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Josh Lerner, Junxi Liu, Jacob Moscona, and David Yang[1]

This working paper presents four short case studies of emerging market businesses whose founders emulated Chinese firms. These examples are part of a more systematic pattern, documented extensively in Lerner et al. (2024), in which businesses developed in China were more applicable to the demands, constraints, and characteristics of other emerging markets than were businesses developed in and for the U.S. or other high-income countries.

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1. Introduction

The working paper presents four short case studies of emerging market businesses whose founders emulated Chinese firms. These are the Indonesian start-up Super and the Brazilian social commerce firm, Facily, both of which were modeled after Pinduoduo; the startup PhonePe, which sought to emulate WeChat in developing a "super-app" for India; and the Indian company Groww, a wealth management firm that shared important elements with Ant Financial's Yu'e Bao. Each of these "imitative" firms has been quite successful in garnering resources and making initial progress, though their ultimate success remains uncertain to a greater-or-lesser extent.

These are just a few of the numerous examples where business models developed in China appear to have inspired entrepreneurs in the developing world to establish similar ventures. While the mechanisms through which the knowledge flow was accomplished differed, in each case, there was a transmission of information about a potential entrepreneurial opportunity and an approach to pursue it. At the same time, the entrepreneurs had to adapt the Chinese firm's approaches to their local environment.

We present four short case studies (focused on social commerce, super-apps, and wealth management) that illustrate these claims. (The sources used are indicated at the end of the working paper.) These examples are part of a more systematic pattern, documented extensively in Lerner et al. (2024), in which businesses developed in China were more applicable to the demands, constraints, and characteristics of other emerging markets than were businesses developed in and for the U.S. or other high-income countries. This feature of Chinese entrepreneurship can explain the notable diffusion and success of Chinese business models in other developing countries.

2. *Social commerce*

Pinduoduo (拼多多, or PDD for short) was founded in 2015 in Shanghai by Chinese software engineer and entrepreneur Colin Huang. It raised a venture round almost immediately after founding. After growing extremely rapidly, the firm raised a three billion dollar financing round in early 2018 led by among others, Alibaba, Tencent Holdings, and Sequoia Capital China before going public on the NASDAQ exchange later that year.

PDD broke into the Chinese e-commerce market—dominated at the time by the duopoly of Alibaba and JD—by introducing the concept of "social commerce." On the PDD site, individuals could either buy a product alone as a single purchase, or else as part of a group at a lower price. The site facilitated the ability of purchasers to "pitch a product" to their friends, in the hopes of stimulating the formation of purchasing teams. The firm leveraged the ubiquity of Tencent's widely diffused WeChat and WePay platforms, which allowed for ready communication and payments. The deep discounts on products appealed especially to consumers in China's second- and third-tier cities.

This model soon attracted imitators in developing markets around the globe. One example was the Indonesian firm Super, founded by Steven Wongsoredjo. Steven had grown up in Indonesia, attended Johns Hopkins for his undergraduate studies then Columbia University for his Master of Science in 2016 and returned to Indonesia. He founded Nusantara Technology ("Nusantara") that year. By 2018, his firm had built an interactive advertising product, Playing Viral, as well as two profitable consumer media platforms, Yukepo and Keepo. At this point, they received $8 million dollars in funding from investors like Insignia, who previously had written Nusantara an initial cheque of $200 thousand for 12% equity ownership.

Nusantara was then accepted to the accelerator Y Combinator. A participant of the Winter 2018 batch, the firm faced a tough choice – grow their existing social media platform or pivot to capture an opportunity they had discovered. This opportunity came to Nusantara as they developed and launched PlayingViral: Steven and his team realized that there was a larger market and monetization opportunity to be the primary point of distribution connecting consumers, especially in rural Indonesia to goods and brands, rather than just making money off margins of their advertising product.

