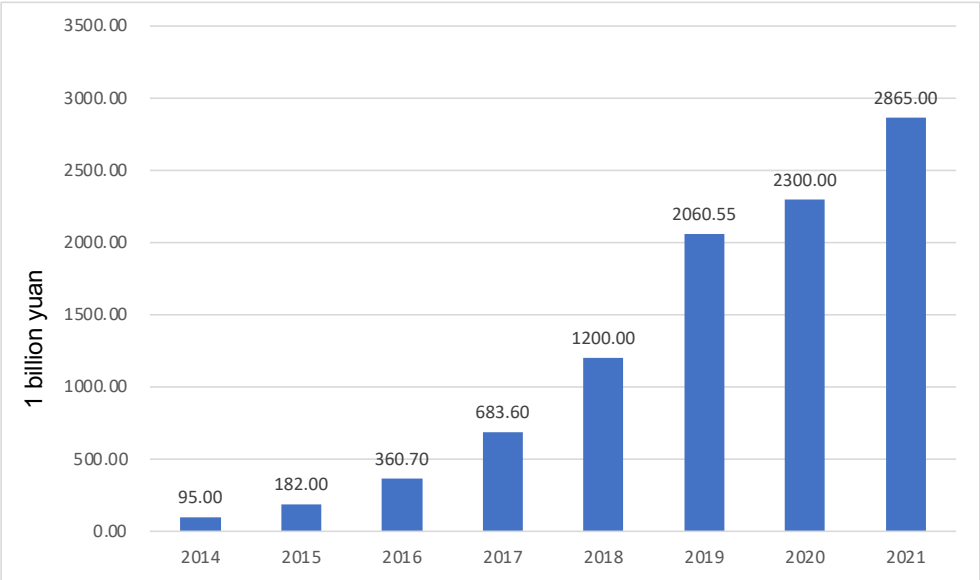

Figure 1-1 Trading Volume of Social New Retail Market in China during 2014 – 2021

Source: DATA.100EC.cn

The total value of social new retail industry in China has reached 2.3 trillion yuan by the end of 2020 (as shown in Figure 1-1), according to the statistical data of the industry released on DATA.100EC.cn, although the clear number of companies in this industry cannot be identified. As the social new retail market in China skyrockets, its trading volume exceeded 95 billion yuan in 2014 and is expected grow by 290% to reach 286.5 billion yuan in 2021. In terms of its growth rate, the market size soared by 98.19% in 2016 and saw a year-on-year growth by 71.71% in 2019, due to exposure to the pandemic. In 2020, the growth rate dropped to 11.62%, but is expected to rebound to 24.56% in 2021. According to the big data on DATA.100EC.cn, the employment population in the industry increased from 10.241 million to 15.355 million from 2014 to 2016,

a stable rise by 22.04%. This figure maintained a great momentum from 2017 to 2019 to increase by 31.49% in 2017, 50.22% in 2018 and 58.24% in 2019 to reach a population of 48 million. This demonstrates the huge development potentials and prospects of social new retailing in China and its ability to offer numerous job opportunities in the process of rapid growth.

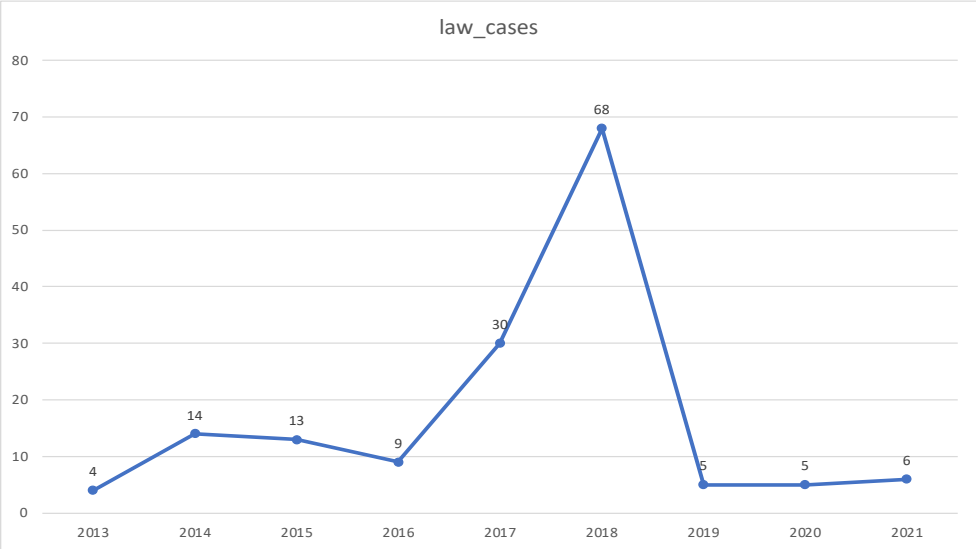

Figure 1-2 Numbers of cases of alleged pyramid scheme in social new retail punished by Chinese regulators

Source: online news and cases released by SAIC

In this paper, we have collected manually data about a total number of 154 cases of alleged pyramid scheme in the social new retail industry punished by Chinese regulators from 2013 to 2021 based on notices on punishments released on the Internet and by regulators. Judging from the changes in the number of cases, the peak period of the regulatory punishment fell in year 2016 to 2018 where the number in 2018 reached 68. Since 2019, this number dropped and remained stable, as shown in Figure 1-2. We can tell from Figure 1-1 that the number of

cases decreases year by year and the market trading volume maintains a high rate of growth, revealing more and more standardized development of the industry to some extent and the increasing number of companies engaged in legal and compliant operations.

The purpose of my research is to put forward perfect suggestions on existing relevant laws and regulations, to promote the healthy and orderly development of the industry. The social evolution of e-commerce and the application of multi-level direct selling rules, as well as the internet-based iteration of traditional direct selling enterprises, are bound to be similar in development and subject to the same regulatory system. Therefore, I define these two types of enterprises as the business model scope of social new retail.

By defining the new social retail business model and studying the value contribution of relevant enterprises, I will put forward suggestions on the supervision links and methods that should be targeted by supervision.

1.1.2 Defining the social new retailing business model

This paper defines social new retailing as a new retail business model that enables the sale of goods or services through the matrix communication method of social platform and the innovative application of multi-level direct selling. The prerequisites for the realization of this business model are modern supply chain management capabilities and digital technology applications. In the mobile Internet social environment, the spatial distance between people is broken, mobile payment makes peer-to-peer transactions in different dimensions more convenient, anyone can become a seller and a buyer of goods,

and retailing is gradually decentralized. Therefore, whether it is the S2b2c model or the C2B model, as long as it has strong social attributes, modern supply chain management capabilities and digital technology, it all falls within the scope of social new retailing.

Figure 1-3 Social new retailing Concept Relationship

Socialization is the most important feature of social new retailing, which is reflected in the innovative application of interactivity. Social attributes allow channels and marketing to be almost integrated, and sales relationships are diversified and multi-leveled, realizing that participants share sales profits together. Digitalization is another major feature of social new retailing, mainly reflected in Internet collaboration and powerful data computing capabilities, allowing real-time feedback of consumer preferences and demands to manufacturers, and through flexible optimization of supply chain management, inventory and marginal costs tend to be zero, allowing the social new retailing model to burst into unprecedented vitality.

1.1.3 Overview of current regulation in China

Table 1 shows all the current laws and regulations related to the regulation of social new retailing in China. Among these laws and regulations, the *Regulation on Direct Selling Administration* and *Regulation on the Prohibition of Pyramid Selling* stipulate the most basic legal requirements. It can be seen from Table 1 that the two core codes have been implemented for 16 years and have never been amended. Therefore, they are seriously lagging behind the development of business models.

Table 1 Current regulatory laws and regulations

Laws and regulations	Enacted in
Regulation on Direct Selling Administration	August 2005
Regulation on the Prohibition of Pyramid Selling	August 2005
Article 4 of *Amendment (VII) to the Criminal Law*	2009
Opinions on Several Issues concerning the Application of Law in the Handling of Criminal Cases of Organizing or Leading Pyramid Schemes	November 2013
Risk Warning of New Type of Pyramid Selling Activities	March 2016
E-Commerce Law of the People's Republic of China	2019

Although the *E-Commerce Law of the People's Republic of China* was formally implemented in early 2019, the regulation is still insufficient with the continuous innovation and development of the social new retailing model. First of all, social new retailing has the distinctive characteristics of direct selling. The development of modern logistics, big data and other technologies has provided strong support for the flatter and social development of this model, so

that the advantages of direct selling model have been innovatively used by social new retailing. Social new retailing enterprises embed their business activities in online social networks such as WeChat and Weibo, and carry out promotion with the help of shopping information forwarding and sharing by social network users, which realizes the innovative development of multi-level direct selling in the Internet context.

The current *Regulation on Direct Selling Administration* only lifts a restriction on single-level direct selling, and generally treats multi-level direct selling as pyramid selling. Article 3 of *Regulation on Direct Selling Administration* defines direct selling as "the distribution method where direct selling companies recruit direct sellers, and the direct sellers sell products directly to the final consumer in places outside fixed business locations." Although this definition puts forward two major requirements for direct sellers and no-store sales, it fails to clearly define the components of face-to-face sales. Therefore, the direct selling model adjusted by the *Regulation on Direct Selling Administration* and other direct sales models on the Internet are blurred in definitions, which restricts the pace of law enforcement. Secondly, the unclear definition of pyramid schemes in the *Regulation on the Prohibition of Pyramid Selling* has hindered the development of social new retailing. The community stickiness of mobile social network has great commercial value. The customer acquisition method of rebate upon recommendation of social new retailing companies can not only help companies quickly expand the market, but reduce consumer purchase costs and meet consumer needs on a larger scale. However, the current *Regulation on the Prohibition of Pyramid Selling* does not clearly define the entry fee, team-based remuneration method and method of developing

personnel, so that there is certain flexibility in law enforcement. This is not only not conducive to the development of social new retailing, but also easily provides breeding grounds for online pyramid scheme fraud, leading to market chaos. Finally, the existing regulation system has large loopholes and backward technical means, which limit the investigation and treatment of illegal acts, and cannot effectively regulate the development of the industry. In fact, these two regulations are only administrative regulations whose legislative rank is lower than law, and they are insufficient to investigate and deal with illegal pyramid schemes and regulate the direct selling industry. On the one hand, due to the early drafting time, the legal boundaries and legal issues of direct selling and illegal pyramid schemes were not fully exposed at that time. Therefore, the two administrative regulations still have certain limitations, and the boundary between "direct selling" and other off-site selling models needs to be clarified urgently. On the other hand, although the Standing Committee of the National People's Congress passed Article 4 of *Amendment (VII) to the Criminal Law* in 2009, which added "Crime of Leading and Organizing Pyramid Selling" to Article 224 (1), increased the intensity of cracking down on pyramid crimes, and initially realized law-based regulation of direct selling industry and the crackdown on pyramid selling. However, there are still loopholes in the pyramid selling investigation and treatment mechanism in China. The investigation and treatment of pyramid selling and the regulation of direct selling are coordinated by local governments, industrial and commercial administrations, commerce departments, public security agencies, network departments and other regulatory agencies to enforce the law. However, there are still regulatory gaps and regulatory loopholes between regulation departments and regions, causing

network pyramid selling to be an area of “nobody's jurisdiction”, which has also severely restricted the healthy development of the legal direct selling industry in China. The hidden, cross-regional and highly organized characteristics of online transactions, as well as the lack of law enforcement authority, have led to the continuous spread of pyramid scheme organizations in the name of direct selling in practice (Qing, 2009). The regulatory mishandling due to the large loopholes in the regulation severely restricts the development of direct selling in China, and multi-level direct selling is often misunderstood as pyramid fraud.

1.2 Research objectives, ideas and methods

We hope to come up with suggestions on regulatory improvements in order to spur healthy development of social new retailing by researching on and analyzing features of its business model and value creation. The expected objectives of this study are as follows:

Firstly, define the social new retailing business model. The development of social new retailing is a brand-new retail revolution, where the innovation is much deeper and broader than ever before. In addition to innovation in technology, type of business and organization, there is also innovation in model, scenario and payment. Nevertheless, the business essence of "consumer-centric" remains unchanged. At the time of this writing, there is still no standard and accurate definition of social new retailing model, leading to a lack of uniform standards for further research. Thus, this study will focus on giving an accurate definition of the social new retailing business model.

Secondly, probe into the value creation by the social new retailing business model. The analysis and field survey of existing social new retailing business model will be conducted through questionnaire survey and business visit to

develop a profound understanding on the real situation of practitioners and enterprises and examine the business value and social contribution of social new retailing business model, which provides a conducive reference for the regulated development of the industry.

Thirdly, explore the regulatory pattern applicable to social new retailing. First of all, the relevant legal concepts and specific business model are defined. In order to facilitate the innovation of business models, it is necessary to sort out and distinguish the concepts related to direct selling and pyramid selling, the legal definition of business model and its regulatory focus to promote the innovation of regulatory patterns. Next, based on the research on the social new retailing business model, we will propose constructive regulatory ideas and patterns, including examining how to apply new technologies such as blockchain to solve the problem of information asymmetry and how to better leverage the market to propel the sound development of the retail industry.

The methodology used in this paper mainly includes theoretical analysis, questionnaire, empirical study, and interview. Theoretical analysis is primarily used for defining the concept of social new retailing and the comparative analysis of its business model; questionnaire and empirical study are used to examine the business value and potential benefit improvements of social new retailing; while interviews with entrepreneurs, lawyers and regulators are used to explore existing regulatory problems and summarize policy suggestions proposed before.

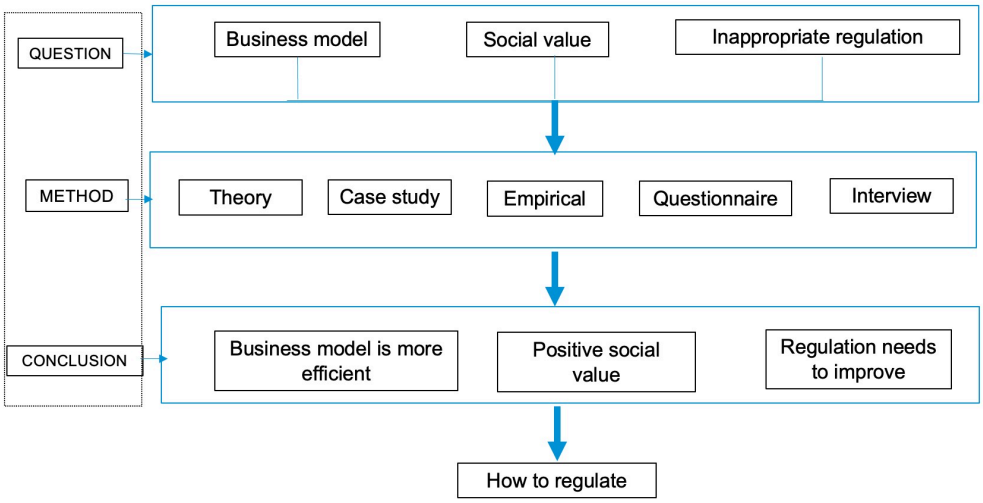

Figure 1-4 Technology Roadmap

1.3 Significance

The study of social new retailing business model can not only enrich the existing theoretical research, but also has very important market value for driving the development of social new retailing and improving the efficiency of social marketing, and is of great practical significance to improve the current regulatory system. To be specific, the implications of this study are reflected in the following aspects:

Firstly, the research on the social new retailing business model and its regulatory pattern has significant theoretical implications. The innovative development of retail industry has always been a favorite topic for study in the industrial and academic communities, and the study of retail theory can enrich the theories in marketing, business management, law and consumer. At present, the research on social new retailing is still in its infancy, as evidenced by inadequate in-depth exploration on the social new retailing business model and a lack of a systematic theoretical framework. For this reason, the research on the social new retailing business model and its regulatory patterns has

considerable theoretical contributions to the development of retail theory in academia.

Secondly, this research has strong practical implications for improving regulatory patterns. As of December 2017, global social networkers have accounted for 32.0% of the world's population and 68.3% of the world's total Internet users; and Chinese mobile social networkers have reached 753 million, making up 97.5% of the total Internet users. The demand for social new retailing from a huge consumer base has been on the increase (Intensive Survey and Analysis Report on China's Social Network Industry). The current regulatory pattern fails to improve the regulation of web-based socialization in the retail industry, especially the regulatory misalignment of social new retailing seriously hinders the development of the retail industry and is adverse to the protection of consumer rights. Therefore, this study provides a constructive reference for improving the regulatory pattern to protect consumer’s rights and boost the healthy development of the market.

Thirdly, investigating the social new retailing business model and its applicable regulatory pattern will help the industry develop. At the end of 2017, 3.05 million people were directly employed in e-commerce industry, 10 million online stores were listed on Taobao, and e-commerce transactions reached 37 trillion. Looking forward, as the mobile Internet continues to innovate, social new retailing has great potential for future growth and will become a major sector of Internet employment. Social new retailing helps rural workers improve their human and social capital, providing a great help for them to put down roots in cities. For example, social new retailing has given rise to "live commerce economy" that is absorbing a large amount of labor, of which nearly half are

with bachelor's degree or below, and 49.7% are from rural areas (Observation on the Current Situation of "Live Commerce" Practitioners), providing a large number of new generation migrant workers with employment opportunities. The multi-level direct selling feature of social new retailing enables consumers to become agents with low barriers to entry, creating employment or life improvement opportunities for the unemployed or low-skilled. In addition, the high service requirements also require social new retailing businesses to train their employees to a certain extent, which also provides a lot of less educated and unskilled laborers, especially new generation migrant workers, with opportunities to get employed and more opportunity for promotion.

Chapter II Literature Review

There is dearth of literature on social new retailing, and the published information focuses on the business values of New Retail and online socialization. In this section, a brief review of the literature is given with regard to: the New Retail business model, the Internet's business values, and the regulatory pattern of Chinese retail industry.

2.1 New retailing business model

The concept of "New Retail" originated in China, and its business model is expressed as: "a group of elements that leverages big data, artificial intelligence and other thoughts and technologies to improve and innovate the traditional production, logistics, operation and other aspects, in order to maximize economic benefits for all players while satisfying the popular market demands of consumers". By analyzing the overall research situation, we can find that New Retail has become a focus of social concern, but quality research findings are still scarce, and research teams and bases are in urgent need of improvement (Caizhen et al., 2018). And the views that consumer-centric New Retail returns to the essence of retail services, leverages data and technology to enhance retail efficiency and is expected to drive supply chain changes have become a consensus in the industry. Existing researches mainly address the following two aspects:

First, summarize the evolution trend and characteristics of the New Retail model from existing theories. Japanese scholar Nishio Nakamasa (1996) introduced the theory of "Wheel of New Retail", explaining the reasons and timing for the emergence of the New Retail model, and analyzing the development course and

law of the Japanese retail industry from the industrial economics standpoint. The "Wheel of New Retail" theory states that the driving force for changes in the retail industry comes from technological innovation, and the generation mechanism of New Retail in China is in agreement with this theory. It is an innovative product of the retail industry breaking through the technological boundaries during the progressing of the "Wheel of New Retail", and also has significant practical implications as a synergistic return of traditional retail and online retail after competition and differentiation (Xiaoqing et al., 2019; Caizhen et al., 2018). Jinmei (2018) claimed that only the type of business that satisfies customer needs and maximizes customer values will become the new type of business in future based on the Need Satisfaction Theory, and that New Retail is the innovative type of business for retail enterprises under the new situation. Guoliang (2018) found out of the Transaction Cost Theory that the group purchase service of socialization-based e-commerce can reduce the number of transactions and lower the transaction cost of merchants, so the benefits produced from reduced transaction cost can be shared with consumers, which has proven an effective promotion means.

