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Fostering Social-Media Entrepreneurs: Evidence from A Field Experiment in China

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US House passes bill that could lead to total TikTok ban

Bill - with updated language that extends deadline to a year for ByteDance to divest of TikTok - to go before Senate next week

- 170 million users in the U.S.

The Growing Role of Social Media: Entrepreneurs on Social Media

- Social media platforms such as TikTok, WeChat Video, and Xiaohongshu have paved the way for a new generation of content creators who leverage these channels as a primary source of income

- Business owners use social media to advertise their products

- In China, the number of online content creators reached 50 million in 2020, with the market size surpassing $20 billion. Similarly, in the United States, the influencer marketing industry reached $13.8 billion in 2021

Examples of Social Media Entrepreneurs

Examples of Social Media Entrepreneurs

- CNBC: How a 40-ounce cup turned Stanley into a $750 million a year business

Key Questions

- What helps entrepreneurs grow? (De Mel, McKenzie, and Woodruff 2008; Blattman, Fiala, and Martinez, 2014; Bruhn, Karlan, and Schoar, 2018; Cunha, De Giorgi, and Jayachandran, 2019; Lieber and Lockwood, 2019; Howell 2020; Howell 2021; Anderson and McKenzie, 2022; Lerner, Li, Liu, 2023; Denes, Howell, Mezzanotti, Xu, Wang, 2023; Bennett and Robinson 2024; Bernstein, Townsend, and Xu, 2024)

- Can Social Media help entrepreneurs grow?

Experiment Setup

- We identify and recruit 5,741 small businesses in Guangdong, Zhejiang, and Liaoning provinces. These small businesses are in Yiwu, Zhejiang, Huaqiangbei, Shenzhen, Wuai, Shenyang

- Contact the businesses through social media, WeChat business groups, store visits, and the mall business registry (MCN firms: VCs or accelerators for influencers or creators)

- Provide the treatment group with a subsidy of 1,000 RMB or around 140 USD as a social media "booster" fee

- Example: Dou+ services on TikTok. Essentially, more people are likely to see the business's video/streaming/photo in their feed.

- Services like Dou+ are designed to boost user-generated content's reach and visibility on the TikTok platform by allowing content creators to pay for increased exposure.

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Details of Subsidy Distribution

- We randomly assign 1000 businesses to the treatment group (8 businesses dropped out or did not post on social media at all), 3741 businesses to the control group, and 1000 businesses to the direct cash transfer group.

- We started offering the social media subsidy in February 2023.

- Each participating business received a compensation of 50 RMB for completing the survey. They were informed that there would be no second round of treatment, either in the form of in-kind subsidies or cash, regardless of their performance.

- Treatment will be provided only if participants post on social media within three months of the program's start date

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Effects of Treatment

The Treatment group received a social media content booster fee of 1000 RMB, the Control group received no intervention, and the Cash Transfer group received a direct cash transfer of 1000 RMB.

- According to TikTok's official website, for every one RMB spent on Dou+, it helps to reach between 25 and 50 new viewers.

- In the context of streaming, WeChat Streaming's video promotion feature can potentially attract 1.6 to 5 online viewers per RMB spent. Regarding photo sharing, Xiaohongshu's Shutiao function claims to yield 100 clicks per RMB. Additionally, we gathered the actual viewer data for streaming, photo sharing, and video sharing after the experiment to verify whether the realized numbers align with the advertised figures.