In particular, the team realized that in Indonesia, goods were often unaffordable outside of city centers, due to the cost of last-mile delivery. As Wongsoredjo narrated, "I grew up in my family's retail business, which served tier two cities up to rural areas. I learned that life was unfair in the rural areas compared to the capital city where I grew up. The GDP per capita is over two times higher in the capital city than in the rural areas; however, the prices of goods are two to three times more expensive than in Jakarta." The lack of physical infrastructure and geography presented challenges for supply chains, which increased the prices of goods. The supply chain was also not well-regulated, making it possible for middlemen to take advantage of opportunities to raise prices as well.

Market observations the firm picked up growing PlayingViral also pointed towards the opportunity of addressing commerce and logistics inefficiencies in rural Indonesia. While internet penetration rates were incredibly high throughout both rural and metropolitan Indonesia, most users used this connectivity to simply access social media. Very few, especially those outside of the largest cities, made purchases over the internet. As he studied this seeming paradox, Steven grew to appreciate the highly trust-based nature of the Indonesian economy. Consumers were far more willing to purchase from merchants they knew and trusted rather than from those they met through online storefronts.

Steven was not alone in seeing this opportunity. Their lead venture group, Insignia, specialized in helping entrepreneurs elsewhere in Asia adapt business models that have been successful in China. The firm founder, Yinglan Tan, had launched the firm after leading the Singapore government's venture promotion efforts and working for the global venture group Sequoia Capital. When forming his fund, he had made a concerted effort to raise capital from founders at Chinese and U.S. "unicorns," or start-ups valued at a billion dollars or more. This group of individuals generated a sizable portion of Insignia's potential investment ideas and investment prospects, many of which involved adapting business ideas that had succeeded in the unicorn founders' local markets. In addition to such a "bottom up" approach, the firm' engaged in a thesis-driven exploration of what emerging sectors were likely to succeed in southeast Asia. Much of this process entailed identifying sectors that were growing rapidly in China and studying their viability in other nations. Yinglan and his team at Insignia had been looking at the social commerce space for some time as part of their thesis-driven exploration into emerging sectors in Indonesia. They noticed that models like Pinduoduo and similar social commerce models were growing rapidly in China and the Insignia team studied its viability in Indonesia. While

Nusantara’s media and marketing products were seeing continued growth, the business was going to be hard to scale and monetize.

Yinglan’s discussions with Steven helped him put the pieces of puzzles together with (1) the larger, and importantly largely untapped, market opportunity in rural Indonesia’s commerce compared to social media and advertising software, (2) Steven’s own background and familiarity with rural Indonesia being a key advantage reducing execution risk in these market segments, (3) and market behavior in rural Indonesia leaning towards social behaviors like group buying.

With support from its initial investors, Nusantara then pivoted into building Super as what Steven calls, “social commerce with a logistics backbone.” In other words, enabling group buying of goods supported by owned distribution networks. Insignia was also key to supporting implementation of the agent-led group buying model, sharing business model and market learnings from global comparables like Pinduoduo in China to help Steven define Super’s own defensible moat in the space.

This moat evolved to be the company’s approach to leveraging existing infrastructure in their target markets, for example working with housewives and community leaders as agents (who are themselves incentivized by the supplementary income) as well as local stores to serve as micro-fulfilment hubs or Super Centers. Leveraging existing infrastructure has not only helped the company reduce go-to-market costs but has also supported local economies and strengthened retention of their platform in these communities.

Maintaining this lead and differentiation in the market helped Steven in raising the next round of funding, now as Super (which dubbed itself "Pinduoduo for Indonesia"). It raised a Series B US$28 million round led by Softbank Ventures in 2021 and another US$70 million round led by New Enterprise Associates in 2022.

Another example was Facily. Founded in 2018 in Sao Paulo, Brazil, Facily was the first social commerce platform in Latin America. The three co-founders were Diego Dzodan, a Harvard MBA who immediately previously was Vice-President for Facebook Latin America and earlier CEO of Certant, Luciano Freitas who had co-founded Nuveo and was a marketing manager at Uber, and Vitor Zaninotto, a former IT consultant at Infosys and ESS Brazil.

