

REVIEW

A Literature Review of the “Burning Money” Behavior of Internet Products

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ABSTRACT

This article mainly studies the current status of the operation of the “burning money model” of Internet products, expounds and analyzes the disadvantages of this operating model, studies the practical effects brought by the “burning money model”, and explores the development direction of future Internet products. Domestic scholars have done a lot of research on the development of Internet products in the future and have achieved certain results. This article aims to discuss the development model of China’s Internet products, summarize the current “burning money” behavior in the operation process of Internet products, and combine the development situation of China’s Internet in the new era to make suggestions for the future development of Internet products.

1. Introduction

The “burning money” behavior is in the early stage of the operation of Internet products. In order to win a large number of customers for this product, Internet companies invest a lot of money for their products, which will bring attractive benefits to consumers, grasp consumer spending habits, and make others Competitors are difficult to insert, so they have the opportunity to win a large number of customers for them. In short, it is to sacrifice profits in exchange for rapid market share and scale expansion. In recent years, with the close connection between the mobile Internet and people’s lives, various convenient APPs have sprung up in the smartphones of the public. However, most APPs acquire users through the behavior of “burning money” in the early stages of operation. “Burning money” is the only way for Internet products to obtain traffic. However,

the business model that only relies on “burning money” must not be a permanent one. So, where will these Internet products develop after “burning money”? This article will conduct an in-depth study of “burning money” behavior, explore the development model of China’s Internet companies, solve the development problem of Internet products after “burning money”, and provide suggestions for the future operation mode of China’s Internet products. In this paper, I searched for the keyword “burning money” on the China Internet, and found a total of 7,871 results. By referring to more than 30 documents, this article summarized the literature review on the “burning money” behavior of Internet products.

2. Evaluation of Domestic Scholars on “Burning Money Model” Operation

2016 is the first year for the development of Internet

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products similar to bicycle sharing. After that, investors have aimed at the market. Nowadays, as new competitors continue to raise funds, investors' investment in bicycle sharing has gradually become rational, but Derivatives of the Internet similar to bicycle sharing still use "burning money" as the main operating method.

At present, domestic scholars have not paid enough attention and confirmed whether this "burning money" behavior can bring expected profit growth.

Ph.D. student Junchen Wang of Guanghua School of Management, Peking University researched in "Myth of Burning Money: The Growth Strategy Choice of the Initial Stage of the IPO of the Company", and pointed out that nearly half of the Internet companies adopt the strategy of burning money. Such "burning money" companies focus on investing in new areas.

Long cycle, slow profit, the accumulation of market risk often makes the later efficiency lower than expected. At the same time, the original business will stagnate due to insufficient investment and even lose money, forcing capital to be continuously refinanced. Only a small number of companies can pass the follow-up and have been huge success, but most companies are in trouble because of refinancing obstacles. Therefore, the "burning money" strategy will cause the company's growth rate to be significantly discrete. Junyi Wang concluded that the current "burning money" expansion is not a universally effective growth strategy. Although the burn-in subsidy seems to be unsatisfactory, if it is effective at the beginning of the development of the industry, in the long run, this development model is not permanent.

Peng Zhang of Tuoda Network Technology also mentioned in a post: Because each emerging Internet product crosses the river by feeling the stones, the loyalty of users has not yet been established, and it is easy to burn users to their own platforms by burning money. However, when users have a habit of using a product or even rely on it, it will be difficult to dig a wall with a small cost. In addition, blindly relying on subsidies to ignore the serviceability of the product itself will still lead to the loss of a large number of users. Similarly, most domestic scholars' research also holds a similar point of view, and believes that the customer source obtained through the "burning money model" has a strong instability. The premise of most consumers using a platform is to enjoy benefits.

If another platform offers a more preferential model, these consumers will immediately transfer. This shows that the "burning money model" has not achieved the purpose of the operator. Domestic scholars' current research on "burning money model" has proved that the business model of "burning money" must not be a long-term solu-

tion. Admittedly, the "burning money model" attracted a lot of user traffic, but it is not a long-term strategy to retain customers^[1].

3. Problems in the Development of China's Current Internet Products

"Beijing Business Daily" reported in August 2018 that there are currently a large number of companies burning money to confirm that there are losses. Seeing that the number of users is increasing, they are willing to invest in capital. This model seems to be developing rapidly, but once the subsidy funds cannot keep up, the entire chain will not be able to operate. It is true that at the initial stage of APP operation, Internet companies can indeed bring huge user traffic at the expense of their own profits by subsidizing users. When the money-burning company has developed to a certain stage, it needs Greater capital investment. Compared with those start-up money-burning companies, the investment required is still relatively small. When the money-burning companies get the IPO funds, they can subsidize users again, but the marginal utility is diminishing. The growth rate of benefits brought by burning money will slow down and even enter a recession period. When capital no longer plays a role in the company's performance, a large amount of capital will not be invested in "burning money" companies. In the long run, those companies that rely on burning money to survive will eventually fail the debt of too much debt and bankruptcy^[2].