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Sample and Treatment Allocation

- Huaqiangbei, Shenzhen

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Live Streaming

Video Posting

Photo Sharing

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Diverse Range of Businesses/Industries

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Business/Industry Distribution

	Treatment	Control	Direct Transfer
Sector:			
Electronic Device	176	611	165
Cloth and Shoes	195	784	216
Jewelry, Handbag, Watch	175	703	176
Toys and souveniors	248	953	270
Cosmetic product	143	471	119
Other	63	219	54

Impact on Revenue, Labor, and Profit

		The dependent variables are surveyed one year after intervention	
Panel A:			
Raw value			
	Treatment	Direct Transfer	Control
			(Mean and SD)
Revenue	5621***	816	13091
T-statistics	(7.63)	(1.19)	(18285)
Controls	Y	Y	
R^2	0.01	0.00	
Labor	0.66***	-0.06	1.89
T-statistics	(7.50)	(-0.74)	(2.34)
Controls	Y	Y	
R^2	0.01	0.00	
Profit	2039***	491	5948
T-statistics	(3.22)	(0.82)	(15807)
Controls	Y	Y	
R^2	0.01	0.00	

Further Investment and Social Media Presence

The dependent variables are surveyed one year after intervention			
Panel A:			
Social media marketing			
	Treatment	Direct Transfer	Control (Mean and SD)
Self-financed			
social media fee	694***	32	169
T-statistics	(3.18)	(0.21)	(555)
Controls	Y	Y	
R^2	0.06	0.01	
Outsourced			
marketing	172	19	299
T-statistics	(1.27)	(0.15)	(427)
Controls	Y	Y	
R^2	0.03	0.01	

Further Investment and Social Media Presence

Panel B Social media presence	Treatment	Direct Transfer	Control (Mean and SD)
Streaming days	1.62***	-0.08	0.92
T-statistics	(22.68)	(-1.60)	(1.52)
Controls	Y	Y	
R^2	0.10	0.00	
Video Posted	0.21***	-0.00	0.04
T-statistics	(21.75)	(-0.11)	(0.20)
Controls	Y	Y	
R^2	0.09	0.01	
Photo Posted	0.36***	0.04**	0.22
T-statistics	(16.65)	(2.32)	(0.51)
Controls	Y	Y	
R^2	0.06	0.00	

- The social media presence does not count the ones that need to qualify for the subsidy.

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Why Cash Transfer Results Are Insignificant?

- The businesses do express concerns about credit constraints, suggesting that the cash treatment amount might be perceived as too small to make a difference

- Most businesses in our study claim they use the money for consumption or saving, with less than one-third stating they spend it on business-related expenses (Haushofer and Shapiro, 2016)

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Heterogeneity

- Male vs. Female

- Different treatment methods: 1000 at once or 200*5, no significant difference

- Different social media apps: Tiktok or Wechat short video channel or Xiaohongshu, no significant difference

- Different entrepreneurial characteristics: no significant difference

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New Distribution Channels and Fintech Credit

- Entrepreneurs may face particularly severe credit constraints
  - ▶ Entrepreneurs may have 1000 RMB at their disposal, but there is risk, and previous results show that they need to invest further

- New distribution channels may lead to fintech credit

- Alibaba's Taobao/Ant Financial (Hau, Huang, Shan, and Sheng, 2017; Huang, Li, and Shan, 2018) offers fintech credit based on online store sales, particularly.

- Those with Taobao or Taobao-like online stores, through fintech creditors, experience relaxed credit constraints and higher growth.

The Online Store and Finance Channel

Panel A:Fintech vs. Traditional Bank				
	Treatment	Direct Transfer	Control	Regression
			(Mean and SD)	Types
Online Credit	48131***	1023*	11551	OLS
T-statistics	(19.24)	(1.94)	(14663)	
Controls	Y	Y		
R^2	0.06	0.00		
Bank Loan	411	128	14055	OLS
T-statistics	(0.78)	(0.24)	(14754)	
Controls	Y	Y		
R^2	0.00	0.00		
Online Stores	2.16***	0.02	0.59	Logistic
Z-statistics	(17.16)	(0.36)	(0.49)	
Controls	Y	Y		
$Pseudo\_R^2$	0.08	0.00		
$N\_endline$	784	759	2805	

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Supply vs. Demand Channel regarding Fintech Credits