Second, summarize the New Retail innovation path and model-specific characteristics from the perspective of real cases. Jianzheng et al. (2018), following a research on the practices of Freshhema and BingoBox, reported that New Retail driven by big data has prominent advantages in consumer orientation, manufacturing and marketing, and has made outstanding contributions to improving the comprehensive competitiveness and operational efficiency of enterprises. From the perspective of consumer experience, Zhengpei et al. (2019) concluded through a case study that New Retail is

centered on consumer experience, realizing online/offline blending in the retail front end, employing emerging technologies to solve the consumer pain points and development bottlenecks intrinsic to the traditional retail model in the midrange, and establishing the new flexible supply chain system in the retail industry at the distal end. Baoyi (2019) examined the core and essence of retail evolution from a two-dimensional perspective, stating that the overall evolution of retail is a process of reorganization around the core elements of "people-goods-place", and it is in essence is a process of optimization and upgrading around cost, efficiency, and experience. The New Retail is a comprehensive retail format that embodies consumer-centric, omni-channel-based optimization of resource allocation. From the resource sharing perspective, Hang et al. (2018) contended that communities are the main inlets of offline traffic, boasting a stable consumer group and are surrounded by a large number of traditional retail enterprises, thus having great potential for development in the context of New Retail.

2.2 Business values of online socialization

Shopping via the mobile Internet has become the mainstream for consumers to shop online (Wang et al. 2015), and the exponential development of social media applications has not only made mobile social network a part of people's lives, but also changed consumers' habits and spawned new marketing models. The economic effect of mobile social media has attracted wide interest in the academic community, and the existing researches on the economic effect of social media deal mainly with the following issues:

2.2.1 Long Tail Theory

Anderson (1994) was the first to introduce the Long Tail concept and later conducted a systematic research. The Long Tail Theory overturns the 80/20 rule (or Pareto's Law) that 80% of a company's profits come from its 20% products. Anderson (1994) compared the business models of Wal-Mart, a traditional brick-and-mortar retailer, and Rhap-sody, an online music retailer, reporting that Rhap-sody sold purely digital products, such as music or pictures, at almost zero marginal cost, with less restricted shelf space than brick-and-mortar stores, and that the heterogeneous demands of many customers brought the company significant profits. It is thus apparent that niche products with small sales volume can seize a comparable or even bigger market share than mainstream products with limited varieties as infinite choices create endless demands. Hence, the Long Tail Theory suggests that the heterogeneous potential demands beyond the mainstream market can converge into a market demand that rivals that of mainstream market, and the varieties of niche products in the market are far more than the limited varieties of best-selling products. Although the sales volume of each niche product is small, the digital nature of the product makes the operating cost of storage and distribution minimal. Moreover, the swift development of Internet connectivity and mobile social network has led to a significant reduction in transaction costs and search costs for both supplier and buyer.

In recent years, increasing research has been done in the marketing models in the context of mobile Internet based on the Long Tail Theory. Xiaomei et al. (2009) was the first to report that China's rural market fits the conditions of Long Tail Theory. Along with the development of mobile Internet, modern

logistics and other technologies and the continuous improvement of infrastructure construction in rural areas, the rural market demand will be greatly released. Bing et al. (2015) introduced the mobile Internet and the Long Tail Theory to Internet finance, arguing that the design of various Peer to Peer (P2P) shared networks, such as WeChat and Facebook, connects a large number of users with different standards or ways of converging, which has virtually segmented the market and supplied more personalized products and services with quality contents to users; and users scattered all around the world gather in online trading platforms, forming a long tail market of Internet finance and improving the efficiency of capital financing and financial services. Yuhong (2013) asserted that the realization of the Long Tail Effect depends on sufficient prerequisites, i.e., sufficient sharing of management costs and low barriers to entry, and that although the Internet can make the pie bigger, reducing management costs remains a problem. However, with the development of mobile Internet, especially the explosive development of mobile social network, this problem will be solved. Haiyan et al. (2018) conducted an in-depth investigation into New Retail based on the Long Tail Theory, finding that the model of "social networking + commerce + benefit sharing" is giving rise to a new retail platform that is personalized, community-based and decentralized, integrating online and offline experience. Such New Retail platform will emerge as focal point in the e-commerce industry that has long been plagued by traffic problem. By integrating social platforms with retail platforms, businesses can not only satisfy customers' social demands but also bring them shared values, which will greatly enhance the platform's ability to attract customers and become the direction of future retail development.

2.2.2 Social media promotes business model innovation

The role of social media in promoting retail and business innovation has been intensively investigated by researchers. Piller et al. (2011) summarized and outlined the innovation possibilities of social media for retailing through a theoretical review, theorizing that the features of mobile social network such as personalization, sharing and dissemination elevate product quality and service level with strong positive effects. However, Pozza (2014) analyzed social media as a part of multichannel model and found that innovation might be the result of companies adopting a multichannel model to maximize the benefits that in turn increases the investment in innovation; therefore, the role of social media on retail innovation is uncertain. On that basis, Torres de Oliveira et al. (2019) constructed a framework of mobile social dynamics by collating data from 414 firms and found that the features such as information sharing inherent to social network have a strong positive effect on guiding firms to innovate their products and services digitally. Similarly, Ibrahim and Wang(2019) found through collating data on Twitter comments, shares and likes that social media can significantly improve companies' product quality, service level and delivery quality. In addition, with respect to the last-mile delivery of online orders, Devari et al. (2017) stated that with the aid of social media, the problems with last-mile delivery can be well solved by avoiding redelivery and significantly reducing courier costs while guaranteeing delivery speed and quality.

The information sharing and dissemination role of social media also contributes to business model innovation. Huang (2018) collected and collated 14.5 million entries of consumer comments, repos, likes and rankings about products and scores of logistics and other related services on Amazon.com. The study

suggested that such information about consumers' evaluation can directly influence the decisions of other consumers, and this form of marketing is directly reflected in the stock prices of related vendors, thus promoting companies to continuously improve their service quality and business models. Likewise, Xianjie et al. (2018) collected and organized data about the posting and dissemination of company information on Sina Weibo in China and obtained similar findings. The mechanism and logic behind these studies is quite different from what Lismont et al. (2018) asserted: consumers or users who are in the same social group have similar purchase behaviors and preferences, and they are more likely to trust others within the same social group and are more willing to share information with them. For Internet companies, the value of information sharing on social media platforms is similar to leveraging corporate performance, which can amplify corporate benefits or exacerbate corporate losses, thus prompting companies to make adjustments according to the value orientation of social network platforms.

The credit value of social media is one of the main reasons for promoting business model innovation. Beibei et al. (2019) incorporated borrowers' social information collected from mobile phones into personal credit risk assessment, and the empirical results showed that social information has a significant impact on default risk; and the personal credit risk assessment model incorporating social information performs better. Shaojian et al. (2019) concluded from research on a crowdfunding model of marketing and publicity based on social network postings that the "crowdfunding-socialization-crowdfunding" model performs better than other methods of crowdfunding in all cases.

2.2.3 The fan economy in social media

Opinion leaders and Internet celebrities in social networks play an important role in marketing and public opinion, and fan economy and Internet celebrity economy are emerging as a new marketing model. Guoqiang (2019) identified topic areas by analyzing Twitter users' messages (Tweets), and then constructed user role relationships accordingly, and finally located the influential dominating figures in a specific topic area. This study provides a methodological basis for targeting the roles of opinion leaders in social networks. In the field of practical application, Aifeng et al. (2019) found that opinion leaders have a great influence on public hot spots and a strong leading effect on fan behaviors, which in turn exerts a significant impact on retailers' interests and changes retailers' pricing strategies, among others. Based on the reality of "influencer marketing", Yao et al. (2017) found through case study that the synergistic evolution of companies with two types of special consumers including opinion leaders and key civilians give rises to two paths for marketing transformation: one is to cooperate with opinion leaders to build a transaction medium to strengthen the competence trust of ordinary consumers; and the other is to cooperate with key civilians to build a communication medium to enhance the emotional trust of ordinary consumers.

2.3 Relevant laws, regulations and regulatory system

The existing regulatory system is subject to the *Regulation on Direct Selling Administration*, the *Regulation on the Prohibition of Pyramid Selling*, the *Criminal Law Amendment (7)*, and the 2013 judicial interpretations of the Supreme People's Procuratorate, the Supreme Court and the Ministry of Public

Security jointly on the severity of pyramid selling offences and judgment standards. Although the scope of pyramid selling defined is getting closer to that of pyramid selling fraud, there are still ambiguities in the judicial interpretations. In 2009, pyramid selling fraud was incorporated into the *Criminal Law Amendment (7)*, which arouse wide attention and discussion in the academic and judicial circles. It is a judicial breakthrough that crime of organizing and leading pyramid selling activities and crime of fraud replace crime of illegal business operation.

2.3.1 Research on the definitions of relevant legal concepts

Many scholars currently question the definitions of concepts related to pyramid selling and several other basic issues, arguing that the judicial interpretation of pyramid selling is rather vague, and that there are imaginative joinder of offences and cross-statutes joinder of offences with other laws, which seriously affect the implementation of regulatory actions. The direct selling model is a business model introduced by the Chinese government. The practice of separating multi-level direct selling from direct selling and incorporating it into the concept of pyramid selling for separate legal regulation for the purpose of protecting consumers and promoting business development goes against the business nature of the direct selling model, raises the barriers to entry for direct selling enterprises, and tacitly allows licensed enterprises to carry out pyramid selling. It tends to cause the blurring of the concept, does not conform to the basic principles of Criminal Law, is not conducive to the establishment of market order and hinders market development (Hongmin, 2005). Mingkai (2009) was the first to systematically propose that "defrauding property" becomes the basic feature or constitutive element of the crime of pyramid selling. Any person

who organizes or leads others to engage in pyramid selling activities and defraud property and thus commits both the crime of organizing or leading pyramid selling activities and the crime of fraud shall be given the graver or gravest punishment based on imaginative joinder of offences; the participants of different types of pyramid selling activities may additionally bear criminal liabilities for crimes such as illegal business operations and fraudulent fund-raising. Xionghua (2010) also asserted that committing both the crime of pyramid selling fraud and another crime constitutes an imaginative joinder of offences with other laws, and shall be given the graver or gravest punishment; but if other acts constitute other crimes in the process of fraudulent pyramid selling, then cumulative punishments shall be imposed. Later, more scholars argued that the crime of organizing and leading pyramid selling activities and the crime of fraud constitutes statues (special & general statues) joinder of offences; while the crime of organizing and leading pyramid selling activities and the crime of fraudulent fund-raising are not in a special-general relationship but in a relationship of cross-statues joinder of offences, in which case, the graver or gravest punishment shall be imposed (Xueyong and Chunhua, 2019; Xingliang, 2016).

2.3.2 Research on the lagging regulatory pattern

A large number of cases have proven that the current regulatory system and pattern lack relevance and foresight, which not only cannot effectively regulate the expansion of enterprises, but also are not conducive to the maintenance of market order and consumer protection. Qing (2015) summarized the "Pacific Direct Purchase Case" and found that the existing regulation could not effectively supervise models and products involving finance and other fields,

and there was ambiguity in legal recognition that pyramid selling was only a business model, and some crimes that should be punished as financial fraud and other crimes were found to be crimes of leading and organizing pyramid schemes, which reduced the punishment for criminals. Taking the "Hengyuanxiang pyramid scheme case" as an example, Jianan and Tianjing (2012) analyzed the business model and the enterprise financial management system and found that enterprises involved in pyramid schemes are usually punished because of the lack of effective marketing network and financial management in the process of rapid expansion, negligent management of franchisees, and the lack of early warning mechanism in the regulatory system, which leads to franchisees or distribution network members using the pyramid scheme model to make illegal profits.

The pyramid selling model has long existed in China in both legal (with a direct selling license) and illegal forms, has permeated many industries, evolved in various forms, and the number of practitioners has increased, and many elements of pyramid selling have become part of our lives and are still generating new variants with the help of new business models. Changgeng (2018) conducted a large number of field surveys and found that multi-level direct marketing has penetrated so deeply in grassroots society that the illegal model, which was notorious for violent hostage-taking, no longer exists. Multi-level direct marketing has not only helped a large number of underclass youth to better integrate into the city, but also played a role in improving the literacy of the underclass, but its positive effect on the underclass is weakening due to the long-term strict regulation of the pyramid selling model, and there is a lack of a regulatory system in line with the development trend of the times. With the

in-depth popularity of the Internet and the development of information technology, the online pyramid selling model has become the mainstream of pyramid selling, and the simple crime of organizing and leading pyramid schemes can no longer justly stop the crime and regulate the market development (Gaofeng et al., 2018). It is difficult to distinguish between participation in pyramid schemes, organizing and leading pyramid schemes, and fund-raising fraud under the current regulatory pattern guided by laws and regulations, which leads to the ambiguous identification of participants and victims. As the legitimacy of "team-based remuneration" has become supported by mature technical and market conditions, the lagging problem of current regulatory pattern is worsening (Xuyu and Yuhong, 2014; Xueyong and Chunhua, 2019).

2.4 Comments of literature review

A large number of studies have confirmed the significant shaping effect of mobile Internet penetration on retail business models. Existing studies have conducted more in-depth research on retail model development trends, characteristics, and the economic value of digital technologies such as the mobile Internet. The rapid evolution of the socialization of new retail models is a unique development characteristic of China's retail models, but existing studies mostly focus on the interpretation of emerging models, lacking in-depth comparative analysis of the commonalities and personalities of various emerging models, and lacking a systematic and comprehensive grasp of the overall development trend. Existing studies on current laws and regulations and regulatory patterns also focus on the rationality and shortcomings of the legal level, lacking in-depth integration with the real situation, therefore, a large

number of studies are limited to pointing out the loopholes of laws and regulations and regulatory shortcomings, without being able to put forward constructive rectification opinions. All in all, existing studies have discussed business model research and regulatory pattern research in depth, but lack more specific research, and lack research on the economic value of business model development, social value, and the real situation of practitioners.

Chapter III Research Design

The focus of this research is to prove the value of social new retail and explore ways of improving the regulatory pattern. The value of social new retail consists of its commercial and social value, where the commercial value is examined via case analysis and interview with the focus on its commercial efficiency. This research on the social value of social new retail lays more emphasis on improvements of welfare of the practitioners and a combined methodology of empirical study, questionnaire and interview is used, since the data used in this paper mainly comes from questionnaires of the practitioners in the industry. When it comes to product quality, which is both a key factor influencing company development and one of the great concerns of consumers, no data in this research is sufficient enough to support a causal inference between social new retail and product quality, Instead, relevance between them is explored to provide some empirical support for the conclusion of the research.

3.1 Case selection

The case study focuses on the characteristics of social new retail business models and the regulatory issues they face.

Two typical representatives of new social retail business models are "Pinduoduo" and "Yunji", which are very different from traditional e-commerce. Pinduoduo is the representative company of social e-commerce in China, while Yunji is the representative of new retail companies. Both companies have been successfully listed in the U.S., and their performance has been maintaining a high growth rate. Compared with e-commerce companies such as Alibaba, the business models of Pinduoduo and Yunji are perhaps more dynamic.

Founded in September 2015, Pinduoduo is a third-party social e-commerce platform that focuses on C2B group purchase. Users can enjoy lower purchase prices by initiating a group purchase with family, friends, neighbors, etc. through WeChat. The social concept formed through mobile Internet communication and sharing has formed the unique social new retailing thinking of Pinduoduo, which has been online for one year, with Pinduoduo's single-day turnover exceeding 10 million yuan and the number of paying users exceeding 100 million. In less than 10 months, it has finished the road taken by traditional e-commerce in three to four years, and has now become one of the top three e-commerce platforms in China, with 500 million active users.

Yunji is one of the largest social new retailing enterprises in China, which started its operation in February 2015 and successfully landed on NASDAQ in May 2019. Based on the mobile Internet ecology, Yunji has built a supply chain platform that integrates beauty, digital, mother and child products, and fresh food. With the concept of "making buying and selling simpler and making life better", it has been rapidly promoted and entered the list of top 100 Chinese retail enterprises in 2018, gaining market recognition.

3.2 Empirical Research Design

The purpose of empirical research is to verify the social value of social new retail. This paper proposes that the researchers say, regression analysis and robustness test to verify whether social new retail is conducive to promoting the improvement of practitioners' welfare and whether it has a positive effect on the improvement of product quality.

All the data of the empirical research are from our questionnaire. The data in this article is cross-sectional data, which includes work information such as

practitioners' participation in new social retail hours, and also covers individual information such as age. Due to the good method and design of the questionnaire, a higher-quality data set was obtained.

3.3.1 Research Hypotheses

Hypothesis 1: The role of social new retailing in improving welfare of practitioners has no correlation with such factors as practitioners' age, hukou and education background

Social new retailing provides a large number of jobs to the society and transforms original consumers into practitioners or entrepreneurs in order to get greater welfare According to previous researches, the income of laborers has strong correlation with such factors as age, hukou and education background and individual differences in such factors are usually the results of opportunity inequality. However, the increase in income of social new retailing practitioners relies completely upon individuals' efforts. The low entry barriers of the social new retailing business model offer a change for a large group of low-education and low-skilled population to enter cities, increase their income, improve their comprehensive quality via trainings on skills and values provided by enterprises and create better lives for themselves.

Hypothesis 2: Social new retailing business model has positive correlation to improved welfare of practitioners.

One of the questions to be answered in this paper is whether social new retailing has positive impact on consumer welfare. The value of a good business model lies in that it promotes social employment and improve the welfare of practitioners and consumers. Social new retailing enterprises promote their products by the way of communications of the social platform, which helps cut

their sales cost, improve sales efficiency and make its product prices more in line with market rules. Thus, the price is not the great contribution made by social new retailing enterprises to improving consumer welfare. The core point of social new retailing in improving consumer welfare is whether it provides better products for consumers. We verify that product quality is a core variable of improved welfare of practitioners to indirectly show that social new retailing improves consumer welfare by improving product quality.

Hypothesis 3: Social new retailing is positively correlated with product quality.

