FUNG BUSINESS INTELLIGENCE

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China's Community Group Buying Market Report

Blue Book of China's Commercial Sector:
Annual Report on China's Commercial Sector (2021 -2022)

Introduction

The rapid development of e-commerce and contactless delivery services in China has gradually reshaped the way consumers purchase daily necessities such as fresh produce. During the pandemic, a new approach which combines the elements of social e-commerce and new retail for purchasing groceries and fresh produce has gained increasing popularity with consumers and enjoyed rapid growth. Dubbed community group buying, the model allows a group of residents within the same community to enjoy discounts by ordering together in bulk.

This report provides an overview of the development of community group buying in China, introduces its business models, discusses the challenges, and forecasts upcoming development trends.

The content in this report is based on the Chinese article published in the Blue Book of China's Commercial Sector (2021-2022).
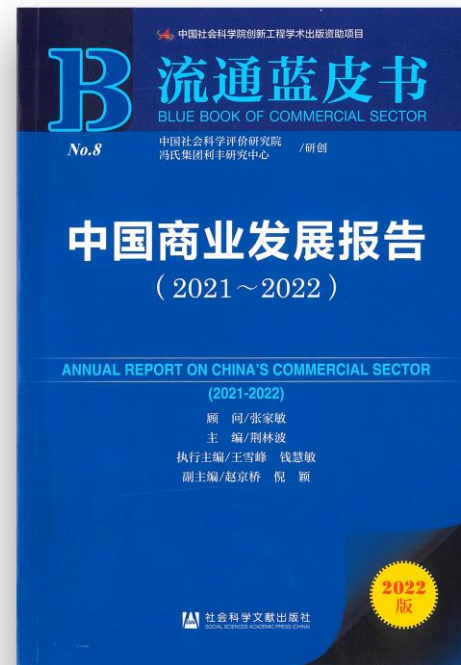
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I. Market Overview

What is Community Group Buying?

Community group buying is a new retail model for local distribution of mainly groceries and daily essentials. It is currently one of the hottest e-commerce trends in China.

The model was first introduced around 2014-2015. It gained increasing popularity during the pandemic, especially in rural and smaller cities. Consumers in the same neighbourhood can order fresh produce and groceries in bulk via apps or WeChat mini programs (applications within WeChat), at discounted prices and pick up the goods in the community.

Popular products sold on community group buying platforms include fresh food such as vegetables, fruit, meat, eggs and dairy products, as well as daily necessities.

The community group leader is a key feature of community group buying. He/she is recruited by the platform to help gather community members and recommend products to them. After orders are aggregated and placed via the platform, the goods will be sent to the community group leader, and he/she will notify consumers for pickup once the goods arrive.

Meituan's community group buying platform
Meituan Youxuan
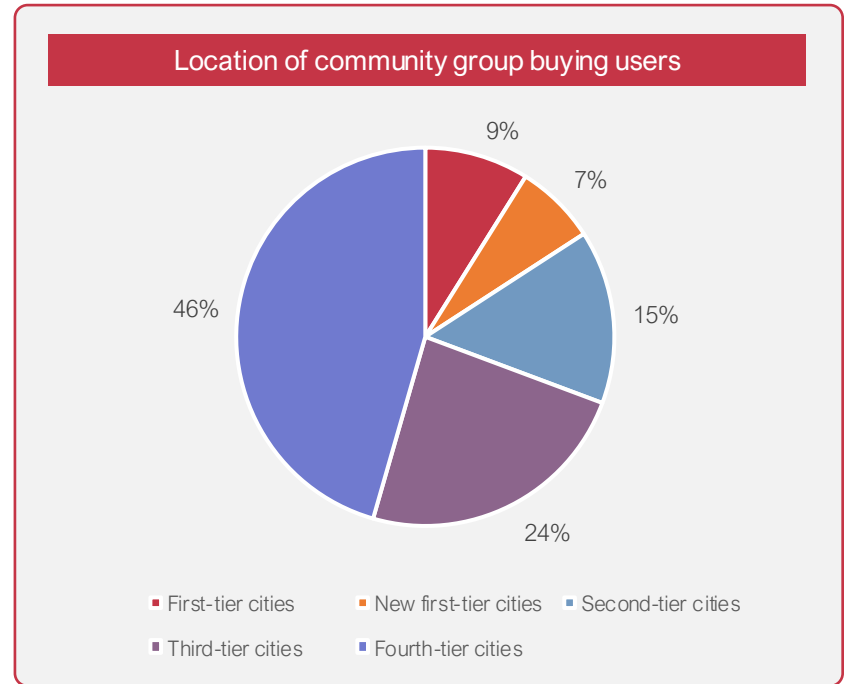
(Source: Screen capture from app)