"Shenzhen Special Economic Zone News" reported the comment of well-known commentator Shen Bin, "Internet +" industry is fiercely competitive, blindly burning money, jockeying, and unscrupulously increasing market share, which may provoke unfair competition and cause distortions in the industry. confusion. This view has brought the adverse effects of the "burning money model" to a wider level. China has always been committed to establishing a free, equal, and fair socialist market economic system with Chinese characteristics, and this approach is clearly inconsistent with our goals. On the other hand, the crazy burning of land and expansion of the market has lowered the barriers for enterprises to enter. The true quality of products and services have been ignored. Consumers have paid more attention to subsidies and forgot their real needs. In order to bring huge disadvantages to the competitive market.

The editor of "Modern Commerce" mentioned that: Both sides seem to invest a lot of money, but a detailed analysis of each subsidy is used. Burning money is a reward behavior in itself. It is commendable that this feed-

back is 100% accurate, so that every customer involved has a good user experience. This experience will be infinitely amplified in the continuous word of mouth. Bring immeasurable leads. Scholars with this view obviously only see the short-term effects of the “burning money model”. At the same time, what are the Internet products that blindly burn money without understanding the real needs of customers? Can this feedback be 100% accurate? Obviously not. After all, the user experience still falls on the quality and service of the product itself. When studying the effects of an operating model, we must not focus on immediate interests^[3].

4. Survey of Internet Product Investors

Xiaohu Zhu, founding partner of Jinshajiang Capital, once mentioned that for investors, the value-added space of the enterprise is very important. Investors pay special attention to long-term customer retention, that is, customer retention after six months, and 20% of customers can stay after six months, which is what investors think is a very promising company. Even if user retention does not reach 20% after six months, if the company’s update of each operating strategy makes its customer retention curve continue to improve, this company is worth investing in. Xiaohu Zhu believes that revenue retention can be a measure of what kind of users you leave. For good products, revenue retention is 40% -50%. Therefore, how can an Internet company launch a new product to win the favor of investors? After all, it depends on long-term customer retention, and the short-term peak user traffic brought by the “burning money model” will not have much financing effect at all. Therefore, from the perspective of financing, the products launched by Internet companies should also start with changing the operating model and polish the product quality and service. Rational investors focus on the value-added space of the enterprise. Therefore, the development of Internet companies should also focus on the development of the product itself^[4].

5. The Development Direction of China’s Internet Products in the Future

We must acknowledge that if any kind of Internet product operation model raises the transaction cost of the industry, reduces the industry’s operating efficiency, and runs counter to commercial common sense, then this product will be doomed to be eliminated. Therefore, by analyzing the disadvantages brought by the “burning money model”, the “burning money model” is by no means a long-term solution. We must point out the correct direction for the future development of Internet products.

Our government must strengthen scientific macro-control and cannot blindly lower the barriers to entry for Internet companies. In addition, related policies have been used to curb capital inflows to “burning money” companies. The government must be aware that the support for the Internet industry will ultimately fall on the quality and services of the Internet product itself. It is not true that with the financial support, the industry will be promoted. Promote online and offline integration, and improve the service chain and supply chain system of Internet products. Let users’ needs be reflected in the growth of stable user volume, not just in the growth of traffic. Only by improving the service level of these Internet products and truly meeting the needs of users, can they retain users and maintain their user traffic^[5].

At the same time, Internet companies should also intensify innovation and try to combine online and offline. The size of corporate benefits is not only the growth of user traffic as the sole criterion, but also actively conduct market research offline to improve product services and quality. The goal is to retain real users as the main purpose. Enterprises should also pay attention to finding ideas from reducing costs. The “burning money model” continues to increase operating costs. In the Internet era, reducing costs, compressing expenses, and increasing customer stickiness are important ideas for its development. Nowadays, the pursuit of maximizing product value is in line with the trend of social development. For example, the development of Qu Toutiao APP, a large amount of advertising investment, users can only get cash by swiping the news, users just swipe to complete tasks, the user viscosity is very low, as the amount of cash back decreases, the Lost a large number of users. In contrast to Xiaomi’s operating model, after having a certain user base through fan marketing, Xiaomi used the platform of Weibo to attract new users, which reduced the cost of publicity. After attracting fans through Weibo, they then screened through forums to cultivate some fans, thereby strengthening the stickiness of users and Xiaomi-related products. Therefore, it is said that the real cost investment does not depend on the amount of investment, but on the economic benefits obtained after the investment^[6].

6. Concluding Remarks

Through a series of studies, it was found that a good business model does not rely solely on burning money. In the early days, Didi did not want to subsidize customers, but WeChat wanted to subsidize it, thereby gaining more WeChat users. , So a “didi” grant was given. So Didi didn’t spend a penny when it was on the rise. The same is true for “Hungry?” In the early days, its figures were

very good ^[7]. More than 50 people from a hundred people would place orders, and the repeat purchasing power of these people was very good, so that the “Meituan” could not catch up with “Hungry” through subsidies “Are you there?”. Therefore, the really good business model does not depend on burning money.

The needs brought about by subsidies are “pseudo-demands”. If the subsidies are stopped, customers can retain valuable operating models. Therefore, the research and development of Internet products must meet the “pain points” of users. Development of service chains and service chains ^[8].

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