On the one hand, product quality is a key factor in determining the commercial interests of social new retail. If the product quality is not good, companies cannot promote sustainable products through the social new retail business model. On the other hand, the efficient product promotion model of social new retail enables consumers to better feedback information about product improvements to companies, which helps companies upgrade their products. Therefore, we assume that there is a positive correlation between social new retail and product quality.

3.2.2 Model setup

Benchmark regression

To test the value of the contribution made by social new retailing to social employment, a regression analysis model is set up in this paper as follows for empirical test:

$$value_i = \alpha + \beta_1 individual_i + \beta_2 SNS_i + \beta_3 product_quality_i + z_i \qquad (1)$$

Here $value_i$ refers to a series of variable of welfare improvement of practitioners, including improved income; $individual_i$ refers to a series of

variable of individual characteristics of practitioner I, including education background, with the aim to examine whether individual characteristics affect the improvement of its welfare; SNS_i refers to the characteristics of the social new retailing enterprise of practitioner i to validate the role of the social new retailing business model in improving welfare of practitioners; $product_quality_i$ refers to the quality of the products sold by practitioner i to validate whether product quality has obvious impact on improvement of welfare of practitioners; z_i is the disturbance term.

If β_1 has no significant regression result, it means there is no significant correlation between individual characteristics and improvement of welfare of practitioners and hence, the hypothesis 1 is verified. If β_2 has significant positive regression result, it means the social new retailing business model has significant positive impact on the improvement of welfare of practitioners, hence the hypothesis 2 is verified.

Product quality

Product quality is the key to the value of social new retail, whether for practitioners or consumers, as benefit distribution and welfare of all related parties depend upon product quality. To further explore the relationship between social new retailing and product quality, this paper establishes:

$$product_quality_i = \alpha + \beta_1 individual_i + \beta_2 SNS_i + +z_i \quad (2)$$

If β_1 is not significant and β_2 is significantly positive, it means there is a positive correlation between social new retail and product quality and no significant correlation between product quality and individual characteristics of the practitioners, which verifies hypothesis 3.

3.2.3 Variables and measurement

(1) Variables of improvement of welfare of practitioners (value_i).

Improvement in welfare of practitioners consists of two aspects: increase in income and psychological feeling. To be more specific, we use increase in individual income ($income_up$) and increase in family income ($familyincome_up$) to refer to increase in income and skill improvement ($skill_up$), extent of expansion of circle of friends ($friendship$), and degree of sense of accomplishment ($achiveablity$) as proxy variables of improvement of welfare of practitioners. As shown in Table 2, each variable has five scales 1- 5 to stand for the degree of improvement, where 1 stands for no impact and 5 stands for great impact.

Table 2 Description of welfare improvement variables

Variable	Measurement
$income_up$	1: no impact; 2: slight impact; 3: medium impact; 4: large impact; 5: great impact
$familyincome_up$	1: no impact; 2: slight impact; 3: medium impact; 4: large impact; 5: great impact
$skill_up$	1: no impact; 2: slight impact; 3: medium impact; 4: large impact; 5: great impact
$friendship$	1: no impact; 2: slight impact; 3: medium impact; 4: large impact; 5: great impact
$achiveablity$	1: no impact; 2: slight impact; 3: medium impact; 4: large impact; 5: great impact

(2) Individual characteristics variables (individual_i).

We select age (age_i), education (edu_i), skill level ($skill_i$), hukou ($hukou_i$) and health condition ($health_i$) as individual characteristics variables of

practitioners. age_i uses years of education to indicate educational level. The longer the years of education, the higher the educational level. $skill_i$ has a range from 0 to 1, where 0 means that practitioners have no occupational skill certificate and 1 means that practitioners have occupational skill certificates. $hukou_i$ has a range from 0 to 1, where 0 practitioners come from rural areas and 1 means practitioners come from cities. Hukou system is a unique population system in China and a flood of literature shows that hukou has significant impact on Chinese economy. Practitioners with rural hukou have significantly weak competitiveness in labor market and benefit distribution compared with practitioners with urban hukou and are more prone to unfair treatment (Cai et al., 2010, 2014; Chewei et al., 2012). Health condition ($health_i$) uses five scales from 1 to 5 to represent practitioners' evaluation of their own health level. The greater the number, the better the health condition.

Table 3 Description of individual characteristics variables

Variable	Measurement
edu_i	Years of education
$skill_i$	0 means no occupational skill certificate; 1 means practitioners have occupational skill certificates.
$hukou_i$	0: rural hukou; 1: urban hukou
$health_i$	1: poor; 2: not so good; 3: ordinary; 4: good; 5: very good

(3) Characteristics of social new retailing business model (SNS_i).

Multi-level sales network is one of the most noticeable characteristics of social new retail. Here, we use team size ($teambers_i$) as a characteristic variable to measure social new retailing. The greater the value of $teambers_i$, the greater the size of the team the practitioner is in and the more the level. Besides, we

also take into account whether practitioners work full-time in social new retailing. We set the variable $fulltime_i$ with the range from 0 to 1. When $fulltime_i = 0$, it means practitioner i works part-time in social new retailing; when $fulltime_i = 1$, the practitioner works full-time.

(4) Product quality (product_quality_i).

We use the practitioner's evaluation result of its products as the proxy variable of product quality. $product_quality_i$ uses five scales from 1 – 5 to indicate product quality grade. The greater the number, the better the quality.

3.3 Questionnaire design

The questionnaire survey was conducted in the form of a randomly distributed questionnaire for Chinese social new retailing industry practitioners. The questionnaire survey mainly examines the basic conditions of social new retailing industry practitioners and the value enhancement brought by their participation in the work. The questionnaire is made up of 5 parts, with 66 questions in total. Part I is about the basic personal information of the practitioners, including age, education, health status and other particulars. The basic information was collected to get a portrait of the practitioners, i.e., which group of people are more involved in the social new retailing industry, and whether these factors have an impact on their welfare improvement, for example, whether their education or health status has an impact on their work. Part II is about the working status of the practitioners, which involves information on the reasons for engaging in social new retailing, work team status, training status, company conditions, product quality, after-sales service, etc. The focus is to understand their working status, business model, product issues and sales service issues. Part III is about the practitioners' value acquisition, including the

degree of income improvement, job fulfillment, skill enhancement and friend circle expansion, etc. The focus is to understand whether the practitioners have improved their self-worth and satisfaction through engagement in social retailing. By collecting the answers to these questions, we can basically determine whether social new retailing can create values for the practitioners. Part IV is about the evaluation of practitioners' work by people around them, including the degree of support from their family or friends for working in social new retailing. The purpose is to understand people's attitudes and opinions towards social new retailing, which is crucial for practitioners because this profession needs to be socially recognized. Part V is about the practitioners' knowledge, opinions and suggestions on laws and regulations, which reflects their true views on industry regulation.

Affected by the COVID-19, the questionnaires were randomly distributed to practitioners using online channels. Sojump provided us with an easy way to do this: first, we typed the questionnaire into the Sojump system to form an electronic questionnaire. When respondents completed the electronic questionnaire, the data was fed back to the system and stored in a specific device to ensure data security. Secondly, we distributed the electronic questionnaires to the respondents via social networking platforms such as WeChat, and the respondents can answer the questions on their cell phones, which was easy to operate.

The respondents were selected randomly, which effectively avoids the problem of sample selection bias. We distribute questionnaires to participants through training sessions organized by third-party organizations. Participants come from different companies, a total of about 50 people, they can voluntarily choose

whether to participate in the survey. A total of 30 participants participated in the survey. They randomly distributed the questionnaires to other colleagues and conducted the survey. Finally, a total of 315 questionnaires were distributed. 315 copies of these questionnaires were distributed on April 8, 2021, and were recovered on May 30, among which 303 valid questionnaires were recovered, accounting for 96.19% of total questionnaires. The efficiency of the questionnaire was higher than expected for the following reasons: first, the efficient way of questionnaire distribution and retrieval. The questionnaires were sent by social software, and the system automatically retrieved the results, which was extremely simple and efficient to ensure the efficiency of retrieval. In addition, the random selection of respondents was based on the random selection of companies and teams, firstly, the companies or teams were randomly selected, and then randomly sent to their own agents after being approved by the companies and teams, and the top-down route improved the recovery rate and respondents' trust level Second, the questionnaire design was simple. The questionnaire questions are mainly multiple-choice questions, and the questions are set short, each questionnaire takes only 6 minutes to fill out on average, and the questionnaire design form is easy for respondents to accept the survey. Third, the respondents are highly willing to participate in the questionnaire survey. The purpose of the questionnaire is to reflect their real situation and listen to their suggestions, supplemented by certain compensation as incentives, which makes the respondents highly willing to participate. This can also be seen from the high quality of the questionnaire results. Fourth, the subject group enjoys a high credibility. The person in charge of this study is an influential entrepreneur in the industry who is highly trusted by others.

3.4 Interview survey design

In order to have a more comprehensive understanding of the value of the social new retailing business model and regulatory rules, the research method of interview is used for further exploration. The interview survey is designed as follows:

Selection of respondents. The research interviewed 5 experts who are familiar with social new retailing business models and laws and regulations: Respondent A is the founder of a well-known social new retailing company in China, and Respondent B is a senior lawyer team from a well-known law firm in China, Respondents C, D, and E are all experienced managers in the social new retail industry.

Explanation of interview method. In consideration of COVID-19, we conducted telephone interviews. We conducted a 40-minute telephone interview with Respondent A on May 16, 2021, and the whole process was not recorded. We conducted a 39-minute telephone interview with Respondent B on July 1, 2021, and the whole process was not recorded. On October 1, 2021, interviewees C, D, and E were interviewed by telephone for 39 minutes respectively, and the whole processes were not recorded.

Subject of the interview. Our questions for Respondent A mainly focused on the discussion of the value of business model and the understanding of regulatory rules. Respondent A has intuitive experience of the industry because of having been running a social new retailing company for five years, and has a good understanding of regulatory rules and enforcement procedures due to the experience of undergoing related investigations by the regulatory authorities, which has provided great help for our research. Our interview with Respondent

B focused on the interpretation of relevant regulations and improvement suggestions for regulation. Respondent B is a senior lawyer who has a very professional view on the laws related to social new retailing, and is very familiar with the relevant law enforcement procedures and regulatory rules, which has provided legal professional assistance for our research. Respondents C, D, and E have many years of industry management experience, are relatively familiar with relevant laws, and have profound insights into the problems existing in the development of the industry.

Chapter IV Research Findings

4.1 Case analysis findings

4.1.1 Business model features

(1) Pinduoduo Business Model

The premise of a product's success is whether the business model is reasonable and whether there is enough room for growth. Pinduoduo's strategy of focusing on low price offers requires solving three problems.

How to make the merchant side willing to sell at very low prices.

How to find the target user group on the buyer side.

How to achieve the connection between people and goods.

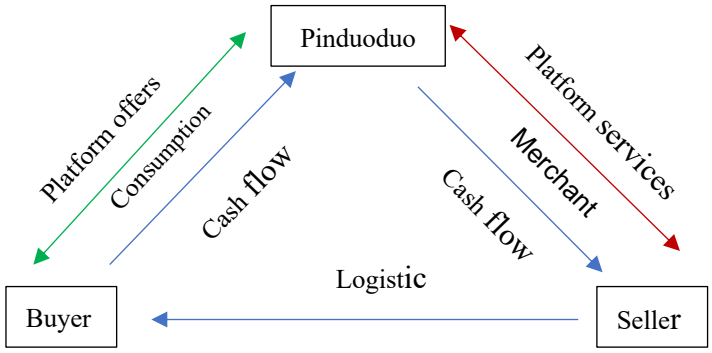

Figure 4-1 Pinduoduo's Business Logic

a. Merchant resources

Pinduoduo is very prudent in selecting merchants for listing on its platform. In 2015–2016, the Chinese market was undergoing a movement called "consumption upgrade", which had a significant negative impact on small and medium-sized merchants. The B2C model of Taobao and Jingdong has limited support for small tail merchants, and the survival space and interests of tail merchants in Taobao are increasingly being encroached upon. The small and

medium-sized businesses that are being crowded out and cleared out in the continuous upgrade are the resources of the initial merchant side of Pinduoduo. The merchants gradually gathered, new small and medium-sized merchants continue to enter, how can Pinduoduo make this group of merchants willingly give profit? First of all, most of these merchants are self-produced small manufacturers or low-end sellers who cooperate with small manufacturers, the goods sold are mostly "white goods", that is, non-brand goods, less intermediate circulation links, low intermediate costs, no brand premium, compared to the brand goods on the market, the price is much lower. Secondly, the sale of overproduction goods. China now still faces the problem of excess capacity. Unsold goods will produce additional cost for each day they are stored in the warehouse. In the circumstances where the marketing cycle is expected to be long, merchants are willing to list the goods on the Pinduoduo to sell at cost price for recouping funds. Finally, this is a new platform, new competitive opportunities, many of the original waist, tail merchants have the opportunity to become head merchants in this platform, and the platform's low-price strategy is bound to make its traffic resources to low-priced goods, so the merchants take the initiative to make profits is the most effective means of competition in the new environment (compared to other platforms complex operation).

And what can Pinduoduo bring to these merchants? The new platform and opportunity mentioned above is one aspect. Another point is also crucial. Pinduoduo can achieve a certain degree of volume customization to the upstream supply chain through the aggregation of consumer-side demand. A major difficulty for small and medium-sized manufacturers to survive is the uncertainty of production: insufficient knowledge of market information makes

it difficult for them to determine exactly what and how many goods they need to produce. High production fluctuations also lead to high production costs (e.g., the production line is suddenly more or less, suddenly stopping or starting, and the effective utilization of the manufacturer's production resources is extremely low). Pinduoduo will gather the consumer side of the demand, giving small and medium-sized manufacturers enough demand information, according to which manufacturers can carry out a certain period of time production resources rational planning. In turn, the reduction of production costs can further compress prices, thus forming a positive cycle. In the early days of Pinduoduo, in order to encourage merchants to station and give them traffic support, merchants can use very low marketing costs to sell goods, the circulation costs are reduced, and the selling price is naturally lowered.

b. User search

After merchants are found, the next thing to solve is how to find users. Huang Zheng (founder of Pinduoduo) understands the users of Pinduoduo as "price-sensitive users". It may be considered from two perspectives. The first is the group of low spending power, typically the user group in the third and fourth tier cities and below. Also from 2015 or 2016, smartphones quickly spread to the following third and fourth-tier cities, and a large number of sinking users were swept into the mobile Internet, bringing a huge wave of traffic benefits that have not yet been fully utilized. This group has a low per capita disposable income, is more price sensitive and pursues cost effectiveness. With the further development of Pinduoduo, the proportion of users in first and second-tier cities is gradually increasing. The reason for this is that most of the population will not cover all aspects of the pursuit of high quality goods, and in some scenarios,

low priced goods are extremely attractive (e.g. a guy may be extravagant in digital products, but pursue low prices when buying FMCG products). The size of the user scenario demand for low-priced goods is in fact enormous. If you can buy reliable quality goods at low prices, users in first and second-tier cities can also become loyal users of the products.

c. Linking people and goods

Pinduoduo took advantage of WeChat's rich traffic pool to complete the initial low-cost customer acquisition. WeChat needs Pinduoduo to guide users to complete the payment loop in WeChat, and when users are used to pay with WeChat, WeChat provides endless imagination for the linked service merchants. How does Pinduoduo use the traffic of WeChat? First, the deep insight into the shopping scene of the target group, and then moved the shopping scene of the three to five people into WeChat; in the product design, the understanding of the shopping scene, into the whole process of product experience. Second, the game-based product design takes advantages of human weaknesses (greed/comparison/following the crowd) to guide product conversion. Third, based on the refined operation of small wins strategy, MVP closed loop is launched first, and the marketing program is adjusted according to online data feedbacks with conversion rate or gmv as the indicator.

d. Marketing model

Pinduoduo has developed two main marketing models: "group purchase" and "bargaining". "Group purchase" is a way for users to invite others to buy a product together through WeChat to enjoy a lower price per unit. "Bargaining" is to invite others to become active users of Pinduoduo through WeChat, so that they can enjoy discounts on purchases. This mode requires users to invite more

than one person, the more people they invite, the more discounts they can enjoy, and the invited can further invite others to enjoy more discounts.

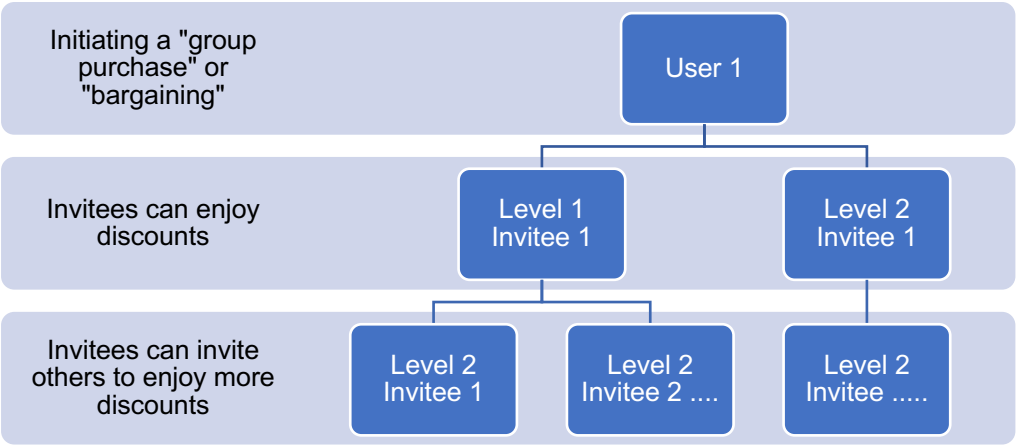

Figure 4-2 Pinduoduo's Marketing Model

Pinduoduo's value proposition of selling products at low prices, social sharing, satisfying consumers' psychology of taking advantage of bargains, and helping merchants build their brands are important factors for its success. It initially segmented its customers to new Internet users in third and fourth tier cities, the "tail" of consumers with low disposable income and extreme price sensitivity, who do not care about the brand value of products, but only about practicality. In addition, Pinduoduo adopted the C2B social e-commerce model to develop customer channels, and in the early stage of its establishment, it used the WeChat bonus to obtain a large number of users at low cost, and also organized seckilling and other activities to leverage the social power of consumers for promotion purpose, and increased exposure through celebrity endorsement and variety show publicity. It has established a mutual trust customer relationship through group purchase, special marketing such as friends helping for free of

charge, brand discounts and bargaining for free of charge as well as seckilling, bonus applets and other activities to attract consumers' attention and interest.