High Demand in Lower Tier Markets

Community group buying is more established in lower-tier cities, especially third-tier and below cities. Lower-tier cities have more tight-knit neighbourhoods and people tend to interact more with their neighbours and are more prone to be affected by social shopping experiences.

Consumers in lower-tier cities are also more price sensitive and are looking for bargains and value-for-money products.

According to a report from Kaiyuan Securities and New Distribution Research, around 85% of group leaders for community-based group-shopping platforms are based in second-tier and below cities.

Lower-tier cities are also the engine of e-commerce and mobile commerce growth in China.

Location of community group buying users

- First-tier cities — 9%
- New first-tier cities — 7%
- Second-tier cities — 15%
- Third-tier cities — 24%
- Fourth-tier cities — 46%

Source: Kaiyuan Securities, New Distribution Research

History and Development of Community Group Buying

2014-15: The business model first emerged. "Internet + agricultural products + group buying" was the early form of community group buying.

2016: Xingsheng Youxuan (兴盛优选), the originator and a leading player in community group buying, was incubated.

2019: Period of consolidation and adjustment. Some community group buying players started to withdraw while others were able to gain a larger market share.

Chinese authorities tightened regulations towards community group buying.

A number of community group buying platforms were fined for predatory pricing, false advertising, etc.

Multiple community group-buying platforms such as Tongcheng Life (同程生活) declared bankruptcy or ceased operations.

Internet giants such as Alibaba and JD.com consolidated their community group buying operations.

Start-up Phase (2014-2016)	Development Phase (2016-2019)	Adjustment Phase (2019)	Expansion Phase (2020)	Orderly Development Phase (2020-)

2016-2017: The business model gained popularity and experienced rapid growth. A large number of players entered the sector, offering more products and better service with increased efficiency.

2018 2H: Platforms, such as Niwonin (你我您), Shixianghui (食享会) and Nice Tuan (十荟团), received rounds of financing.

2019 1H: Internet giants such as Alibaba, Suning.com and Tencent entered the sector

The COVID-19 pandemic further accelerated the development of community group buying as consumers opted to shop for groceries online.

Internet giants such as JD.com, Meituan, Didi and Pinduoduo all joined the community group buying bandwagon and offered heavy subsidies and incentives to drive traffic to their platform.
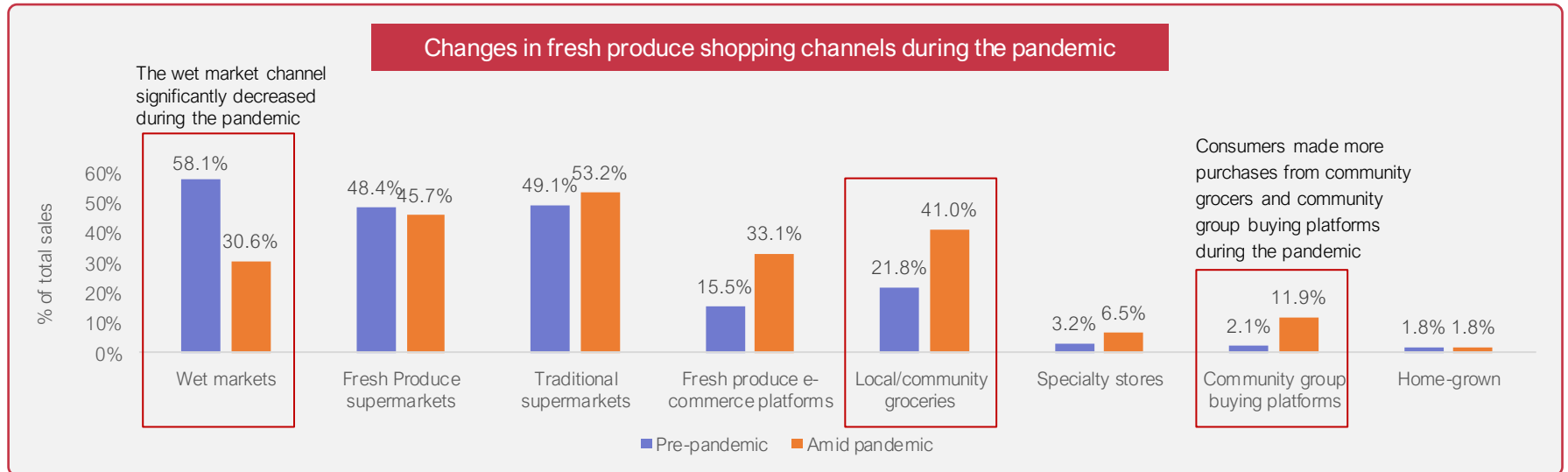
Source: internet