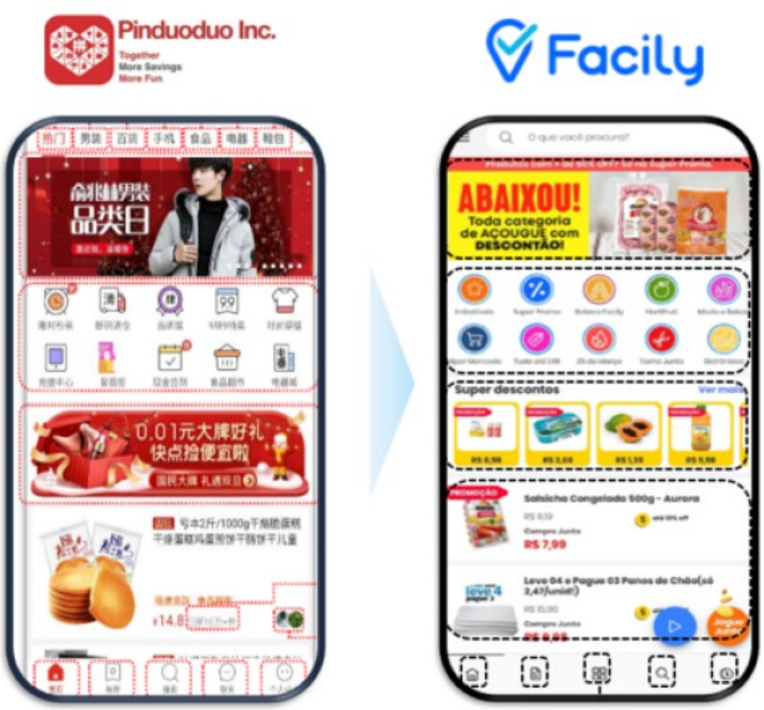
The firm sought to provide everyday goods to the low-income population in Brazil at affordable prices. The company leveraged the community group buying model and combined it with the convenience of online shopping through the WhatsApp platform, catering to millions of Brazilian middle-class families. The goods it supplied mostly consisted of food, beverages, and other necessities at wholesale prices. It encouraged group shopping to ensure consumers got the best prices on a vast category of products. Discounts from the cost at a supermarket were as much as 40%, enabled by bulk purchases by the Facily team from wholesalers.

The Brazilian firm adapted the PDD model in several important ways. While the Chinese firm relied on the nation's multiple express delivery firms, Facily had consumers pick up goods from multiple pickup points it provided across the cities it operated in. Rather than relying solely on a single online payment network, as WeChat did, it offered a variety of payment options on its platform, including cash payments, bank transfer, and Boletos (a voucher-based payment system popular among lower-income Brazilians). In late 2019, the firm raised a seed round from several American venture groups, including Founders Fund, a leading group noted for being among the earliest investors in Facebook, Palantier, and SpaceX. This was followed by additional financing, including a $385 million financing in November 2021 by a broad group of American, European, and Latin venture investors.

Facily's founders have repeatedly indicated the inspiration for their firm was PDD. Dzodan attributed the genesis of the company to a trip he made to China for Facebook, where he saw how social e-commerce operated there in lower income areas. As one journalist described, "When Diego Dzodan quit Meta as head of Latin America three years ago to found his own startup in Brazil, he sought inspiration from Chinese startups, like a growing number of emerging market entrepreneurs. Instead of looking to Amazon, he modeled his business on China's Pinduoduo, a hyper fast-growing e-commerce app that offers bargain-basement deals and free shipping." In fact, even the firm's web interface has an uncanny resemblance to that of the Chinese firm (see below).

These parallels were also in the mind of the venture investors who funded Facily. Alexandre Lazarow from Paris-based Cathay Innovation stated, "It's our belief that Facily has all the makings to do for Latin America what Pinduoduo did for China — not only becoming one of the leading players in the region but largely democratizing e-commerce for populations previously left behind."

Another emulator was the Peruvian company Favo, which also expanded into Brazil. The firms co-founder, Alejandro Ponce, stated that when he learned about social commerce from a friend, he traveled to China in 2019 to see it firsthand: “I came back and knew that this is what I wanted to build” (Hall, 2021).