The socialization features of Pinduoduo are the core of its business values. Pinduoduo has perfectly applied the multi-level direct marketing model to the mobile Internet environment, achieving fissionable growth of its user base. Through the social media network community effect, different users are classified into the e-commerce platform to achieve the accurate grasp of user needs. WeChat is the largest social media in China with 1.2 billion active users and online payment function, and the deep bundle between Pinduoduo and WeChat becomes the core value of the socialization attribute, realizing a win-win situation for both WeChat and Pinduoduo.

(2) Yunji business model

The business model of Yunji is as follows: individuals get the qualification of opening an online store by paying 398 yuan membership fee, and become an online store owner on the platform of Yunji, who has certain shopping discounts and gift benefits, and can form their own marketing team by inviting others to become new members, and can become a supervisor when the number reaches 100, and has the right to share 15% of the profits from the sales of goods in the team, and get 150 yuan rebate from the 398 yuan membership fee of new members as training fee, which is uniformly distributed by the platform, and sign a part-time labor contract with the platform. When the total number of store owners in the team reaches 1000 and train 30 supervisors they can apply to become a manager and enjoy 5% share of the team's profit and a rebate of 60 yuan on the new member's initiation fee. Store owners can select their own approved products on the Yunji platform, buy them at a certain discount price,

consume them themselves or sell them to non-paying members, or share the product purchase information to other online users for sales through social media, and also sell them offline. The goods provided by the Yunji platform are first screened by the platform for quality, and then the store owner sells goods that he has consumed or understood, with a certain degree of initiative, so the information asymmetry between consumers and the goods provided is alleviated. The multi-level profit-sharing format also promotes the motivation of store owners to expand their teams, and as of 2019, the number of paid members (store owners) on the Yunji platform reached 9.6 million, the number of ordinary users reached 45 million, the total turnover was 35.2 billion yuan, and the total revenue was 11.672 billion yuan.

The success of Yunji's business model lies in the full use of the social attribute of the mobile Internet ecosystem and the quality control of product selection. Anyone can "open a store" on the Yunji platform, buy goods through the platform, and then sell them to other online and offline consumers, or consume them themselves, and only need to pay the platform a management fee of 365 yuan a year and a membership fee of 398 yuan, which greatly reduces the threshold of participation and gives ordinary people the opportunity to start their own businesses and side businesses through the Yunji platform, breaking the boundaries of the identities of participants, entrepreneurs and consumers.

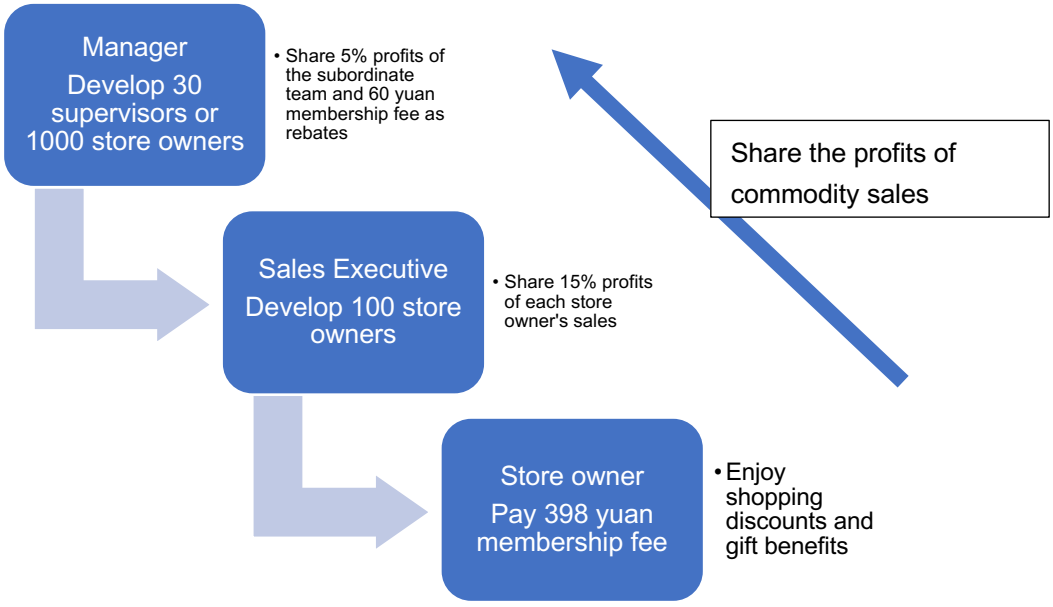

Figure 4-3 Yunji's Business Model

(3) Comparison between Yunji and Pinduoduo

Though both of them are new models of social new retail, the core difference between Yunji and Pinduoduo is the way they apply multi-level direct sales. Yunji is to achieve sales growth through multi-level profit sharing incentive mechanism, while Pinduoduo is to achieve sales growth by combining merchants and users through product price discount. In the mobile Internet environment, multi-level direct marketing is gradually upgraded to social attributes, breaking the original physical communication barriers, realizing one-to-one and one-to-many real-time interaction, and forming a network community.

Table 4 shows the comparison between Yunji and Pinduoduo. Although their business models are slightly different, their social attributes and multi-level marketing models have greater similarity, and their essence is to achieve economies of scale through the fission-level propagation effect of social media. From the point of view of incentive mechanism, due to the difference of

business core logic and different positioning of users, different incentive mechanisms are chosen. For Pinduoduo, by integrating a large number of merchant resources and user demand, the transaction is aggregated through the price mechanism to realize a community-based and bulk sales model oriented to user demand. In the case of Yunji, the profit-sharing mechanism allows the products to be marketed in communities with different needs, completely breaking the identity boundary between sellers and consumers.

Table 4 Comparison between Yunji and Pinduoduo

Item	Yunji	Pinduoduo
Business model	S2b2c	C2B
Socialization features	Network community-based operation	Binding WeChat
Marketing hierarchy	Multi-level sales network	Multi-level sales network
Hoarding	No hoarding	No hoarding
Sales incentives	Multi-level sharing of product sales profits	Sharing product discounts and offers
Source of profits	Merchandising	Merchandising
User status	Seller + consumer	Promoter + consumer

Table 5 Comparison between different business models

Item	Social new retailing	Multi-level direct selling	Traditional e-commerce
Socialization features	Very strong	Strong	Weak
Sales hierarchy	Multi-level sales network	Multi-level sales network	Single-level sales network
Operation and management model	Digital operation	Traditional offline management	Digital operation
Supply chain management capability	Very strong	Weak	Strong
Hoarding	No hoarding	Hoarding	Hoarding
Sales incentives	Profits sharing + referrer discounts	Profits sharing	Promotion activities
User status	Seller + consumer	Seller + consumer	Consumer
Business model efficiency	Very high	Medium high	High
Core purpose	Creating more consumer values	Merchandising	Meeting consumer demands

(4) Comparison between social new retailing and other business models

Table 5 demonstrates the differences between social new retailing and other business models. The core difference between social new retailing and multi-level direct sales is that the former is new retail and the latter is traditional

distribution, with significant differences in business logic and technology level. The core difference between social new retailing and traditional e-commerce is the socialization attribute. Due to the socialization attribute, social new retailing performs better in terms of efficiency and operational management capability. Although social new retailing has the characteristics of direct sales, the business logic behind it is fundamentally different from the traditional direct sales model. First, the operation logic is different. Social new retailing is a product of the mobile Internet era, while the direct sales model is a product of the industrialization era, and there are major differences in its operation mode and organizational management. The core logic of social new retailing is to build a platform based on Internet ecology, and its core logic is to accurately powder existing traffic users, eliminate information asymmetry, realize accurate marketing, and meet users' personalized needs through digital technology, while the core logic of traditional direct sales model is to reduce marketing and promotion costs and expand sales scope. Second, the core purpose is different. The core purpose of new social retailing is to provide consumers with better service experience and value-added, rather than simply to promote products. Third, new social retailing focuses more on consumers' personalized needs. The social new retailing model enables a strong interactive relationship between consumers and suppliers, enhancing consumer initiative and optimizing supply chains and production through tools such as big data and artificial intelligence, rather than consumers passively accepting standardized products and services. Fourth, the logic of identity transformation between consumers and participants is different. Direct sales are to pull more people to join to achieve revenue growth through the personal relationship of the salesperson, while social new

retailing is to achieve word-of-mouth communication and brand promotion with the strong interactivity and communication of the social platform itself, lowering the threshold of participation and completely breaking the identity boundaries of consumers, sellers and promoters, which is a product of social networks. Therefore, social new retailing is an innovative application of the direct sales model in the Internet era.

There are also fundamental differences between social new retailing and the Internet direct sales model. New social retailing is completely grown within the mobile Internet ecosystem, with more emphasis on digital operation and management, while online direct sales is using the Internet as a tool to broaden sales channels. The online direct sales model is a transitional product of the combination of industrial mass production and Internet marketing, which aims to broaden marketing channels and form an omni-channel marketing model combining online direct sales and traditional retailing to provide consumers with bulk, standardized and homogenized products or services. Although some online direct marketing has certain socialization attributes, its goods or services are the production service method of the industrialized era. As consumers' income, age structure, consumption habits and preferences change, it is difficult for online direct marketing to meet the demand for personalized, customized and word-of-mouth products and services, therefore, its socialization method is still dominated by high welfare rebates, and it is difficult to form real word-of-mouth transmission, community communication and fan communication, and it is more difficult to precisely target the needs of specific consumer groups, and there is limited room for further reduction in sales costs. In contrast, the supply chain platform built by the new social retailing relying on the mobile Internet

ecology is more likely to meet the changing needs of consumers, and its socialization is reflected by word-of-mouth transmission, fan communication, and community communication, making it possible for consumers to be accurately classified. Therefore, there is a natural difference between social new retailing and online direct sales, as the former is a product of the Internet era, while the latter is a product of the transition from the industrial era to the Internet era.

The most fundamental difference between social new retailing and traditional e-commerce platforms lies in the strong socialization attribute. The rise of traditional e-commerce platforms has completely changed residents' consumption habits and provided consumers with certain personalized and customized products. By collecting user data to form consumer big data, and by analyzing big data to carve user portraits and achieve accurate grasp of user needs, the supply chain management has been optimized and marketing efficiency has been improved. However, traditional e-commerce platforms lack strong interactivity, there is information asymmetry between consumers and providers of goods and services, and interaction between consumers is poor, which is not conducive to the protection of rights, coupled with the serious phenomenon of swiping, making it difficult for consumers to distinguish the quality of goods. The social attribute of social new retailing gives the original consumers the opportunity to become providers of goods or services, lowering the threshold of participation, breaking the identity boundary, and enhancing the interactivity of consumers and providers, which can maximize the elimination of information asymmetry and help drive out poor quality goods and improve consumer welfare. In addition, the strong interactive features of

social new retailing can help suppliers understand consumers' needs more precisely and have a clearer user portrait than traditional e-commerce platforms.

4.1.2 Regulatory issues

Due to the lack of direct selling licenses, Yunji and Pinduoduo have limited the application of multi-level direct selling in their business models and have been subject to regulatory penalties. Pinduoduo was subject to regulatory penalties before listing because of multi-level sales and team pay, in violation of the provisions of the Regulations on the Prohibition of Pyramid Schemes. Similarly, Yunji was also regulated and punished before listing. The Market Supervision Bureau determined that "Yunji Microstore has pyramid scheme violations such as entry fees, head pulling people, and team pay". After paying the fine, the two compressed the sales level and passed the regulatory review, and finally went public successfully. It is worth noting that the regulatory penalties are all local government departments, not national market regulators. There is no clear explanation of how the current law enforcement authority should be.

In comparison, Amway is much luckier. Amway, the largest well-known direct selling enterprise in the United States, entered China in 1995 and obtained a Chinese direct selling license. With its multi-level direct selling business model and reliable products, it has rapidly grown into one of the largest direct selling enterprises in China. Its performance in China reached 4.84 billion US dollars in 2013. In recent years, with the development of China Mobile Internet, Amway has launched an Amway cloud shopping project. Through the communication capabilities of major social platforms, it will innovate in the mobile Internet world at multiple levels, and has gradually become a new social retail enterprise. Amway Cloud Shopping's business model not only includes

the cloud collection mode, that is, the model that members can open online stores, but also includes a sharing invitation model similar to Pinduoduo, but its biggest feature is that it has a direct sales license. The original Amway direct sellers can use the mobile Internet to carry out multi-level direct sales, thus realizing a new round of rapid performance.

With the upgrading of Internet technology, a large number of traditional retail enterprises are evolving towards new social retail, and they are also facing an inapplicable regulatory model. Therefore, when we study the new social retail business model, we also need to pay attention to traditional retail enterprises that are evolving towards the new social retail business model.

4.2 Regression analysis results

4.2.1 Descriptive statistics of variables

We perform descriptive statistics for all numerical variables. Table 6 shows the results of such descriptive statistics of the variables. Among the sample, the average age is 38 years old, the minimum age is 15 years old and the maximum age is 62 years old, featuring a wide range of age. The average years of education of practitioners are 12.5 years, equivalent to senior high school degree and the longest years of education are 18 years, equivalent to master's degree. The average score of health level in the sample is 4.1, indicating good health status. Most practitioners have good health condition, but some are out of condition. The average size of sales teams in the sample is 136 members; the maximum size is 500 and the minimum size if only 5, featuring a wide range of size. The average product quality score is 3.9 with a SD of 1.2. The variables of practitioner welfare improvement have even distribution with average score of

3 – 4. According to the descriptive statistics results, all samples have good volatility to make the regression results more reliable.

Table 6 Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
age	303	37.9967	8.064516	15	62
edu	303	12.50495	2.396011	9	18
health	303	4.135314	0.8167375	1	5
teammembers	303	136.0066	177.7175	5	500
Product_quality	303	3.930693	1.203671	1	5
Incomeup_up	303	3.174917	1.069953	1	5
friendship	303	3.570957	1.136721	1	5
achieveably	303	3.366337	1.148475	1	5
skill_up	303	3.49505	1.12135	1	5
famliyincome_up	303	3.069307	1.155959	1	5

4.2.2 Effects of social new retailing on practitioner welfare

Our regression results are in line with the expectations, that is, the value enhancement gained by engaging in social new retailing is not affected by the basic personal qualities. Table 7 shows the regression results of OLS. Columns (1) to (5) are the results of explained variable such as skill upgrading, expansion of friend circle, sense of accomplishment, income improvement, and family income improvement. In column 1 and column 2, the coefficients of individual characteristics are not significant, which meets our expectations, indicating that skill upgrading and expansion of friend circle brought by the social new retailing are irrelevant to the age, educational qualification, skill level and hukou of individual. The skill level in column 3 is significantly positive,

indicating that the sense of accomplishment that practitioners gain from engaging in social new retailing is related to the individual's own skill level. The higher the skill level, the stronger the sense of accomplishment the practitioner gains in work. In column 4, the educational background and personal income increase are significantly positive, indicating that the increase in the income of practitioners engaged in social new retailing is related to the individual's own educational background. The higher the educational background, the greater the degree of income improvement of the practitioner. The educational background in column 5 has lost significance for the improvement of family income, and the skill level shows a positive correlation with the improvement of family income. The improvement of the individual's own skill level cannot only help practitioners gain a sense of accomplishment, but help improve their family incomes.

Why does the educational background affect the employment income level of individual, but not family income level? The reason is individual heterogeneity. The improvement of family income level is more difficult than the increase of personal income level. Generally speaking, the improvement of family income level depends on the income level of major workforce in the family. For example, two housewives with different educational qualifications are engaged in social new retailing part-time, and their income improvement degrees are different due to their own educational background differences. However, their income levels are still a small part of family incomes, and their living condition improvement relies heavily on their husbands' incomes. Therefore, the marginal contribution of the housewife's educational qualification and income improvement is almost zero for the improvement of the family's overall income.

Why does the skill level not affect the income increase of individuals engaged in social new retailing, but affect the improvement of family income? As mentioned above, it is more difficult to improve family income than to improve personal income. Family members with professional skills are more likely to become the major contributors to family income. For the improvement of personal income, practitioners of social new retailing can increase their incomes regardless of having skills or not, as social new retailing does not require practitioners to have any skills.

The practitioners engaged in social new retailing full-time show a significant positive correlation with all value enhancements. Compared with a part-time job, full-time job requires more time and energy, and such effort is also rewarded: on average, full-time practitioners engaged in social new retailing earn more than part-time practitioners do. This also indicates that the social new retailing is a job where hard work will be significantly rewarded. Product quality shows a significant positive correlation with value enhancement. This also demonstrates that for practitioners, the better the quality of products provided to consumers, the higher the reward they will get. Therefore, product quality is one of the core factors for the welfare improvement of practitioners.

It is worth noting that the number of teams in the column 1 to column 5 of Table 7 all show a significant positive correlation. Practitioners in large teams are more likely to obtain welfare improvements and value enhancement than those in small teams, because large teams will provide better and more trainings, and the internal communication within the team are frequent, which is helpful to the personal ability and value enhancement of practitioners. On the other hand, large teams have more selling levels, larger sales network, better overall

performance, naturally leading to more rewards for practitioners. However, the selling level is a sensitive issue. Chinese regulatory authorities require that the selling level shall not exceed three levels. This may be the reason why practitioners have greater negative emotion towards the regulatory authorities and related regulations.

4.2.3 There is a positive correlation between product quality and social new retailing

Table 7 Regression results

	(1)	(2)	(3)	(4)	(5)
VARIABLES	Skill_up	friendship	achievably	Income_up	Familyincome_up
age	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
edu	0.000	-0.014	0.028	0.056**	0.001
	(0.026)	(0.028)	(0.027)	(0.025)	(0.027)
skill	0.153	0.135	0.333***	0.131	0.251**
	(0.120)	(0.128)	(0.126)	(0.117)	(0.124)
hukou	0.036	0.039	0.012	-0.030	0.142
	(0.118)	(0.126)	(0.124)	(0.115)	(0.123)
health	0.215***	0.218***	0.184**	0.179***	0.309***
	(0.070)	(0.075)	(0.074)	(0.068)	(0.073)
fulltime	0.414***	0.444***	0.515***	0.605***	0.474***
	(0.116)	(0.124)	(0.122)	(0.113)	(0.120)
Product_quality	0.326***	0.258***	0.218***	0.180***	0.225***
	(0.049)	(0.053)	(0.052)	(0.048)	(0.051)
teammembers	0.001***	0.001**	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	0.921**	1.457***	0.851*	0.586	0.343
	(0.414)	(0.443)	(0.435)	(0.403)	(0.430)
Observations	303	303	303	303	303
R-squared	0.289	0.209	0.252	0.260	0.279

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

In Column 1 – 5 of Table 7, product quality is significantly positive, meaning there is a positive correlation between production quality and improved welfare of practitioners & increased value. Therefore, social new retailing can improve social welfare to a greater extent by searching for better products. The sales team reflects the multi-level selling model to a certain extent, and such sales model has provided greater returns and personal value enhancement for the practitioners, so that the multi-level selling model has social significance in China.