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Market Size of Fresh Produce

Chinese residents are consuming an increasing amount of fresh produce as their living standards improve. According to China's Statistical Yearbook, Chinese residents' per capita fresh produce consumption increased from 195.8 kilograms in 2013 to 228.7 kilograms in 2020. Fresh vegetables accounted for the largest proportion while fresh fruits grew the fastest.

The main distribution channel for fresh produce is wet markets and traditional supermarkets. Since the outbreak of the pandemic, people have been reluctant to visit wet markets and have become keener on ordering fresh produce from e-commerce platforms.

According to Fastdata, China's fresh food e-commerce transactions reached 182.12 billion yuan in the first half of 2020, up 137.6% year-on-year. An increasing number of people started shopping at their local groceries and on community group buying platforms.

Changes in fresh produce shopping channels during the pandemic

The wet market channel significantly decreased during the pandemic

Consumers made more purchases from community grocers and community group buying platforms during the pandemic

- Pre-pandemic
- Amid pandemic

Channel	Pre-pandemic	Amid pandemic
Wet markets	58.1%	30.6%
Fresh Produce supermarkets	48.4%	45.7%
Traditional supermarkets	49.1%	53.2%
Fresh produce e-commerce platforms	15.5%	33.1%
Local/community groceries	21.8%	41.0%
Specialty stores	3.2%	6.5%
Community group buying platforms	2.1%	11.9%
Home-grown	1.8%	1.8%

% of total sales

Source: a report by Circulation Industry Promotion Centre under the Ministry of Commerce in June 2020