3. Super-Apps

Tencent Holdings (腾讯;) is a Chinese multinational technology conglomerate and holding company headquartered in Shenzhen and formed in 1998. Tencent is the world's largest video game vendor, as well as one of the largest social media and venture capital firms. It operates the instant messengers Tencent QQ and WeChat and owns the WePay payment network, which is ubiquitous in China.

One crucial step in its development was to open the WeChat platform to external developers and fellow start-ups, allowing it to encompass everything from maps and payments to food delivery. As a result, it became the first "super-app" that helps hundreds of millions of users carry out routine activities. The consulting firm Gartner defines a super-app as "an application that provides end users (customers, partners, or employees) with a set of core features plus access to independently created miniapps. The superapp is built as a platform to deliver a miniapps ecosystem that users can choose from to activate for consistent and personalized app experiences." Messaging, payments, and e-commerce are among the most common application used on super-apps.

This super-app approach has been emulated by many firms in emerging market. One example is PhonePe, founded in December 2015 in Bengaluru (Bangalore), India by Sameer Nigam, a Wharton MBA who had been a founder of Mime360. After Mime360's acquisition by Flipkart, he served as a Senior Vice President of engineering at the larger firm. Sameer and his colleagues had left Flipkart to start PhonePe, Flipkart agreed to invest up to $100 million in the new venture, ceding day-to-day control to the entrepreneurial team but obtaining the bulk of the ownership. In addition to much-needed capital, Flipkart agreed to provide a distribution platform and a sounding board to the entrepreneurs.

After Wal-Mart acquired Flipkart in 2018, PhonePe was partially divested through a $700 million transaction, valuing the young company at $5.5 billion. Among the investors were leading growth investors such as General Atlantic, Hillhouse, Kohlberg Kravis Roberts, and Tiger Global. It also attracted corporate venture investments from Tencent Holding and Wal-Mart itself.

The initial focus of the firm was ordinally on building its own apps and merchant point-of-sale terminals to allow commerce in the physical world. The terminals were intended to be lower-cost than those build by firms such as Ingencio (France) and Verfone (U.S.) but operate similarly. But in 2017, Nigam and his team did a study tour to China. They visited WeChat's offices, and also walked around Shenzhen. The CEO was struck by the merging of offline commerce with online payments: "It is so surreal. Everywhere you go, there are QR codes. WeChat and Alipay are accepted everywhere," Nigam reported.

The China trip led him to shift PhonePe's go-to-market strategy in two important ways. First, the firm abandoned the idea of building a Bluetooth-based payment terminal. Rather, it would create an environment where consumers scanned a merchant QR code on the PhonePe app to make a purchase. Second, rather than building his own apps, PhonePe resolved to partner with merchants. "They (WeChat) said to focus on becoming a platform and people would come to you if the base is large," said Nigam. Emulating WeChat, they decided to become a super-app, hosting other firms offering services in such areas as travel, commuting, food, retail, and entertainment. As he narrated, "So, I would not build a Hotstar, Gaana or a Hike, but I want to enable anyone who has got a transaction in their business to integrate with us."

At the same time, however, the firm adopted the WeChat model to the Indian market. In particular, they adopted Unified Payments Interface (UPI). This instant payment system and open source application programming interface was developed by the National Payments Corporation of India (a state-owned organization that was the initiative of the Reserve Bank of India and the Indian Banks' Association) and introduced in 2016. The UPI has been extremely successful and allowed India to assume to position as the global leader in instant payments. Other initiatives that differentiate the firm from WeChat were the need to develop the app in multiple languages and the prioritization of low-cost insurance products, which provided very popular with their customer base.

4. *Wealth management*

Yu’e Bao (余额宝) was established by Alibaba’s payments affiliate, Ant Financial, in 2013. The Internet giant was inspired to move into wealth management when it saw large amounts of cash holdings in their accounts, whether belonging to customers using Alipay for daily expenditures or merchants that had experienced strong sales. They saw an opportunity to offer money market returns on these funds.