Table 8 is the regression result of Equation (2). It can be seen from the result that the improvement of product quality has nothing to do with hukou and skill level of practitioner, but has a significant positive correlation with full-time employment and the number of team members. Product quality is highly positively correlated with the age of practitioners, indicating that older practitioners have more working experience, have a deeper understanding of product quality, and are more likely to choose brands with good product quality as agents. To some extent, the highly positive correlation between product quality and education indicates that practitioners with higher education have a higher knowledge reserve and a more comprehensive understanding of the product quality they represent.

Table 8 Product Quality

VARIABLES	(1) Product_quality
age	0.019**
	(0.009)
edu	0.019**
	(0.009)
skill	-0.058
	(0.142)
hukou	-0.058
	(0.142)
health	0.285***
	(0.081)
fulltime	0.229*
	(0.136)
teammembers	0.001***
	(0.000)
Constant	0.541
	(0.628)
Observations	303
R-squared	0.146

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

A study of the correlation between product quality and social new retailing in this paper shows that the size of a social new retailing company will increase when its product quality grows better, resulting in positive effect on both its performance and practitioner welfare. Furthermore, when higher income and increased value of practitioners are enabled by searching for greater products, they can deliver more premium products to consumers and thus benefit all relevant parties.

4.2.4 Discussion on Robustness and Endogenity

In 2020, affected by the covid-19, offline business activities have stagnated, and a large amount of labor has been transferred to online industries such as social new retail. In order to eliminate the interference of this external shock, we exclude the 2020 sample and perform regression, and the result remains unchanged.

Table 9 Robustness test

	(1)	(2)	(3)	(4)	(5)
VARIABLES	skill_up	friendship	achieveably	Income_up	Famliyincome_up
age	-0.002	0.003	-0.001	0.003	0.009
	(0.009)	(0.010)	(0.010)	(0.009)	(0.010)
edu	-0.029	-0.017	0.035	0.070**	0.006
	(0.033)	(0.034)	(0.035)	(0.032)	(0.034)
skill	0.267*	0.186	0.285*	0.091	0.251*
	(0.144)	(0.150)	(0.152)	(0.142)	(0.151)
hukou	0.133	0.049	0.082	-0.062	0.078
	(0.149)	(0.155)	(0.158)	(0.147)	(0.157)
health	0.234***	0.213***	0.206**	0.210***	0.315***
	(0.078)	(0.082)	(0.083)	(0.078)	(0.083)
fulltime	0.581***	0.565***	0.584***	0.751***	0.652***
	(0.132)	(0.137)	(0.140)	(0.131)	(0.139)
agentquality	0.321***	0.271***	0.208***	0.166***	0.203***
	(0.058)	(0.060)	(0.061)	(0.057)	(0.061)
teammembers	0.001***	0.001**	0.001***	0.001**	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	1.144*	1.318**	0.756	0.320	-0.016
	(0.614)	(0.640)	(0.650)	(0.608)	(0.646)
Observations	230	230	230	230	230
R-squared	0.330	0.255	0.271	0.287	0.304

Table 10 Product quality regression result (excluding samples in 2020)

VARIABLES	(1) Product_quality
age	0.010
	(0.011)
edu	0.130***
	(0.037)
skill	-0.095
	(0.166)
hukou	0.222
	(0.172)
health	0.292***
	(0.089)
fulltime	0.234
	(0.152)
teammembers	0.001***
	(0.000)
Constant	0.448
	(0.710)
Observations	230
R-squared	0.176

The reverse causality between product quality and social new retail business models is not a key issue to be considered in this study. If the company has improved the quality of its products, leading it to adopt the social new retail business model, it is even clearer that the social new retail business model is suitable for the promotion of high-quality products.

In order to further verify the positive effect of the new social retail business model on product quality improvement, we introduce practitioners' perception of product quality before they enter the industry for empirical testing. The variable agentknow represents the practitioner's understanding of product quality before participating in social new retail. It is assumed that prior understanding of product quality by a practitioner is a key influencer of his/her choice to become the agent of relevant brand since products with poor sales may

expose him/her to certain risks, such as consumer complaints. Judging from the regression results, the regression coefficient of agentknow is significantly positive, which indicates that the higher the practitioners' understanding of product quality before participating in social new retail, the more they prefer to become agents of high-quality brands. Practitioners' control of product quality before employment is an important reason for social new retail companies to stimulate product quality improvement.

Table 11 Agentknow and Product Quality

VARIABLES	(1) Product quality
agentknow	0.466***
	(0.052)
age	0.012
	(0.008)
edu	0.082***
	(0.028)
skill	-0.137
	(0.126)
hukou	0.107
	(0.134)
health	0.174**
	(0.073)
fulltime	0.106
	(0.122)
teammembers	0.001*
	(0.000)
Constant	-0.157
	(0.564)
Observations	303
R-squared	0.327

4.3 Questionnaire survey results

4.3.1 Social new retailing promotes social employment

The respondents in this questionnaire survey came from 29 different provinces and cities in China, most of which came from Hebei Province up to 70, and the number distribution of respondents of other provinces was relatively even.

The number of females is an absolute majority in the respondents, accounting for 91.42%. The average age of the respondents was 38 years old, with the youngest as 15 years old, and the oldest as 62 years old. The reason why there are more female practitioners may be that the work of social new retailing is usually more flexible and can be completed part-time, thereby attracting the participation of a large number of housewives.

Social new retailing offers job opportunities for low-education laborers. Figure 4-4 shows the distribution of academic qualifications of practitioners. Among them, only 2 have a master's degree or above. Most of the practitioners are less educated, and more than half of them have not attended university. The reason for the lower education background of most practitioners is that the threshold to social new retailing is low. As no academic qualification is required, a large number of low-educated people are provided with employment opportunities and income improvement opportunities, which is also one of the social values of social new retailing.

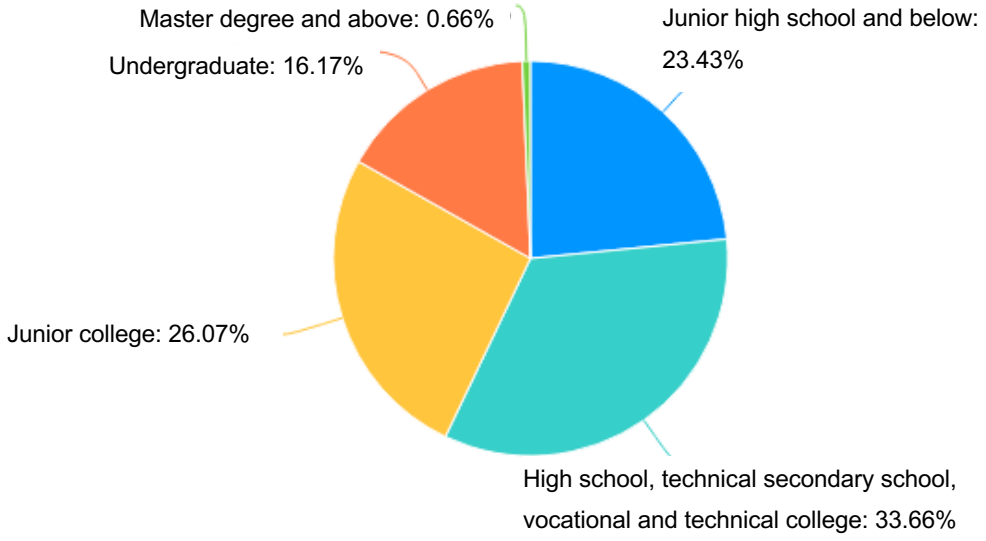

Figure 4-4 Distribution of respondents' education background

Social new retailing can offer job opportunities for low-skilled laborers. In terms of skills, 49.83% of the respondents have obtained vocational skill certificates, while half of the respondents have not obtained any vocational skill certificates. Vocational skills certificates can reflect the skills of practitioners. If respondents are lack of skills can improve their skills by participating in social new retailing, then they will create great personal value and social significance.

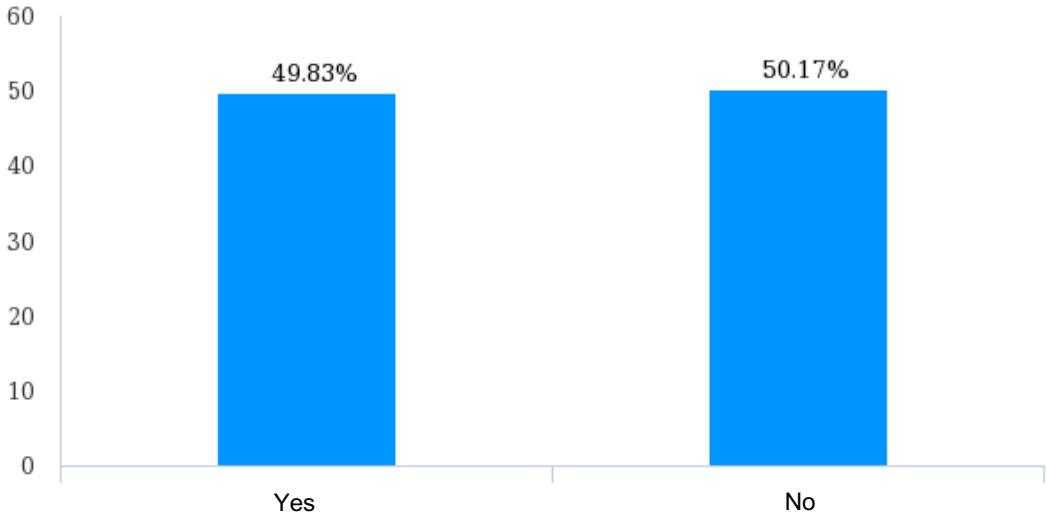

Figure 4-5 Whether obtained a vocational skill certificate

Social new retailing offers the opportunities for a lot of rural laborers to work in cities. As the rural laborers in China are generally undereducated and less skilled, the scope of employment in cities is relatively narrow for them. Most of their jobs are concentrated in manual labor occupations, such as couriers and construction workers. However, the social capital growth of such jobs is limited, making it difficult for them to be recognized by urban residents. The ultra-low employment threshold of social new retailing provides a better choice for rural labor force to work in cities. Social new retailing provides flexible working methods and opportunities for skill improvement. It has far-reaching and great significance and value for the whole society.

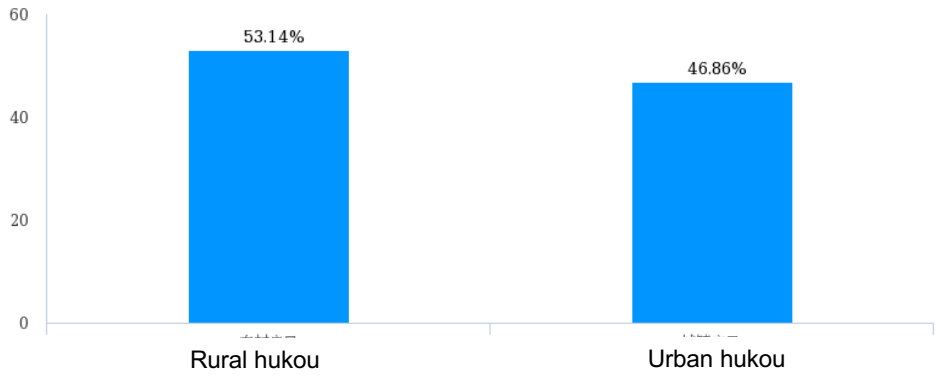

Figure 4-6 Distribution of respondents' hukou

Most of respondents have good self-evaluation on their health conditions. Figure 4-7 reflects the distribution of respondents' health self-evaluation. Among them, the evaluations of good and very good account for the largest proportion, with sum of the two accounting for 80.19%. Social new retailing requires frequent contact and communication with others, frequent outings, frequent participation of training, etc. Therefore, people with good health

condition are more likely to accept social new retailing, which may be the reason for the higher average level of health condition.

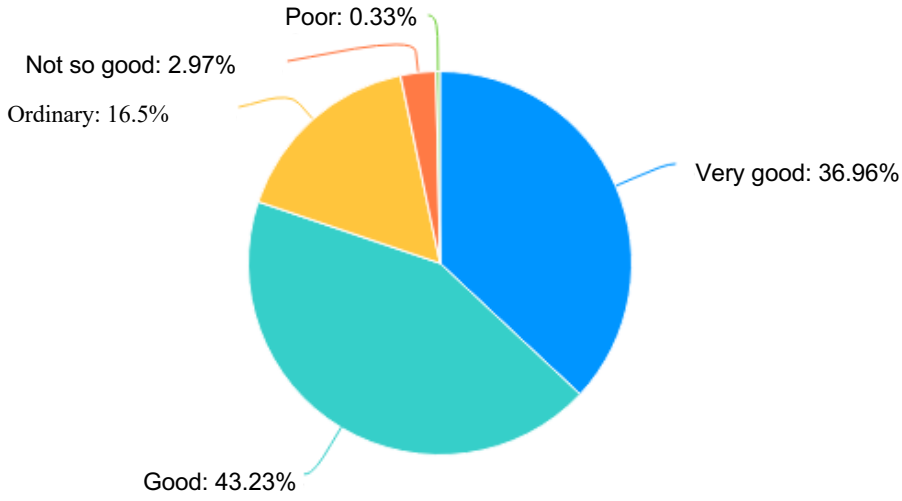

Figure 4-7 Health condition

4.3.2 Social new retailing improves the welfare of practitioners

Reasons for choosing to engage in social new retailing. The three main reasons why practitioners choose to engage in social new retailing are: products are trustworthy, the desire to increase income, and the desire to improve the quality of life or enhance comprehensive literacy. 76.9% of practitioners believe that the quality of the products they act for is trustworthy. Practitioners are highly confidence in the products they act for, which to a certain extent reflects that they have a certain understanding of the products and the market, or that they themselves are the users of the products. From this perspective, it can be preliminarily explained that social new retailing practitioners sell goods based on their trust in products in order to promote better products to consumers.

Income improvement. On average, the income from social new retailing is 8134.432 yuan per month, which is far higher than the average salary of Chinese

university graduates. Among the practitioners, the highest income is 150,000 yuan per month. 73.92% of practitioners believe that social new retailing has increased their income levels, and most practitioners believe that social new retailing can also help improve the income level of the entire family, accounting for 72.93%. Therefore, engaging in social new retailing is positive for income improvement.

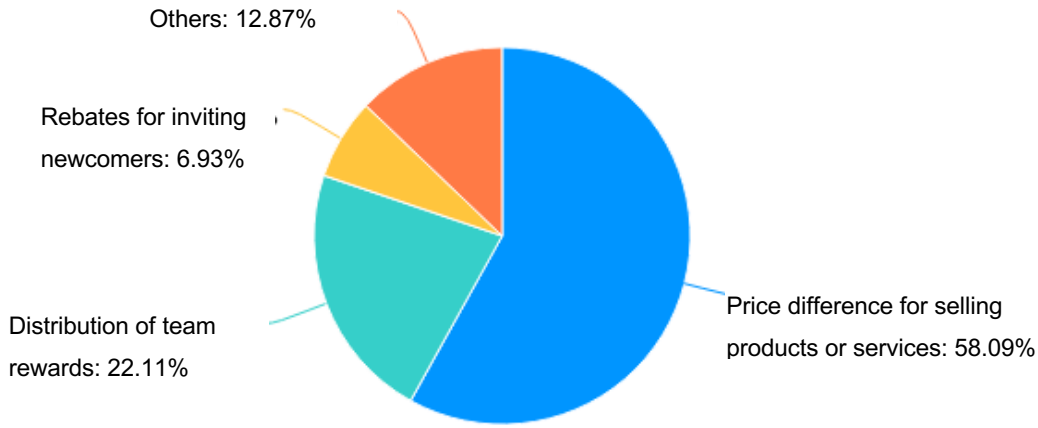

Figure 4-8 Income sources

Figure 4-8 reflects the distribution of income sources of practitioners. The income from selling products is the main component of their income sources of engaging in social new retailing, which accounts for more than half, followed by team rewards. It can be seen that the income sources of social new retailing mainly depend on sales performance.

Social contact. 83.82% of practitioners said that engaging in social new retailing can help them enlarge their circle of friends. Only 4.95% of practitioners don't think that social new retailing can bring them friendship. Due to the socialization effect of social new retailing, members of the same team may have the same hobbies and backgrounds and are more likely to become friends.

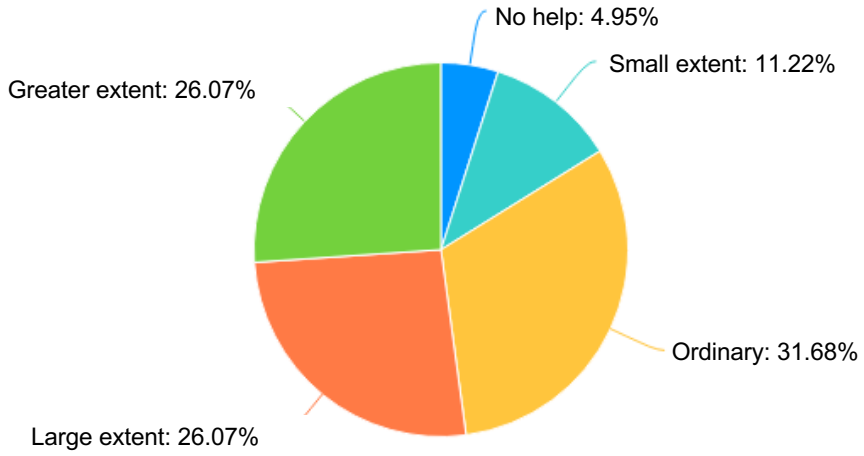

Figure 4-9 The extent of expansion of circle of friends

A sense of accomplishment. Judging from the results of our questionnaire, most practitioners have gained a sense of accomplishment from the social new retailing. Practitioners of social new retailing are less educated and skilled, and do not have obvious competitive advantages in the labor market. However, social new retailing has brought them a sense of accomplishment, which has a far greater impact on individuals rather than material rewards.

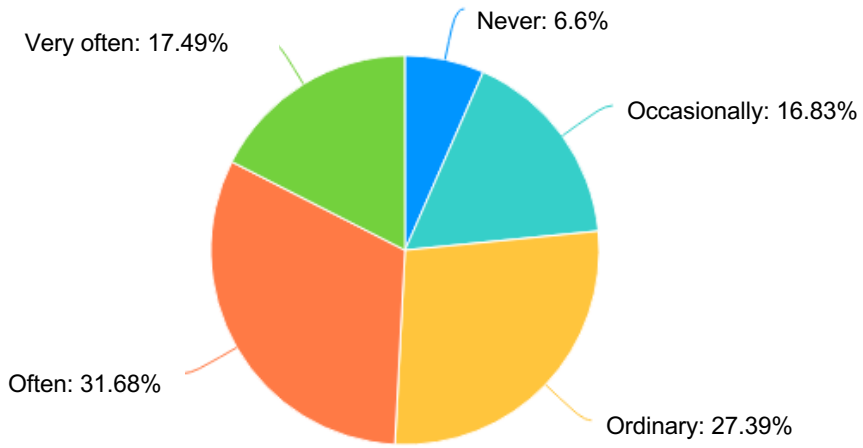

Figure 4-10 Gaining a sense of accomplishment

Skill upgrading. Most of the practitioners have upgraded their skills through social new retailing. Only 6.6% of practitioners said that they did not upgrade skills from their work. From the perspective of types of training provided by teams, working skill training and value shaping are two major training contents, and the proportion of people who did not participate in any training is only 6.93%.