Market Size of Community Group Buying

The market size of China's community group buying industry reached 72 billion yuan in 2020, up 112% year-on-year. According to iiMedia Research, the sector is expected to exceed 102 billion yuan in market size by 2022.
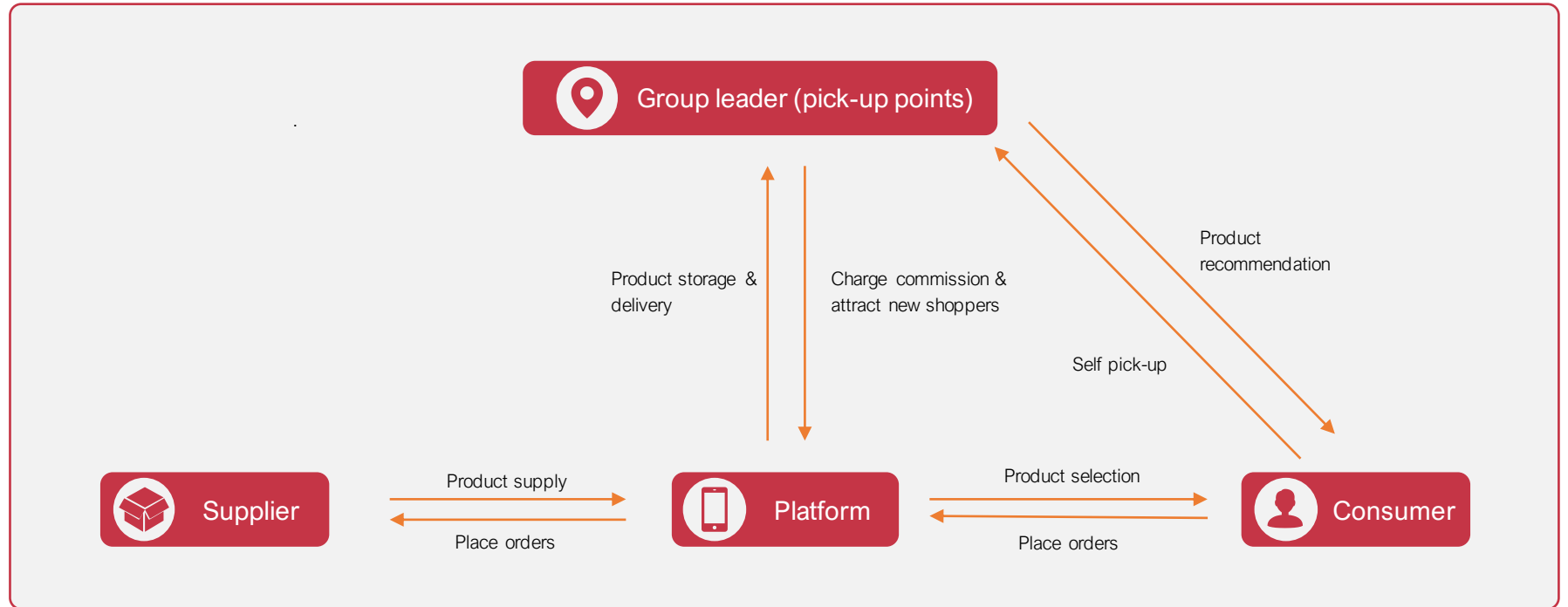

China's Community Group Buying Market

Market size — Growth rate

Source: iiMedia Research

II.   Business Model

Community Group Buying Operation Model

China's community group buying model usually has a designated community group leader (usually convenience store and grocery-store owners or housewives living in the community) which act as an important link between platforms and consumers. They help platforms acquire new customers efficiently. In addition to setting up and maintaining WeChat groups and promoting products, leaders utilize their existing shop as a shared pick-up location and thus help complete the "last mile" of delivery. They are responsible for receiving and storage of goods, as well as some after-sales services. Group leaders help platforms reduce marketing, labour, rental and logistics costs.

Group leader (pick-up points)

Product storage & delivery

Charge commission & attract new shoppers

Product recommendation

Self pick-up

Supplier

Product supply

Place orders

Platform

Product selection

Place orders

Consumer

Key Features of Community Group Buying

1. Cost effective business model

2. Efficient distribution system – saving of logistics cost

3. Social acquaintance networks

4. Able to meet the needs of consumers in lower tier cities

Cost Effective Business Model

Compared with other fresh food e-commerce models, community group buying could potentially offer a higher profit margin due to efficiency in sourcing, lower logistics and customer acquisition costs.

Sourcing

- "Online pre-sales + group purchase" model

- Products sourced directly from farmers, distributors and suppliers

- Demand-based procurement reduces inventory pressure, improves cashflow and reduces wastage

- Bulk purchase and short payback period increases bargaining power with suppliers, which lowers costs

Logistics

- "Next-day delivery + self pick-up" model

- Bulk orders are delivered to the community group leaders. Group leaders and customers take care of the last-mile delivery, thereby lowering logistics cost

Operation

- Group leaders serve as the point of contact between the customers and the platform

- Offline pick-up points are usually located at the group leader's existing shop/store, thereby saving on overhead costs such as running an offline storefront

- Community leaders typically receives a commission of 10-12% on the GMV or sales

Customer Acquisition

- Customer acquisition costs are significantly lowered as new users can be acquired through group leader's network and connections