Yu’e Bao was positioned as the “fund for the masses,” as it removed the barrier that prevented most small investors for getting money market returns: the minimum investment size was 0.1 yuan, unlike the much more substantial limits that its many competitors had in place. The designers at Any also placed a premium on ease of use, unlike many of their bank-owned competitors, and relied heavily on viral social media to build awareness for the product. In 2015, it expanded its product offerings to include low-cost mutual funds offered by fellow Alibaba subsidiary Ant Fortune. Yu’e Bao soon became the world’s largest money market fund, with over 200 billion under management by mid-2017, until shrinking in the face of regulatory and more general political pressure in the late 2010s and early 2020s. Ant Fortune has apparently continued to grow substantially.

Groww was founded in 2016 by four Flipkart employees – Lalit Keshre, Harsh Jain, Ishan Bansal, and Neeraj Singh—with the goal of starting a venture that could make investing easy. Lalit, the CEO of the new venture, was a key team member at Flipkart Marketplace and had previously founded an online learning company called Eduflix, which he had shut down after nearly three years after failing to find product market fit.

The company's first venture round (earlier, it had obtained funding during their stay at Y Combinator from the accelerator's seed fund and two Indian serial entrepreneurs) was a $1.2 million in seed financing in mid-2018 led by Singapore-based Insignia Venture Partners, as well as two-U.S.-based funds, Lightbridge and Kairos.

Reflecting its rapid growth and product market success (by early 2024, Groww had 9.5 million active investors in March 2024, and had a market share of 23% among Indian discount brokers), the firm rapidly raised additional capital. In October 2021, Groww raised a high-profile Series E funding of $251 million, at a valuation of $3 billion, a financing that included ICONIQ Growth, Ribbit Capital, Sequoia Capital India, and Tiger Global.

During their stay at Y Combinator and after, the founders did extensive study of the Indian market. In particular, they were struck by the fact that there were about 200 million people with investable income in India, but only 10% actively invested. China served as an inspiration, as its rate of participation in the financial markets was more than twice that of India despite many demographic similarities. Like the successful ventures there, they felt that they would want to target potential investors under the age of 40 who preferred to use their phones. They realized that in India, as in China, ease of use would be paramount and that product development would need to be coupled with education, primarily through blogs and online videos.

The founders did extensive study to see how the business model should be adopted to the Indian market, assessing customer pain points and doing extensive experimentation. They realized that unlike in China, where money market access was frequently daunting and such accounts could be (and were) used as the "hook" to attract customers and upsell other products, in India the situation was different. In particular, they concluded that the lead product offering should be equity-based. In 2017, Groww started as a direct mutual fund distribution platform. The firm soon became one of the most popular mutual fund investment platforms in the country. The product offerings then expanded in the early 2020s to include stocks, ETFs, and digital gold.

5. *Final thoughts*

The case studies suggest three observations:

- *Idea generation*. The three sets of founders followed different routes to generate their business ideas, but all were exposed to Chinese business models. In Facily's case, the CEO/co-founder was a senior executive at a major U.S.-based technology company who had traveled for work to China. Groww's founding team went through a structured search process for a business model while at the accelerator Y Combinator and after, including reviews of the challenges facing Indian consumers and the ways that these problems had been addressed in other markets. PhonePe's management started with a business plan more akin to that employed by Western firms, only to "pivot" after a study trip to China. In each case, the Chinese business model was attractive because it addressed a similar set of problems to those faced in the emerging market where the founder was based.

- *Role of financiers*. Of the three cases, only PhonePe had a significant investment from a Chinese investor (Tencent, which made a concerted effort to invest in groups emulating its strategy worldwide). Even here, the investment was in a later financing round. But in at least two cases, early-stage investors (whether an accelerator, venture funds, or a corporation) appear to have played important roles in helping the entrepreneurs refine their ideas and to understand business models in other markets.
- *Need for further adaptations*. While in each case, the entrepreneurial team found inspiration in China, in no case could the business as operated in China be ported over in its entirety to another emerging market. In each case, some degree of adaptation was required. Examples included developing ways to accommodate cash payments and altering the mixture of products offered consumers.

As such, these cases illustrate the knowledge flows that we analyze empirically in the sections that follow.

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