4.3.3 Social new retailing can provide consumers with high-quality products

One of the key social values of social new retailing is to cater to the true demands of consumers by offering products with higher quality. We find from the survey that technical patents of products and product quality are key factors influencing the welfare of practitioners and benefits of consumers. The detailed results of the survey are as follows:

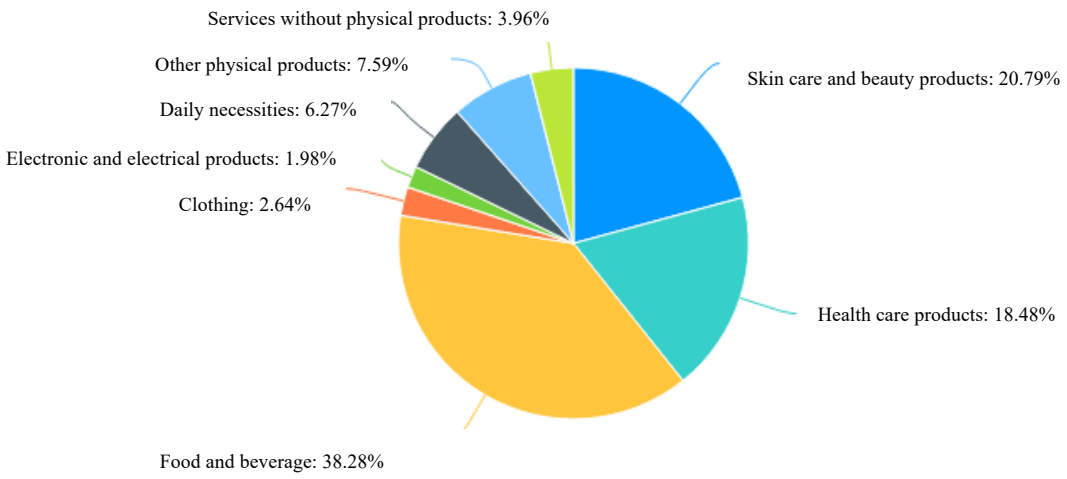

Figure 4-11 Industrial Distribution

Industrial distribution of practitioners. The results of this questionnaire survey show that the industries of social new retailing are all consumer goods industries,

of which the food and beverage industry accounts for the largest proportion. 83.49% of practitioners sell products with a unit price under 500 yuan.

Technical patents. 76.57% of the practitioners stated that the brands they act for have technical patents, but 15.51% of the practitioners do not know whether the brands they act for have technical patents.

Product trustworthiness. 87.13% of the practitioners sell products that have obtained quality certification, and 79.86% of the practitioners stated that they will first understand the product quality before acting for a certain brand. 96.37% of the practitioners are both product agents and product users. To a certain extent, it shows that they choose to act for a certain brand after understanding and trusting in product quality and brand. 94.39% of the practitioners' brands provide aftersales service, and 73.27% of the practitioners said that they have never received complaints from customers.

Words of mouth is the main channel of customer acquisition. 62.38% of practitioners will market to their friends to form a customer group. At the same time, 58.09% of the practitioners' customer groups are strangers. The most popular marketing methods they choose are: WeChat, face-to-face marketing, and introduction through relatives and friends. 79.87% of the practitioners said that WeChat is one of their most important marketing channels. The major way of gaining trust of customers is the reputation of product. 82.18% of practitioners said that they rely on the reputation of product to gain trust of customers.

4.3.4 Current regulation is not favorable for social new retailing development

(1) Insufficient protection of interest of practitioners.

More than half of the practitioners signed an agency contract or labor contract with the brand. Among them, the number of respondents who have signed an agency contract account for 47.85% of all respondents. 2.31% of the respondents have signed a labor contract with the brand, and 6.6% of respondents said that they have signed two contracts at the same time. However, there are still 43.23% of practitioners who have not signed any contracts with the brand. There may be two reasons: On the one hand, some companies have irregularities or even violations in their sales promotion arrangements; on the other hand, some practitioners are deeply bound or colluded with their superior agents to reduce the level of profit distribution and obtain more profit sharing. Whatever the reason, this figure can reflect the need for further standardized development of the industry to a certain extent.

(2) Social cognitive bias caused by laws and regulations.

According to the results of our survey, more than 20% of practitioners said that their families opposed their engagement in social new retailing, and 32.01% of practitioners got the support of their families. The opinions of relatives and friends are more diversified. Most of them maintain a neutral point of view, accounting for 47.52%. More than half of practitioners (53.79%) said that their relatives and friends still have negative views on the social new retailing industry. 33.66% of practitioners expressed that one of their biggest difficulties in social new retailing is not being recognized and supported by others.

The questionnaire results show that the three biggest difficulties faced by practitioners in their work are: lack of personal skills or knowledge (47.85%), lack of financial support (35.97%) and lack of recognition and respect from others (33.66%). Due to China's long-term ban on multi-level direct selling, the

society has a very negative impression on direct selling, which has affected the acceptance and recognition of social new retailing by the society.

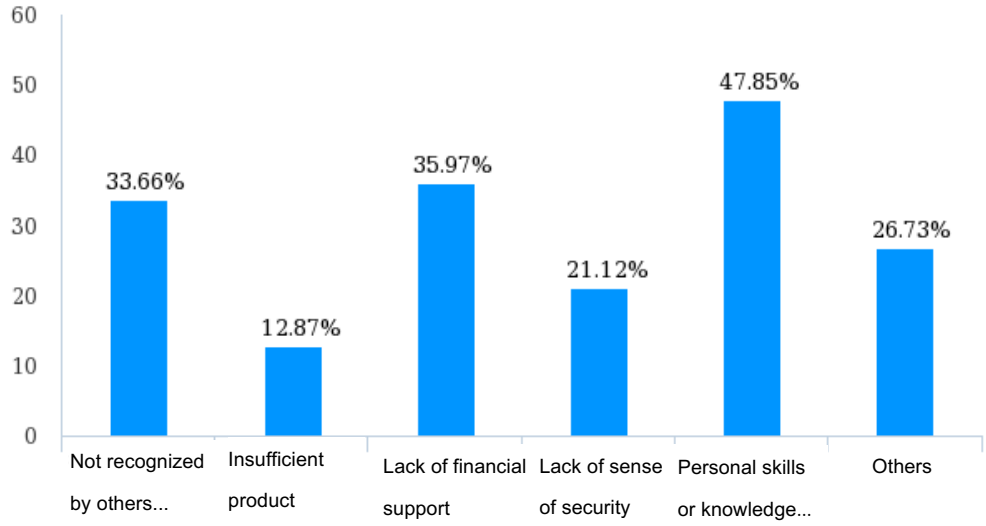

Figure 4-12 Poll of difficulties in work

(3) Practitioners' cognitive bias of regulation.

Knowledge about laws and regulations. 35.65% of practitioners said that they do not know the *Regulation on Direct Selling Administration* or the *Regulation on the Prohibition of Pyramid Selling*. It can be seen that the popularity of laws and regulations needs to be further improved. This may be one of the reasons for agents to violate laws and regulations in their work.

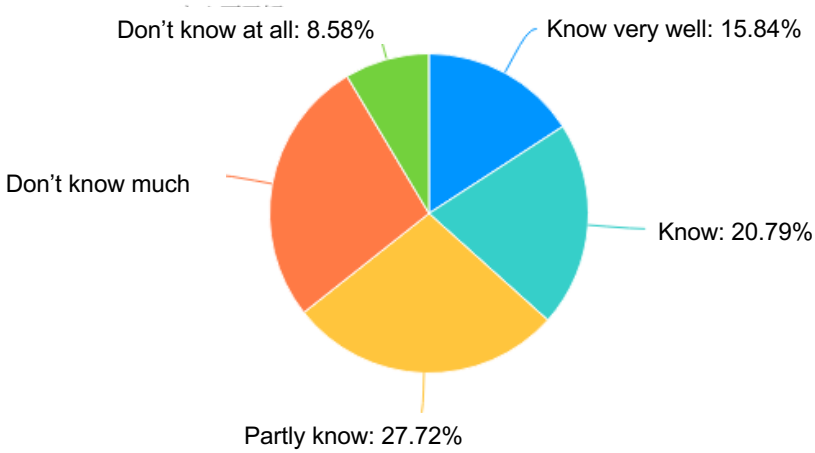

Figure 4-13 Knowledge about regulations

21.78% of practitioners said that the brands they act for once have been suspended or punished. As for the reasons for the suspension or punishment, they said that the regulators determined that the operating methods of brands were not compliant. Similarly, 72.61% of practitioners have heard that other brands have been suspended or punished also due to non-conforming experience method or the improper regulation.

Opinions on regulation. Most practitioners believe that there are problems with current regulation and improvement is required. Only 11.55% of practitioners believe that no improvement is required, while 23.76% of practitioners consider that current laws and regulations need to be revised. Practitioners feel negative towards regulation. The reason may be that they have been improperly supervised during their work, which also reflects that the business model of social new retailing may conflict with current regulation.

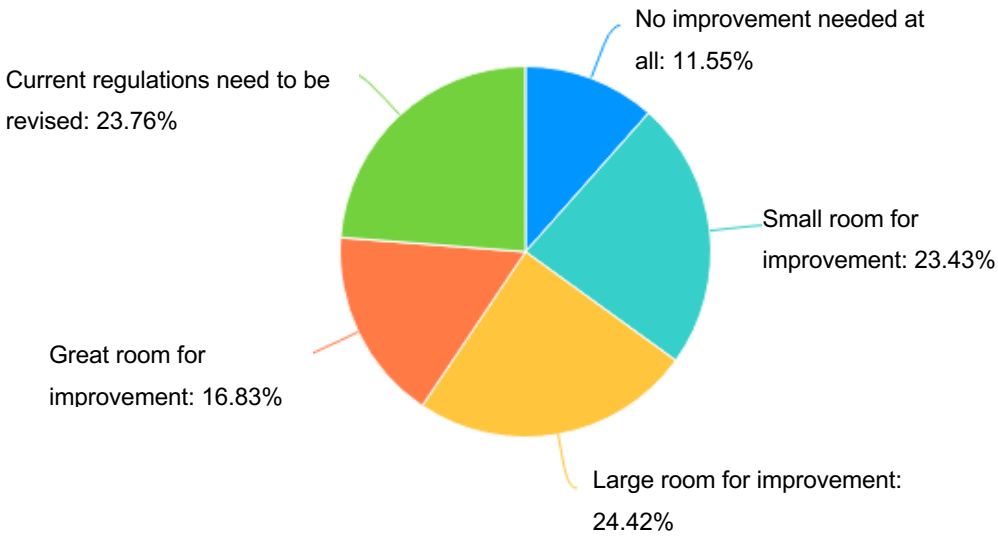

Figure 4-14 Opinions on regulation

(4) Insufficient taxation regulation.

Tax. Regarding the payment of income tax, 37.62% of practitioners said they do not know whether they pay tax or not. It can be seen from Figure 4-15 that

the proportion of income tax uniformly paid by brand owner is higher than that of other items. There may be three reasons for not knowing whether the tax is paid: firstly, the payment is made by the brand owner or the team; secondly, the tax is not paid. Thirdly, the amount of income does not reach the threshold for personal income tax, and they don't know what the threshold is.

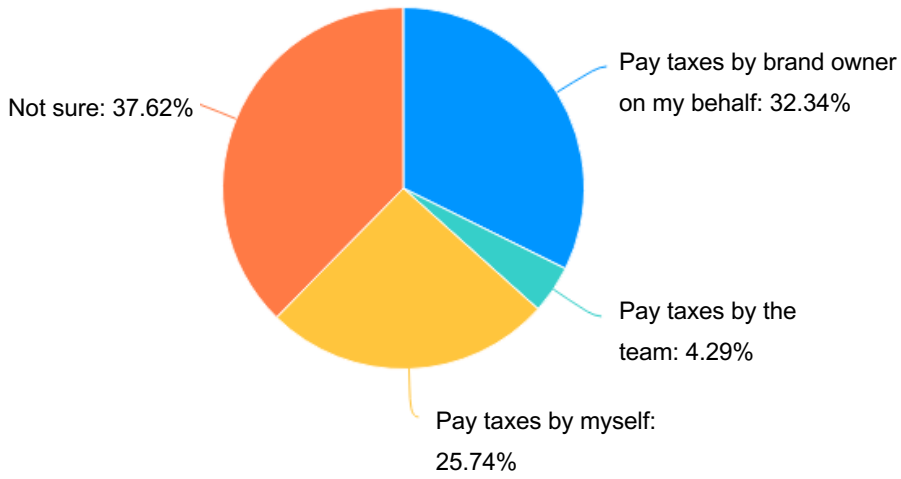

Figure 4-15 Tax payment situation

4.4 Findings from interview survey

4.4.1 The value of new social retailing

Interview surveys found that respondents all said that social new retail can bring great commercial and social value. Specifically, the commercial value is reflected in: (1) the social new retailing model is conducive to reducing the cost of enterprises and improving the efficiency of production experience (2) the social new retailing model stimulates the enthusiasm of practitioners and increases the connection between enterprises and consumers. Social values are reflected in: (1) social new retailing promotes social employment. (2) The social new retailing has contributed a lot of taxes.

Several respondents in the new social retail industry said that their companies have solved the employment of people with low education and skills, and their income has improved significantly. They also said that their enterprises pay taxes legally and pay no less than the average of local enterprises every year. The results of interviews with the lawyer team show that the new social retail enterprises they have seen are much more efficient than traditional enterprises and can absorb a lot of social employment.

4.4.2 Legislative determination of pyramid schemes in China

In addition to being supervised by relevant e-commerce laws and regulations, social new retailing's innovative application of direct selling is subject to the laws and regulations on direct selling in China. China divides direct selling into single-level direct selling and multi-level direct selling. Multi-level direct selling and pyramid selling are collectively referred to as "pyramid schemes". "Pyramid schemes" is strictly prohibited in China, which is also a legal dilemma facing the development of social new retailing. The judicial definition of "pyramid schemes" in China is as follows:

(1) Through attracting people, the organizer or operator requires the attracted people to attract other people to join in, and calculate and pay the remuneration of the attracted people based on the number of people directly or indirectly attracted by them (including material rewards and other economic benefits, the same below), thus seeking illegal benefits;

(2) Through attracting people, the organizer or operator requires the attracted people to pay fees directly or pay fees in disguised form by purchasing goods, etc., to obtain the qualifications to join in or attract others to join, thus seeking illegal benefits;

(3) Through attracting people, the organizer or operator requires the attracted people to attract other people to join in to form a relationship between superior and subordinate, and calculate and pay the remuneration of the superior based on the sales performance of the subordinate, thus seek illegal benefits.

Among the above three types of pyramid schemes, the first one is called "member attracting" in China, the second one is charging an "entry fee", and the third one is "team-based remuneration". However, the level of "entry fee" is not further explained, leading to a vague determination of levels, and the level of product pricing mainly depends on the market, therefore, "team-based remuneration" has become the most important basis for judgment. In 2013, China further explained the judicial determination of pyramid schemes, restricting the number of levels to three levels or below, affirming the "team-based remuneration" for the purpose of selling products, defining organizing and leading pyramid schemes as criminal cases, and determining the violation of the *Regulation on the Prohibition of Pyramid Selling* to be subject to administrative penalties. However, as the level in the context of the Internet is diversified, it is difficult to distinguish whether participants are leading or participating in Regulation on the Prohibition of Pyramid Selling. Besides, there is a lack of accurate and detailed explanations on the determination of "team-based remuneration" for the purpose of selling products, so that the current regulation model still adopts the *Regulation on the Prohibition of Pyramid Selling* as main reference standards.

Finally, the core difference between multi-level direct selling and pyramid selling is whether there are real or qualified product or service transactions, that is, whether consumers are provided with valuable products or services, and

whether any value is created for society. The purpose of multi-level direct selling is to sell goods or services, and expand sales through methods such as "rebates" and "team-based remuneration". It is a sustainable operation with its ultimate source of income is mainly the sale of goods or services. The pyramid selling gains income by relying mainly on the fees paid by new members, sells products that often are fake and inferior products without market value, and deceives consumers through false propaganda. Therefore, pyramid selling is a scam, while multi-level direct selling is a commercial activity. A wide range of related fraud methods have been discovered by judicial departments in various countries, including "chain letters", "snow balls", "chain selling", "money games", "referral selling", "investment lotteries" or "rat club" in Taiwan.

Since the purpose of team-based remuneration is the key to judging whether the business model is legal or not, it is difficult to be determined in judicial practice, which causes difficulties in distinguishing between multi-level direct selling and pyramid selling. In addition, pyramid selling usually conducts fraudulent activities in the name of multi-level direct selling. In addition to relying on the recommendations of defrauded consumers, pyramid selling also makes use of threats, fraud and even violence to achieve profit-making purposes, causing social security problems and leading to a greater misunderstanding of multi-level direct selling in the society.

4.4.3 Difficulties faced by regulators

Although the *Regulation on the Prohibition of Pyramid Selling* and *Risk Warning of New Types of Pyramid Selling Activities of State Administration for Industry and Commerce* stipulate that the simultaneous existence of "entry fee", "member attracting" and "team-based remuneration" can be used to determine

whether a pyramid scheme is involved, in actual operation, the boundary between social new retailing membership distribution model and pyramid schemes is very blurred due to the characteristics of the former. The specific performance is as follows:

Sharing- and referral-based remuneration model

Sharing- and referral-based remuneration are similar to member attracting model of pyramid schemes, which involves encouraging attracting more members through a certain incentive mechanism. Even though, the main purpose of pyramid schemes in its essence is to provide unreasonably high returns to induce superior users to attract more subordinate users who can pay the "entry fee", even no real value is created. While under the social e-commerce model, the main purpose is to expand the number of people participating in the promotion of goods or services through appropriate incentives for encouraging old users to develop new users, thereby creating real value. The specific performance is as follows:

Whether to pay the remuneration of the superiors based on the entry fee paid by newcomers.

In Internet pyramid schemes, the platform mainly uses the entry fees paid by newcomers to "feedback" the reward fee to the superiors; in the social new retailing platform, the platform mainly pays the fees for attracting new members through the normal marketing activities of goods or services that occur in the platform.

Whether the basis for the continuous operation of business system is formed.