- Social buying promotes frequent and repeat purchases

- Conversion rates are higher in WeChat community buying chat groups than traditional e-commerce platforms
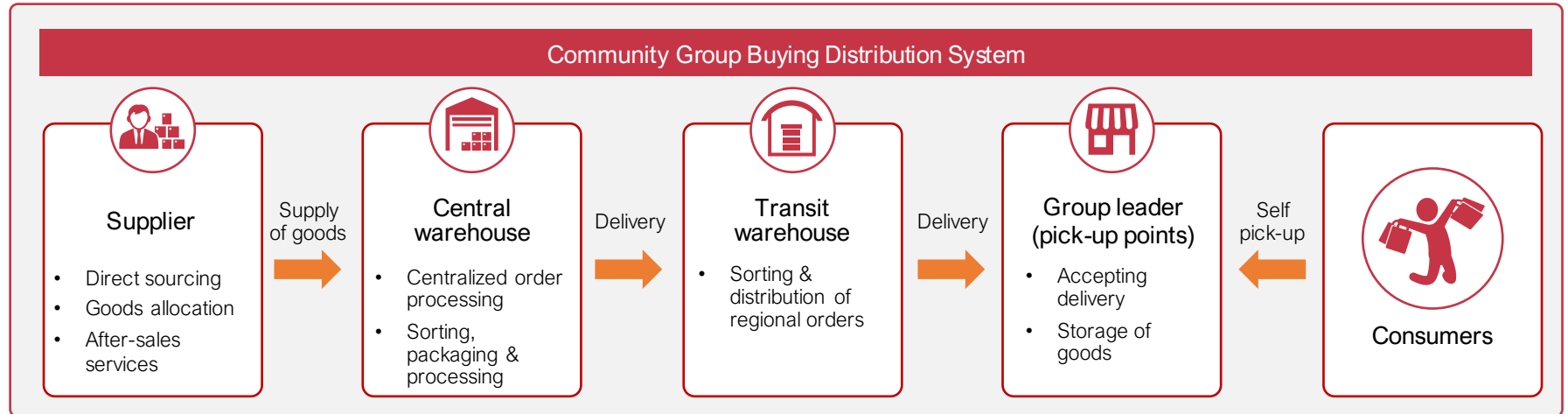
Efficient Distribution System

Community group buying eliminates several layers in the traditional distribution chain by sourcing directly from suppliers and centrally distributing the goods to group leaders.

Suppliers distribute the goods to the platform's central warehouse. The central warehouse carries out sorting, packaging and processing of the goods, before shipping them to the transit warehouse based on users' area of location.

The transit warehouse connects the central warehouse and the group leaders' stores / self pick-up points. It is generally responsible for sorting and packaging of goods at the order level, and distributing them to the community leaders for final distribution.
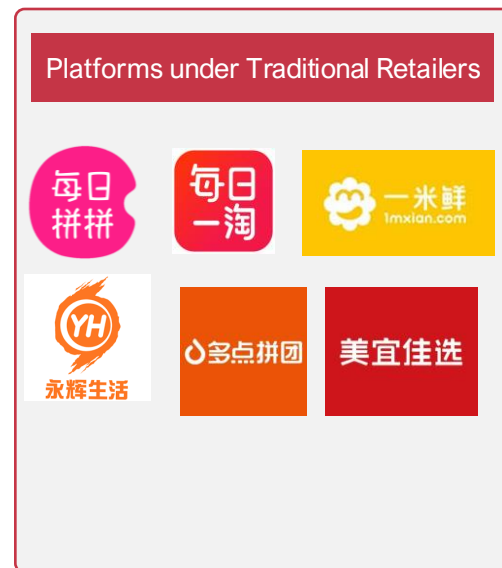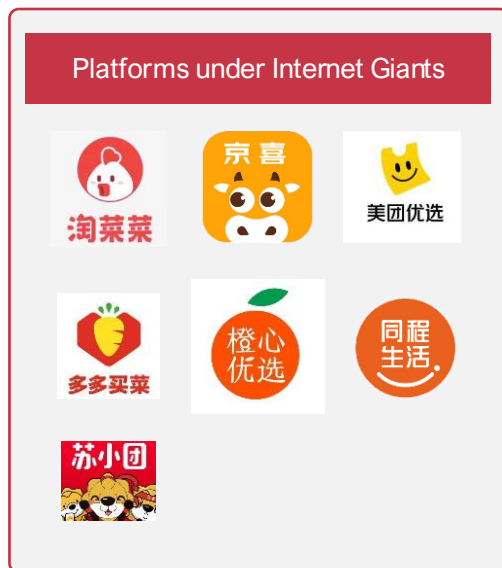
The whole process, from order placement to delivery, takes around 16-24 hours.