Panel B: Fintech Credit	Treatment	Direct Transfer	Control (Mean and SD)	
Application Rate	-0.05	-0.11	0.27	Logistic
Z-statistics	(-0.16)	(-0.20)	(0.45)	
Controls	Y	Y		
$Pseudo\_R^2$	0.01	0.00		
Approval Rate	1.96***	0.10	0.37	Logistic
Z-statistics	(3.08)	(0.31)	(0.49)	
Controls	Y	Y		
$Pseudo\_R^2$	0.15	0.00		
Interest Rate	-0.83	0.13	8.14	OLS
T-statistics	(-0.60)	(0.28)	(6.12)	
Controls	Y	Y		
R^2	0.01	0.00		
$N\_endline$	784	759	2805	

Ex-post sorting: Separating Ali Only, Ali and other stores, Other stores, No stores. Dependent Variables: Credit, Profit, Labor, Revenue

	Fintech Credit	Revenue	Labor	Profit
Subsamples:				
Fintech lenders' store only	71451***	7072***	0.61***	3065***
T-statistics	(16.91)	(6.07)	(4.41)	(3.56)
Controls	Y	Y	Y	Y
R^2	0.07	0.01	0.01	0.01
Fintech lenders+ Others	50219***	5493***	1.09***	1734*
T-statistics	(15.73)	(5.26)	(8.25)	(1.94)
Controls	Y	Y	Y	Y
R^2	0.06	0.01	0.02	0.00
Others only	1294	3261**	0.28*	405
T-statistics	(0.48)	(2.41)	(1.80)	(0.75)
Controls	Y	Y	Y	Y
R^2	0.00	0.00	0.00	0.00
None	2513	3346**	-0.03	384
T-statistics	(0.94)	(2.45)	(-0.13)	(0.42)
Controls	Y	Y	Y	Y
R^2	0.00	0.00	0.00	0.00

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Survey of Credit Usage

- 35% of small businesses claim they used the fintech credit to roll over debt. 49% of the money has been used to expand the business, such as inventory purchases, spending on social media promotion fees, hiring more employees, and renting larger stores. 16% of the funds were allocated to other purposes.

- The credit constraints ratio drops from 33% to 6% after the intervention for the treatment group and to 2% for those with a Taobao (Ant Financial) store. There is no effect on the cash transfer group and the control group.

Learning and Feedback

Panel A:				
	Treatment	Direct Transfer	Control	Regression
			(Mean and SD)	Types
Learn from other bloggers	1.32***	0.11	0.09	Logistics
Z-statistics	(12.70)	(0.84)	(0.28)	
$Pseudo\_R^2$	0.06	0.00		
Feedback from consumers	1.20***	0.08	0.14	Logistics
Z-statistics	(12.91)	(0.69)	(0.34)	
$Pseudo\_R^2$	0.05	0.00		

- learning from other bloggers/merchants (from 9% to 27%) and receiving feedback from consumers (from 14% to 35%)

Learning and Feedback

Panel B:				
Product Rating	0.75***	0.07	3.73	OLS
T-statistics	(3.48)	(0.40)	(1.28)	
R^2	0.02	0.00		
Service Rating	0.54***	-0.14	4.09	OLS
T-statistics	(2.80)	(-0.63)	(1.07)	
R^2	0.02	0.00		
Delivery Rating	0.35**	-0.11	3.91	OLS
T-statistics	(2.18)	(-0.20)	(0.75)	
R^2	0.02	0.00		
Product Variety	-0.21	0.12	21.21	OLS
T-statistics	(-0.35)	(0.17)	(7.84)	
R^2	0.00	0.00		
$N\_endline$	291	275	989	

Conclusions

- The treatment group, which received a social media advertisement subsidy of 1,000 RMB of content boosting fees, experienced a significant increase in revenue (5600 RMB per month, profit (2039 RMB per month), and labor (0.66 employee) compared to the control group.

- Fintech credit, and learning and feedback channel: the two channels also complement each other

- Combining social media presence with monetary subsidies seems to be the key