In Internet pyramid schemes, new users continue to join the system and pay the entry fee, which may form the basis for the continuous operation of the entire

business system; in social e-commerce, constantly attracting members and paying entry fees are not the basis for continuous operation of the entire business system, and the normal marketing activities of goods or services that occur in the platform are its main source of income.

Team-based remuneration

Team-based remuneration is calculated and paid based on the sales performance of attracting new users, which is the third typical pyramid scheme model stipulated in Article 7 (3) of the *Regulation on the Prohibition of Pyramid Selling*. The O*pinions on Several Issues concerning the Application of Law in the Handling of Criminal Cases of Organizing or Leading Pyramid Schemes* (the "Opinions") points out, the definition of "team-based remuneration" is that " through attracting people, the organizer or leader requires the attracted people to attract other people to join in to form a relationship between superior and subordinate, and calculate and pay the remuneration of the superior based on the sales performance of the subordinate, thus seeking illegal benefits, which is a pyramid scheme of 'team-based remuneration'." This provision directly recognizes "team-based remuneration" as a "pyramid selling activity", which is essentially the pyramid scheme model stipulated in Article 7 (3) of the *Regulation on the Prohibition of Pyramid Selling*.

There may be benefit sharing by some members in social new retailing. However, the existence of benefit sharing does not necessarily constitute the hierarchical team-based remuneration in the Internet pyramid schemes, many factors need to be considered together.

Identification of sales levels

In Internet pyramid schemes, there usually is a very close team consisting of the superior and subordinate levels, and the sun-like line and dual track system used in offline pyramid selling models can often be found, with clear and stable levels. For example, in the administrative penalty case of H.G. X. (B.) S. J. F. C. Z. (2017) No. 2101, the competent authority determined that Zhejiang Jishang Youxuan E-Commerce Co., Ltd. had formulated a promotion system and set up the level of "company-partner-nurturing partner-mentor-shopkeeper" during the recruitment of shopkeepers, which formed a relationship between the superiors and subordinates; and formulated a benefit distribution system during the recruitment of shopkeepers. As long as a new shopkeeper was recruited to join in, the company, partner, mentor and shopkeeper could all get benefits, which was the benefit distribution of team-based remuneration. For another example, in the administrative penalty case of H.Y.S. G. F. C. Z (2018) No. 402, Hangzhou Dachen Network Technology Co., Ltd. had set up 4 levels of "talent shop manager, class adviser, department head and branch dean" to calculate and pay the remunerations of the superiors at all levels proportionally based on the sales performance of subordinate teams. In the previous two cases, the team is highly bound. A complicated hierarchical system has been formed in terms of "title", if reaching the level of profit sharing, it is likely to be far more complicated than that of the "title" level.

Although social new retailing will have a multi-level distribution structure similar to pyramid scheme organization in the sales agency model, the stability of the team is often lower than that of Internet pyramid schemes. For example, some social new retailing adopts a fixed-term lock-in mechanism, in which although the referral code of an existing member is required when joining the

system in order to be included in the referrer's team, if the team members cannot use their strengths to promote the product and/or service marketing together within a certain period of time, they can choose to unbind. On the other hand, even if they have the right to recommend new members, the focus of operation of existing members is always on meeting real consumer needs, and the main purpose of operating within the system is not aiming to enhance one's own hierarchical status in the organization, which is quite different from Internet pyramid schemes.

In Internet pyramid schemes, one can obtain the qualification to develop the subordinate after joining in the system. The common situation is that people at each level have different prices for buying goods, and the income from earning the level difference is much higher than that earned by direct sales of goods. The higher the level of the superior, the more income that depends on attracting the subordinate, that is, the superiors at higher levels can easily make money without further marketing for goods and/or services.

In social new retailing, although there may be a certain degree of profit sharing, on one hand, the level itself is controllable, so that the unrestricted spread can be avoided; on the other hand, the income formed by profit sharing is within the scope of "legitimate incentives", and the marketing activities for goods and/or services through the platform are still the main source of income of users.

Whether stockpile is involved

In Internet pyramid schemes, the subordinates generally assume a heavier obligation to "buying goods", that is, taking the goods first and then selling them, which often triggers typical group incidents. For example, the Shanting District People's Court of Zaozhuang City, Shandong Province issued a criminal

judgment on August 12, 2019, determining that the “Guimi Mall” operated by Beijing Qiansehui Technology Co., Ltd. was a pyramid scheme, and related defendants have been sentenced to the crime of organizing and leading pyramid scheme actives. After “Guimi Mall” collapsed, a large number of sales contract disputes between users and Beijing Qiansehui Technology Co., Ltd. occurred, involving goods payments varying from tens of thousands yuan to hundreds of thousands yuan. This shows the incentive effect of pyramid scheme system on stockpiling.

In social new retailing, it is often not necessary for the lower-level members to pay high amounts of funds in advance for “stockpiling”, that is, the source of profit shared between the entities is not the funds of the lower-level members from their aforehand stockpile, but the normal commissions obtained from real product sales. Therefore, the probability of triggering group incidents caused by the break of capital chain is low.

The identity boundary of sellers and consumers is blurred

The current laws on direct selling stipulate that direct selling companies need to recruit direct sellers, and the direct sellers sell products directly to the final consumers (hereinafter referred to as consumers) in places outside fixed business locations. In the provisions, having a fixed place and recruiting direct sellers are the necessary conditions for companies to carry out direct selling models. It does not conform to the actual situation if determining and regulating social new retailing companies by the *Regulation on Direct Selling Administration.* First of all, social new retailing companies should not be determined as direct selling companies, and are more in line with the definition of the Internet supply chain platform. Social new retailing can provide multiple

or one type of products to distributors and consumers, and it can be the Internet supply chain platform created by the producer of characteristic types of products for itself, and can also be a pure e-commerce platform. Therefore, it is fundamentally different from direct selling companies in terms of operation and management methods. Secondly, social new retailing completely breaks the identity boundaries of sales agents, direct sellers, entrepreneurs and consumers. Consumers can take the initiative to "open a shop" on the platform (or join a characteristic network community) to purchase or distribute their favorite products at a more favorable price, and form real-time interactions with other consumers or entrepreneurs through mobile social networks, so that they can both purchase their favorite products and get profits from selling such products, and even expand the social circle. If social new retailing is regulated based on the *Regulation on the Prohibition of Pyramid Selling*, the difficulty of identifying salesperson will be increased. Regardless of the number of sales levels, it is necessary to first determine the identity of salesperson, and social new retailing breaks the identity boundary and makes the legislative determination more difficult. The current laws do not have strict stipulations on the identity of salespersons, so in the judicial practice process, whether participants should be determined as consumers or salespersons needs to be explained in more detail.

4.4.4 Existing problems in regulations

Lagging legislation

The *Regulation on the Prohibition of Pyramid Selling* have taken effect for nearly 16 years by now. China changes with each passing day. The quick development of the Internet sector especially has penetrated into all aspects of

the people's daily life, such as socializing, lifestyle and shopping. On March 23, 2016, the State Administration of Industry and Commerce issued the *Risk Warning of New Types of Pyramid Selling Activities* (hereinafter referred to as the "Risk Warning"). It is pointed out in the Risk Warning that WeChat e-commerce, e-commerce, multi-level distribution, consumption investment and mutual aid in tourism can be identified as suspected pyramid selling as long as they meet all such requirements as "admission fee", "member attracting" and "team level-based remuneration" at the same time. However, its interpretations of "admission fee", "member attracting" and "team level-based remuneration" are almost completely the same with the provisions in the *Regulation on the Prohibition of Pyramid Selling*, without further exposition in the scenario of "Internet+". In recent years, as the Internet and WeChat develop rapidly, WeChat e-commerce as a mobile social e-commerce model is booming and growing to become a new engine of Chinese economic development. WeChat e-commerce creatively converts the "circle" with relationship capital at its core in the sociology into visible economic capital and adapts to the traffic-dominant feature of the Internet economy. E-commerce represented by WeChat e-commerce has put a stop to the current economic downturn in China to some extent. According to the monitoring data from the *Market Research Report of China WeChat E-commerce Sector*, the market trading size of WeChat E-commerce had reached 181.95 billion yuan in as early as 2015 and this figure doubled in 2016. Such huge trading size reveals that WeChat e-commerce has an exceptionally wide range of target audience. However, lagging legislation means that the pyramid selling activities as identified in the *Regulation on the Prohibition of Pyramid Selling* are no longer applicable now as the society

develops dramatically. Strict compliance with the three basic modes for identifying pyramid selling activities in the *Regulation on the Prohibition of Pyramid Selling* will make it illegal to conduct some economic activities. This has become a major problem for law enforcers.

Laws and regulations seriously hinder the development of enterprises

It is a widespread practice of direct selling enterprises to pay team-based remuneration. In Article 24 of the *Regulation on Direct Selling Administration*, it is specified that compensations for direct selling personnel can only be directly determined by products sold to end consumers. This means that it is not allowed to gain benefits by recruiting other agents (team-based remuneration). In other words, only single-layer direct selling mode is allowed in China and multi-level mode is prohibited. However, many direct selling enterprises secretly use this multi-level mode of team-based remuneration because such approach can better motivate participants and make them devote to product sales with full passion. Such sales mode with positive motivation has been widely recognized worldwide. Although the legitimacy of team-based remuneration has not been admitted in the legislation for direct selling in China, it doesn't necessarily mean that all enterprises using such approach will be considered as conducting illegal pyramid selling. According to the description of "the crime of organizing and leading pyramid selling activities" in the *Criminal Law*, this approach has not been completely prohibited. This is why many direct selling enterprises take a chance with it, thinking since no one has been held accountable for doing so, it might mean that the law does not punish numerous offenders. Thus, this violating direct selling approach becomes a common practice in the industry. As the social economy keeps developing,

many new economic modes mushroom, a great majority of which adopt the "shared economy" mode of team-based remuneration. If the government maintains blind control over the direct selling market, this industry will lose it vigor and it is likely that more and more enterprises and professionals will quit. Therefore, total ban on team-based remuneration can no long meet the needs of the market in face of current new economic modes.

Unclear division of law enforcement rights

Current crackdown on pyramid selling mainly consists of two parts: industrial and commercial administrative punishment and police criminal prosecution. The basis of industrial and commercial administrative punishment is Article 7 of the *Regulation on the Prohibition of Pyramid Selling*. Nevertheless, since the departments of industry and commerce have no power of investigation, it is very difficult for them to obtain evidence; while the basis of police criminal prosecution is Article 224 of the Criminal Law. However, according to applicable laws, organizers and leaders of pyramid selling with more than three levels and a team over 30 people can be considered as committing the crime. Since the threshold is too high, it is very hard to give criminal sanctions. When pyramid selling activities constitute violations of the administrative law but not the criminal law and due to the difficulty in obtaining evidence by the departments of industry and commerce, some pyramid selling activities have not been properly identified.

Passive situation of law enforcement agencies

Illegal pyramid selling has been a difficult and pain point of many law enforcement agencies, including the departments of industry and commerce since its birth due to its secret ways of development and diversified manners of

operations. The new type of pyramid selling mode born out of the age of Internet is even harder to investigate and treat, mainly due to the difficulty in monitoring and detection. Taking WeChat pyramid selling as an example. Firstly, WeChat pyramid selling is conducted mainly via WeChat Moment, which makes it more secret than traditional one. Organizers of WeChat pyramid selling make up some product introductions and effects to be released via WeChat Moment in the name of WeChat e-commerce. But contents of such moments are only visible to users' friends, making pyramid selling hard to detect. Moreover, real-name registration is not required to apply for a WeChat account, therefore the true identities of persons involved in pyramid selling remain unknown and hard to detect via their WeChat accounts, making it even hard for investigation and punishment by the law enforcement agencies. Furthermore, all WeChat pyramid selling activities stay online and can be easily controlled anywhere and anytime with no need of actual gatherings. No physical site is required for their meetings and their payments have no cash or proofs, resulting in low cost of law breaking and high difficulty of crackdown. A complete set of system of pyramid selling can be established simply via several WeChat groups and even house rental expenditure in traditional pyramid selling can be avoided, resulting in even more difficulty in crackdown and evidence obtaining.

Secondly, the effects of cracking down on WeChat pyramid selling activities are not desirable because the grass-roots management systems in many areas in China are not sound enough; there is deficiency in qualities of law enforcement personnel and expenditure to a great extent and effective cross-departmental cooperation can hardly be organized. Besides, local protectionism in some areas also has disastrous impact. Many WeChat pyramid selling organizations

proactively pay taxes in the name of vigorously promoting e-commerce and regional economic development and pretend to join the course of charity in order to impress local governments. While administrative omission of such governments cause that illegal marketing behaviors meeting the requirements of pyramid selling have not been properly identified.

Chapter V Conclusions and Policy Suggestions

5.1 Research conclusions

5.1.1 Social New Retail is an innovative application of multi-level direct sales

Innovative application of direct selling in the social new retailing business model is mainly reflected in that:

(1)Under the social new retailing business model, a multi-level network marketing system is established via the social platform. As analyzed in the cases above, social new retailers rely upon the matrix communication efficiency of the social platform to quickly promote products and build multi-level sales networks via users of the social platform.

(2) Multi-level profit sharing mode. A multi-level sales network determines that the profit-sharing mode of social new retailing should also be multi-level. Compared with that of the traditional multi-level direct selling, the income source of practitioners in social new retailing mainly includes profits from sales of commodities. In multi-level direct selling, practitioners have other income sources such as “admission fee” from subordinate salespersons. The presence of such “admission fee” makes it more difficult to distinguish multi-level direct selling from pyramid selling, resulting in increased operational risk of enterprises.

(3) High efficiency. The information communication efficiency of the social platform is superior to the communication speed and scope of the traditional offline communication. Higher information communication efficiency enables

the social new retailing business model to have higher product promotion efficiency than direct selling.

(4) Digital operational management. Digital operational management makes it possible to manage the sales network in a transparent way and thus reduced the operational risk of enterprises. Such management approach can give rise to big data of product sales, increase knowledge of consumer needs and promote optimization and upgrading of products.

5.1.2 Social new retailing can improve the welfare of practitioners.

Incomes of the people entering into the sector of social new retailing improve significantly. Firstly, the profit contribution mode of the social new retailing business model enables its practitioners to get sales profits based on performance and hard-working practitioners can greatly improve their incomes within a short time. Secondly, such business model has promoted the circulation of commodities and enhanced sales performance as a whole. Such model has high efficiency in commodity promotion, expands the scope of sales and helps practitioners promote products to more people via mobile Internet platforms in order to improve their performance and increase their incomes.

The work of social new retailing meets the spiritual needs of the practitioners. Built on the basis of interpersonal socializing, such business model can meet the needs of the practitioners to get friendship during trainings, exchanges between superiors and subordinates, commodity promotion and after-sales service. In the meantime, engaging in social new retailing brings them recognitions from others and greatly improves their sense of accomplishment.

5.1.3 Social New retail can provide consumers with high-quality products

The key of the role of social new retailing in improving consumer welfare is to offer products with higher quality to consumers and truly cater to consumer needs. We find from the survey that social new retailing improve welfare of practitioners and offer more premium products to consumers by promoting cheap and high-quality products.

5.1.4 Social new retailing is good for social development

Social new retailing offers job opportunities for low-skilled and low-education groups. The social new retailing has very low entry barriers and helps solve the unemployment problem of migrant farmers finding work in towns. Social new retailing enterprises usually provide many skill trainings and knowledge enhancement sessions to improve the competitiveness of originally low-skill labors in the labor market. Meanwhile, flexible ways of employment of the social new retailing also offer sources of income for housewives, students and company employees.

It also helps increase tax revenues. The business model of social new retailing can enable quick promotion and circulation of commodities, gain more cash income and pay taxes for the society. Such taxes can improve governmental financial conditions and make contribution to expenditure for social security.

5.1.5 Current regulation is not favorable for the social new retailing development

Innovation in the business model is bound to give rise to new regulatory challenges. The development of social new retailing has increased the difficulty of regulation and revealed defects in the original regulation. At present, the

regulators pay too much attention to the legitimacy of the business model and suffer a lack in protection of practitioners and control of product quality, leading to absence in regulation and inability to set standards for the industrial development. We find after questionnaire survey and interview survey that there are serious defects in current regulation, mainly reflected in lagging regulations, severe hindrance of laws & regulations to enterprise development, unclear division of law enforcement rights and passive situation of law enforcement agencies.

5.2 Policy suggestions

Based on the research on the new social retail business model and the discussion of its social value, we found that the advanced nature of the new social retail business model is not available in the traditional business model, and the social value it creates is greater than that of the traditional industry. Therefore, we focused on the research on the supervision model of social new retail, and put forward the following policy recommendations. Similarly, our recommendations also apply to traditional retail companies that are evolving towards social new retailing.

5.2.1 Protect the interests of practitioners

(1) At national level

Firstly, the career choice, full-time or part-time, of practitioners of social new retailing has to be recognized. In the *Opinions on Supporting Healthy Development in New Formats and Model to Boost Consumer Market and Drive Job Creation* introduced by the Chinese government in July 2020, WeChat commerce, as a simple format of social new retailing, has been fully recognized.

However, jobs created in social new retailing need to be further recognized in order for practitioners to break away from the negative impressions on the industry brought by pyramid schemes, since no recognition is given in the *Opinions* to the ways of employment in this industry as a whole.

Secondly, supporting social security services can be provided to practitioners of the industry by identifying them as individual business owners and online micro and small loans can be offered to those in need to address their lack of funding.

Finally, a trade association for social new retailing can be established as the major agency in charge of industrial & commercial registration and labor arbitration of practitioners by the national social and labor security authority. Such trade association is tasked to enforce the mandatory requirement that companies in the industry must sign labor or agency contracts with practitioners indicating clearly benefits and rights of the latter in order to strengthen judicial protection of practitioners and offer an official platform for settling disputes of interest between practitioners and companies.

(2) At company level

Firstly, companies should sign agency or labor contracts with practitioners and assist them in registering at the trade association to become individual business owners or employees of the companies, in order to clearly define the relations between practitioners and companies. If practitioners choose to register as employees, companies have to provide social security as required by the *Labor Law* and pay income taxes on behalf of such practitioners. If they choose to register as individual business owners, companies should urge them to pay taxes as individual business owners and offer relevant social security services.

Secondly, companies need to place product quality improvement at the center of their development, keep enhancing digital management of their sales teams, follow the market demands based on sales feedback from practitioners and control the entire sales network in real time to avoid underpayment of low-level practitioners due to excessive sales levels.

5.2.2 Protect the interests of consumers

Firstly, product quality should be placed at the core of regulation and remain the core factor under any business model. In the past cases, illegal pyramid selling usually involves fake and shoddy products. Hence, it is necessary to put in place strengthened quality surveillance for all commodities, underplay regulation on commodity prices and leave to the market to determine commodity prices.

Secondly, actions should be taken to fight fraudulent advertising by increasing penalties in terms of false advertising about product efficacy and practitioners' profits.