Community Group Buying Distribution System

Supplier	Supply of goods	Central warehouse	Delivery	Transit warehouse	Delivery	Group leader (pick-up points)	Self pick-up	Consumers
• Direct sourcing • Goods allocation • After-sales services		• Centralized order processing • Sorting, packaging & processing		• Sorting & distribution of regional orders		• Accepting delivery • Storage of goods		

Source: Shanghai FineEx Supply Chain Management Co., Ltd., Chengxin Youxuan

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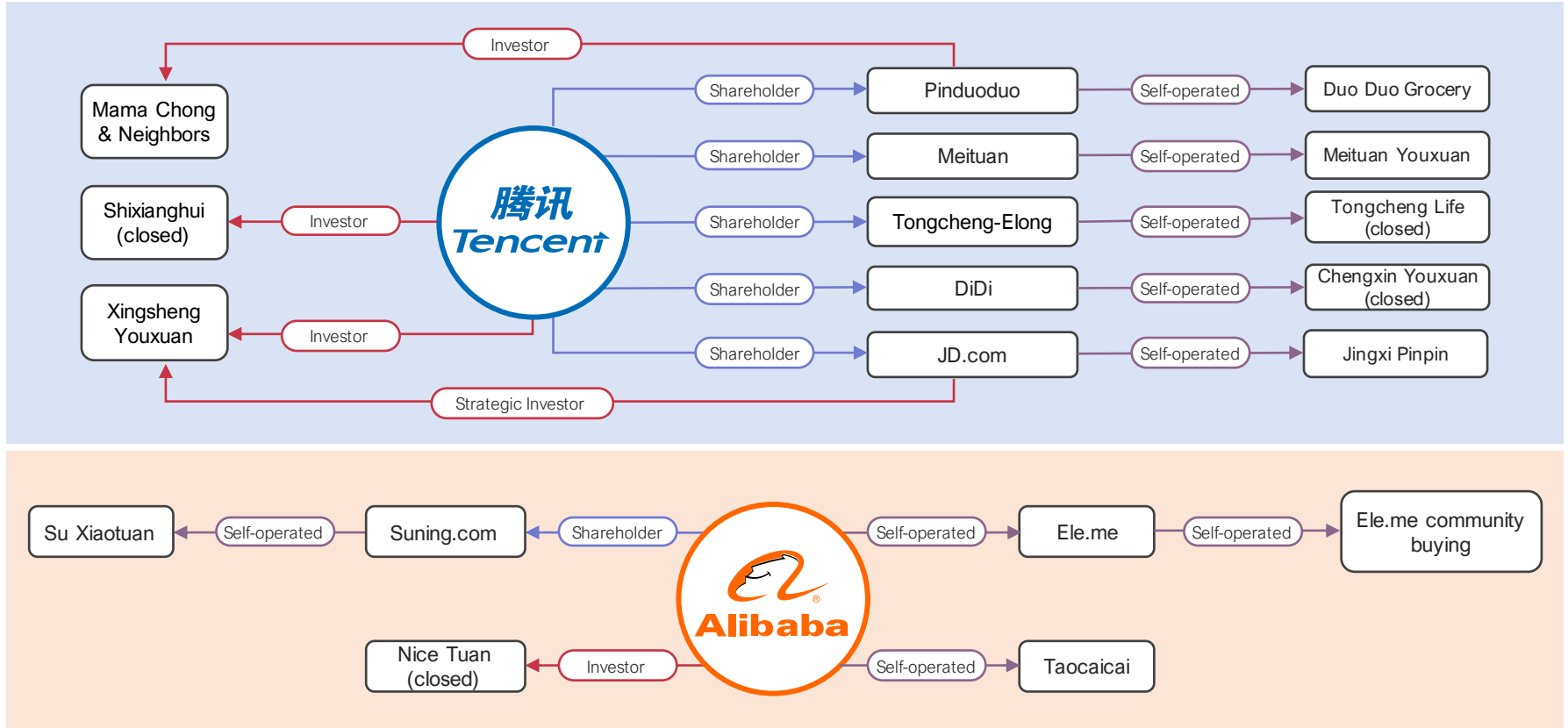# Prominent Players in the Community Group Buying Market

Key players in the community group buying market include:

1. Original community group buying platforms

2. Platforms under Internet giants

3. Platforms under traditional retailers

Original Community Group Buying Platforms

Platforms under Internet Giants

Platforms under Traditional Retailers

Source: Internet

Internet Giants have Joined the Industry via Investments and Acquisitions

Investor

Mama Chong & Neighbors

Shixianghui (closed) — Investor — 腾讯 Tencent

Xingsheng Youxuan — Investor

Strategic Investor

Pinduoduo — Shareholder — Self-operated — Duo Duo Grocery

Meituan — Shareholder — Self-operated — Meituan Youxuan

Tongcheng-Elong — Shareholder — Self-operated — Tongcheng Life (closed)

DiDi — Shareholder — Self-operated — Chengxin Youxuan (closed)

JD.com — Shareholder — Self-operated — Jingxi Pinpin

Su Xiaotuan — Self-operated — Suning.com — Shareholder — Alibaba — Self-operated — Ele.me — Self-operated — Ele.me community buying

Nice Tuan (closed) — Investor — Alibaba — Self-operated — Taocaicai

Source: Internet

III. Challenges of Community Group Buying

Challenges of the Community Group Buying Model

Fresh produce is highly perishable

- Fresh produce is fragile and has a short shelf life. Improper packaging and delivery can easily cause damage and spoilage.

- Community group buying cuts out several layers in the distribution chain, including wholesalers who previously acted as "gatekeepers" of quality. The lack of adequate quality control in community group buying may result in consumers receiving sub-standard products.

Hard to manage and retain community group leaders

- The entry threshold for group leaders is low. Their loyalty to an individual platform is low and leaders are often poached by competitors.

- Some leaders are not familiar with the operation model and their lack of expertise could adversely affect consumer's shopping experience. Platforms should offer training and guidance to new group leaders and implement a reasonable commission scheme to motivate group leaders.

Fierce competition decreases the industry's overall profitability

- As market competition becomes more intense, Internet giants have implemented multiple strategies and initiated "price wars" to attract new customers. This has a negative impact on the long-term profitability of the community group buying platforms.

The business model can be easily replicated

- Community group buying platforms do not differ much in terms of their product offerings, business and operation model, logistics and transportation, etc. Hence, the model can be easily replicated.

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IV. Development Trends of Community Group Buying

Community Group Buying Platforms to Concentrate on Different Regions and Customer Segments

The Community group buying industry is expected to further develop with multiple large-scale players serving different regions and customer segments.

In the past year, many small- and medium-sized platforms have filed for bankruptcy or significantly reduced the scale of their operations, due to intense competition and "price wars" initiated by cash-rich Internet giants to grasp market share.

The surviving players are looking to specialize regionally, re-focusing their business on one or several cities. For example, Mama Chong & Neighbors (虫妈邻里团) is mainly serving Pudong district of Shanghai, Youjingyoutian (有井有田) is mainly serving consumers in Henan provinces.

Community group buying platforms are also targeting different customer segments to better meet consumer needs (see diagram below). The differing needs of consumers implies that it is unlikely for one or two prominent players to dominate the industry.