Finally, after-sales services by companies should be placed under supervision. It should be made mandatory for companies to provide after-sales services and the quality of such services should be controlled and management strictly.

5.2.3 Improve tax payment

On one hand, companies should be requested to pay practitioners' personal income tax on their behalf. In the social new retail multi-level sales network, there are income tax problems in the process of negotiation and circulation, but companies have a more detailed understanding of their products and agents.

Therefore, it is recommended that companies pay income taxes for practitioners to avoid tax evasion.

On the other hand, practitioners can register as individual business owners to actively pay income tax. They can set up bank accounts for legal entities to facilitate the review by tax authorities, and to actively pay income taxes to avoid tax evasion.

5.2.4 Improve laws and regulations

(1) Improve legal definition of pyramid selling

Firstly, the judicial concept of "pyramid fraud" should be introduced to replace traditional pyramid selling. In current judicial system, pyramid fraud and multi-level direct selling are collectively referred to as pyramid selling, resulting in misunderstanding of multi-level direct selling by the public. Therefore, it is required to introduce the judicial interpretation for the crime of pyramid fraud and offer more detailed provisions.

Secondly, revisions to the *Regulation on the Prohibition of Pyramid Selling* are required to make it adaptable to the needs of the age of mobile Internet. For example, the requirement of team-based remuneration should be removed and a clear explanation of level requirements and identification methods should be provided.

(2) Lift restrictions on multi-level direct selling

Firstly, no excessive restrictions should be imposed on business models in applicable laws. Sales level and team-based remuneration are common modes of sales used by enterprises. The judiciary should evaluate the values of enterprises in terms of their social contributions and product quality rather than impose excessive restrictions on the modes to be used for sales.

Secondly, lawmakers should define pyramid selling on such factual premises as whether there are victims and whether consumers' right and interest are infringed. A set of quantitative criteria are required in applicable laws to judge whether damages have been done to the social benefits or whether values have been created. For example, the facts of infringement can be determined based on the number of complaints, personal injuries or existence of frauds and size of economic loss.

Finally, the restrictions on cross-area operations should be lifted. The *Regulation on Direct Selling Administration* currently specifies that direct selling enterprises and selling personnel can only conduct business within the specified areas of registration. However, in reality, many such enterprises do business in other areas in disguised forms for cross-area operation. Such provision has restricted the development direct selling enterprises and has only limited practicability in reality. It is advised to take adequate consideration of the advantage of sales without fixed site of operations and maximize its flexibility during lawmaking. After restrictions on area development of direct selling enterprises are lifted, coordination of such enterprises with logistics and express delivery industries should be encouraged to give fullest play to its advantages in flexible sites of operations and reduce cost thanks to elimination of intermediate stages.

(3) Define enforcement authority

More restrictions should be imposed on law-enforcing entities as well as the exercise of law enforcing power. Authorities of law-enforcing jurisdictions should be clearly defined. For example, do county-level law enforcement agencies have the law enforcement power? Are reports to high-level agencies

required? Should local competent departments of suspected enterprises be notified for joint investigation and decision-making?

(4) Set up a special Internet law enforcement agency. To prevent lawbreakers from using social new retailing business model for illegal operational activities, a special law enforcement and regulation agency should be established to regulate online transactions and circulation of commodities, make the most of information-based technology such as big data and AI and improve technological level of regulators in local governments.

5.2.5 Reference to regulatory patterns in the US

(1) Identify core differences between multi-level direct selling and pyramid scheme

FTC has clearly identified the differences between multi-level direct selling and pyramid scheme, namely core differences in terms of sources and ways of income of companies and practitioners. If practitioners' income mainly comes from product sales revenue and share in franchise fees and sales revenues of lower-level agents, no illegal pyramid scheme is involved. If their income is mainly the result of franchise fees from lower-level agents, their practices fall within the scope of pyramid scheme. Hence, the key to the legitimacy of multi-level direct selling is the source of income, which should be considered as the starting point and core in determining whether a business model is legal.

(2) Describe in detail practices of pyramid scheme

FTC has offered a detailed description of pyramid scheme. Firstly, it involves false advertising or commitment in terms of future benefits of practitioners who are usually lured into pyramid scheme by the promises of extremely high income and even financial independence. Secondly, practitioners are often

asked to pay high “admission fee” and develop as many lower-level agents as possible. However, practitioners can never achieve the goals of sales and lower-level agent development since pyramid scheme is in essence fraud.

(3) Lay the focus of regulation on protecting practitioners

In addition to detailed description of multi-level direct selling and pyramid scheme, FTC has provided many references for career choices of practitioners. Firstly, they inform practitioners of personal elements required by multi-level direct selling, such as their intention to become marketing staff and development of sales plans. This helps avoid practitioners joining multi-level direct selling blindly. Secondly, FTC has offered a list of pre-job preparations for practitioners, including necessary understanding of target companies, detailed knowledge of target products and prior understanding of cost of target jobs. This list effectively assists practitioners in selecting better companies and stimulates virtuous development of the industry to some extent. Finally, FTC has made practitioners understand the necessity to communicate with existing and previous agents of target companies or products in order to get a full picture of marking strengths and weaknesses and required time and cost of their target brands. Such focus of regulation on protecting practitioners in the US serves as valuable reference for China since it helps practitioners to distinguish between multi-level direct selling and pyramid scheme and offers beneficial guidance for their career choice. In this paper, we urge Chinese regulation to start from protecting the benefits of practitioners as those working in the industry are low-education population in urgent need of guidance and support in career choice and employment.

5.3 Research deficiencies and research prospects

(1) Limited sample size

One of the deficiencies of this paper lies in the limited sample size of empirical research, which makes it unable to form panel data for more in-depth empirical analysis. The focus of current analysis falls in relevance analysis and the main source of data is information related to practitioners make it hard for direct causal inference for consumers, which is a defect of this research.

(2) Limited cases

It is a pity that no in-depth research has been done to traditional retail companies evolving towards social new retailing in this paper, since such evolution process can serve as great references for our understanding of the development of this business model. The research on such evolution can also help inform decision-making by regulators in order to spur the development of the industry and assist more companies in paving the way for the same evaluation.

(3) Lack of comparison with overseas regulation

The focus of this research is on existing problems in regulation in China and ways for improvement, without further discussion in terms of regulatory patterns in foreign countries. As we know, it is a shared dilemma of many countries to eliminate pyramid scheme and stimulate healthy business model development. Apart from the US mentioned in this paper, many other countries have introduced rigorous legal regulations in this respect and some of them can provide great reference for China.

(4) Lack of interviews with regulators

No interview with competent regulators has been conducted in this research to form a more comprehensive proposal for regulatory pattern. But a picture of

regulators' attitudes towards existing laws and regulations and their enforcement philosophy can help us understand current regulatory pattern and point out the direction of future improvement.

(5) Future direction of research

In the next step, we will continue to collect more data about practitioners and consumers, and build a database of social new retailing on this basis to provide support for further research. We will also collect more cases, establish a social new retail case library, and conduct interviews and surveys with regulators, and offer more regulatory recommendations. We will compare and analyze Chinese and overseas regulatory patterns to provide references for regulators in China.

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Appendix 1 Contents of questionnaire

1. Basic Facts

1.1	You are 1. Female 2. Male
1.2	Your age?
1.3	Your education (full-time): 1. Junior high school and below 2. High school, technical secondary school, vocational and technical college 3. Junior college 4. Undergraduate 5. Master degree and above
1.4	Have you obtained any occupational skill certificate? 1. Yes 2. No
1.5	Your current place of residence
1.6	The nature of your hukou 1. Rural 2. Urban
1.7	What is the living expense of your family every month?
1.8	What is your health condition? 1. Very good 2. Good 3. Ordinary 4. Not so good 5. Poor

2. Status of work

2.1	What are the three most important reasons for you to engage in social new retailing? 1. Products are trustworthy 2. Introduced by friends and relatives 3. Relatively easy to make money 4. Increase income 5. Wish to quality of life (not in terms of income) 6. Help friends 7. Improve own comprehensive quality 8. Gain recognition 9. Expand contacts 10. Enhance social status
2.3	When did you start to engage in social new retailing? _____
2.4	How many brands have you worked for by now? _____
2.5	Do you need to pay some fee or buy a certain number of products to become an agent of such brands? 1. Pay some fee 2. Buy a certain number of products 3. Pay a fee and buy some products 4. Neither 5.Some brands have such requirements and some don't
2.6	Do you work full-time in social new retailing? 1. Yes 2. No

2.7	If you work part-time in social new retailing, what is your full-time job? 1.Employee of a state-owned enterprise and institution 2. Civil servant 3. Employee of a private enterprise 4. Teacher 5. Employee of an enterprise funded companies from Hong Kong, Macao, Taiwan and foreign countries 6. Student 7. Individual business owner 8. Others
2.8	Do all the brands you work for have a direct selling license? 1. Yes 2. No 3. Not sure
2.9	Have you signed an agency agreement or a labor contract with such brands? 1.Agency agreement 2. Labor contract 3. Both 4. Neither
2.10	What is your average monthly income from engaging in social new retailing? _____
2.11	What is the current size of your team? 1. 5 and less 2. 10 - 30 3. 30 - 50 4. 50 - 80 5. 80 - 100 6. 100 and more 7. 200 and more 8. Over 500
2.12	What is the type of your team? 1. A sub-team under a big team 2. The backbone of a big team 3. A medium team subordinated to a big team and leading several other small teams
2.13	How many levels of sales relationship are there in your team? _____
2.14	What is your position in the team? 1. Leader of a big team 2. Leader of several small teams at the same level 3. Leader of a medium team with several levels 4. Leader of a single small team 5. Ordinary agent
2.15	What is your way of communication with other team members? 1. Online 2. Offline 3. Online + offline 4. No communication
2.16	What is your or your team's way of communication with relevant brand? 1. Online 2. Offline 3. Online + offline 4. No communication
2.17	If you have worked full-time before, what is the period of your last full-time job? 1. From to _____ 2. Never
2.18	If you have worked full-time before, what was the monthly income of your last full-time job? _____
2.19	What is your agent product? 1.Skin care products and cosmetics 2. Health care products 3. Food and beverage products 4. Clothing

	5. Electronic and electrical products 6. Daily necessities 7. Other physical products 8. Service without physical products
2.20	What is the price range of the smallest sales unit of your agent product or service? 1. Less than 100 yuan/piece 2. 100-500 yuan/piece 3. 500-1000 yuan/piece 4. 1000-2000 yuan/piece 5. Over 2000 yuan/piece
2.21	What is the product quality of your agent brand? 1. Not clear 2. Average 3. Above average 4. Good 5. Very good
2.22	Do you have a good idea of your agent product or service before selling it? 1. No 2. Rough idea 3. General idea 4. Good idea 5. Great idea
2.23	What are the main benefits for consumers brought by your agent product or service? (you can choose more than one) 1. Meet consumers' needs of product and service functions 2. High cost efficiency 3. Meet customers' psychological needs (such as maintain self-image)
2.24	Have your agent brands obtained any technical patent? 1. Yes 2. No 3. Not clear
2.25	Have your agent brands obtained any certification from relevant quality control authority? 1. Yes 2. No 3. Not clear
2.26	What are the two most important sources of your customers? 1. Family and relatives 2. Friends 3. Colleagues, schoolmates and brothers/sisters in arms 4. Strangers
2.27	What are the two most important marketing methods for you to acquire customers? 1. Face-to-face marketing 2. WeChat 3. Socializing APP, e-commerce platform and sales via live streaming 4. Introduction by relatives and friends 5. Telephone marketing
2.28	Do you provide after-sales service to customers? 1. Yes 2. No
2.29	What are the main approaches for you to win customer trust? (Three at most) 1. Relationship with relatives and friends 2. Personal ability 3. Words of mouth 4. Rebates and discounts 5. Solve problems for customers 6. Others

3. Value Enhancement

3.1	Does your work in social new retailing improve your income? 1. No help 2. Small extent 3. Ordinary 4. Large extent 5. Greater extent
3.2	What is the greatest source of income in your work in social new retailing? 1. Price difference for selling products or services 2. Distribution of team rewards 3. Rebates for inviting newcomers 4. Others
3.3	Are you both an agent and a user of the products? 1. Yes 2. No
3.4	Does the work in social new retailing help you make more friends? 1. No help 2. Small extent 3. Ordinary 4. Large extent 5. Greater extent
3.5	Does the work in social new retailing bring you a sense of accomplishment? 1. Never 2. Occasionally 3. Ordinary 4. Often 5. Very often
3.6	What are the types of trainings you receive from your brand or team? (you can choose more than one) 1. Professional skill training 2. Marketing ability development 3. Image improvement 4. Value shaping 5. Cultural education 6. None
3.7	Does your work in social new retailing help you improve your job skills? 1. No help 2. Small extent 3. Ordinary 4. Large extent 5. Greater extent
3.8	Does your work in social new retailing help improve the standards of living for your family? 1. No help 2. Small extent 3. Ordinary 4. Large extent 5. Greater extent

4. Attitudes and comments of other people

4.1	Have you received any complaint from customers? 1. Never 2. Occasionally 3. Ordinary 4. Often 5. Very often
4.2	Does your family support your work in social new retailing? 0. No attitude 1. All oppose 2. Some oppose and some have no attitude 3. All are neutral 4. Some support and some have no attitude 5. All support
4.3	What are the attitudes of your relatives and friends towards your job? (you can choose more than one) 1. Dislike and resist 2. Avert 3. Concerned 4. Neutral 5. Support and approve 6. Not clear
4.4	What are the greatest challenges in your work in social new retailing? (you can choose more than one) 1. Fail to win respect and recognition from others 2. Insufficient product competitiveness 3. Lack in funding support 4. Lack in sense of security 5. Shortage in personal skills and knowledge 6. Others

5. Knowledge of regulation

5.1	Do you know the *Regulation on Direct Selling Administration* or the *Regulation on the Prohibition of Pyramid Selling*? 1. Very well 2. Well 3. A little 4. Not so well 5. Not at all
5.2	Have your agent brands been suspended or punished? 1. Yes 2. No
5.3	If yes, what is the reason of such suspension or punishment? 1. Non-standard brand marketing 2. Inappropriate regulation 3. Not sure
5.4	Have you heard that others' agent brands have been suspended or punished? 1. Yes 2. No
5.5	If yes, what is the reason of such suspension or punishment? 1. Non-standard brand marketing 2. Inappropriate regulation 3. Not sure
5.6	Do you need to pay taxes? 1. Brands pay for me 2. My team pays for me 3. I pay myself 4. Not sure
5.7	Do you think there is room for improvement in current regulation? 1. Not at all 2. Small room 3. Large room 4. Great room 5. Revisions to applicable regulations are required

Appendix 2 Questions of Interview

1. Interview questions for legal professionals:

I. The interpretation of *Regulation on Direct Selling Administration* and *Regulation on the Prohibition of Pyramid Selling*

II. Whether you have the experience of acting for relevant cases

III. From the perspective of cases you acted for, what are the regulations they violated or are found to have violated;

IV. Are the grounds for determining illegal and irregular acts clear?

V. If these illegal behaviors can be attributed, can they be distinguished from the personal factors of the executor, the decision-making level of the company, and the business model? What is the relationship between the three factors? What is the dominant factor? What are the key factors contributing to the problem?

VI. Which law-enforcing authorities or agencies have the authority if a company violates the *Regulation on the Prohibition of Pyramid Selling*?

VII. What is the general procedure of enforcement?

VIII. Do illegal enterprises or individuals have the opportunity to prove their innocence?

IX. From the illegal points stipulated in the regulations, combined with the actual case agency process, what is the general classification and proportion of the existing illegal acts? (e.g.: tax evasion, false publicity, infringement of property and rights of others)

X. What do you think of the similarity between the existing community group-buying model and the pyramid selling model defined in the *Regulation on the*

Prohibition of Pyramid Selling and the "sharing, recommendation payment, team-based remuneration, integration of seller and consumer identity" model used in the Internet platform?

XI. Some of the operators in the above model were punished, some were not; there is no substantial change in the rectification after punishment. How do you think about it?

2. Interview questions for entrepreneurs:

I. Value created

1. When was the enterprise established?
2. What products and services do you offer? What consumer needs have been addressed?
3. How do clients (consumers, agents) evaluate your products and services?
4. Number of current employees? Number of agents? Number of accumulated employees and agents? The maximum number of employees and agents?
5. How many does company accumulative total pay all sorts of tax and fee have probably? How much is the individual income tax paid by the business owner?

II. Understanding of *Regulation on Direct Selling Administration* or the *Regulation on the Prohibition of Pyramid Selling*

1. Do you know the existence of these two regulations?
2. Do you think your business operation involves the scope administered by these two regulations?
3. How do you define direct selling? Can you understand why the government regulates direct selling? Do you think it is necessary?

4. Do you know the details of *Regulation on the Prohibition of Pyramid Selling*? For the definition of "entry fee"; the definition of "agency hierarchy"; the definition of "team-based remuneration", do you think they are reasonable? Why is that?

5. Has your company ever been punished by government authorities according to the *Regulation on the Prohibition of Pyramid Selling*? Which specific regulation did your business violate?

6. Do you know any other enterprises have been punished by government authorities according to the *Regulation on the Prohibition of Pyramid Selling*? Do you know the details?

III. The situation that the business complies with these two regulations in its operation

1. Is the current business model of your enterprise fully compliant? What changes did you make? Have these adjustments been approved by the government authorities?

2. What is the difference between the adjusted business model and the previous one in terms of management difficulty and operation efficiency? Specifically, in terms of business indicators, number of agents, tax payment, product research and development, what are the changes in the data?

3. Which provision in *Regulation on the Prohibition of Pyramid Selling* do you think is the key to affecting performance? "Agency hierarchy" or "team-based remuneration"?

IV. The legally defined original intention, implementation and consequences

1. Do you understand the original intention of the government issuing the two regulations and implementing the control? What do you think the government is trying to prevent?

2. Do you have similar problems occurred in your business operation? Have you heard of similar problems at other companies?

3. What are the specific situations of other enterprises that you have met or heard of being enforced by government authorities?

V. Suggestions on supervision

1. Do you think these regulations need to be improved? Any specific suggestions?

2. If the *Regulation on the Prohibition of Pyramid Selling* is abolished, what changes do you think will take place?

3. What do you think of the possibility of adverse events prevented and controlled by government authorities?

4. Are these adverse events likely to occur in your enterprise? Why is that?

5. What is your enterprise's vision, development strategy and development plan?

VI. What are your views and specific suggestions on the *Regulation on the Prohibition of Pyramid Selling*?

VII. On the issue of hierarchy and team-based remuneration, why is multi-level distribution not a problem in the traditional sector, and why does it become a pyramid selling in the new retail sector?

VIII. Many of the so-called fraudulent behaviors are caused by the contradiction between consumers and agents in terms of after-sales service. What do you think of the contradiction between sales return by customers and agents?