Pyramid of fresh produce consumption needs

Segment	Description
L1	Value quality over price. Strongly value customer experience & service
L2	Value quality but are also not resistant to value-for-money products
L3	Prefer value-for-money products but still pay attention to quality
L4	Price-conscious and strictly looking for value-for-money products

Source: Business Observer, CITIC Securities

Businesses Leveraging on Community Group Buying to Achieve Objectives and Goals

Traditional e-commerce platforms

Traditional e-commerce platforms are looking to unleash the purchasing power of third-tier and below cities and are leveraging community group buying to tap into the market to convert existing community group buying users into active users of their respective platforms.

JD.com enters the community group buying industry with hopes to attract users in rural areas which have not yet been captured by its competitors Alibaba and Pinduoduo.

Pinduoduo has transformed itself from a fast-growing social e-commerce platform to China's largest agricultural platform. Community group buying is one of the latest initiatives under its new vision to build and develop its agricultural supply chain.

Non-traditional e-commerce platforms

Non-traditional e-commerce platforms hopes to gather users through community group buying business, further enrich their product offerings, and expand into new businesses.

Meituan is a one-stop platform for food, transportation, travel, shopping and entertainment. Its community group buying business forms part of its "food + platform" strategy.

DiDi Chuxing is China's leading mobile transportation platform. Leveraging its logistics capabilities, entering a fast-growing business such as community group buying could help DiDi further capture market share.

Strengthening Supply Chains Important for the Development of Community Group Buying

- A robust and efficient supply chain is crucial to the success of the community group buying business.

- On the procurement side, community group buying platforms can secure more stable and reliable supply by entering long-term strategic sourcing arrangements with farmers and key distributors. They can also consider establishing their own manufacturing plants for certain categories. This will enable platforms to better manage and control product quality directly from the source.

- High-quality products which can be differentiated from those in the market can improve customer satisfaction and retention rates, enabling platforms to stand out from the crowd with quality products instead of competing aggressively on the price front.

- In terms of storage, community group buying platforms can utilize technology to better monitor and manage the quality of fresh products.

- Meanwhile, efficient management of central and transit warehouses will be crucial to further improving distribution efficiency.

Government Tightening Supervision for Community Group Buying

- The government has tightened regulations towards the community group buying business to foster fair market competition and promote healthy development of the industry.

- Practices such as predatory pricing to beat out competitors, offering excessively low prices to lure customers, as well as posting misleading product information and data-driven price discrimination will be prohibited. Many of these prohibitions are also mentioned in the Draft Amendment to the Anti-Monopoly Law, which was released in October 2021.

9 Dec 2020	Nanjing's local market watchdog introduced China's first regulation targeting community group buying, warning community group buying platforms not to use ultra-low prices to capture market share and squeeze out competitors, citing national laws such as the Price Law and the Anti-Monopoly Law.
22 Dec 2020	China's State Administration for Market Regulation (SAMR) met with representatives from Alibaba, Tencent, JD.Com, Meituan, Pinduoduo and Didi Chuxing and unveiled nine guidelines banning anti-competitive practices such as selling goods at prices below cost for the purpose of squeezing out competitors or monopolizing the market, signing exclusive sales agreements, etc. The meeting aims to remind Internet giants to avoid over-aggressive subsidies and shoulder bigger social responsibilities.
3 March 2021	The SAMR imposed administrative penalties on five leading community group-buying platforms for improper pricing that disrupted market order, including Chengxin Youxuan, Duo Duo Grocery, Meituan Youxuan and Nicetuan. Each were fined 1.5 million yuan. Wuhan-based group-buying platform Shixianghui was fined 500,000 yuan.
27 May 2021	Nice Tuan was fined 1.5 million yuan by SAMR for failing to take action over its predatory pricing and pricing fraud.
June 2021	Several community group buying platforms were requested to stop promoting "one-cent" flash sale events.
12 Nov 2021	The SAMR made the announcement that it would investigate and punish online platforms that conduct illegal violations, and perfect management system by pushing forward the amendment of the Anti-Monopoly Law and detailing relevant regulations. It will also strengthen the daily supervision of Internet platforms to make sure they fulfill their responsibilities and urge them to toughen self-governance.

Contact

Helen Chin

Vice President
Email: helenchin@fung1937.com

Fung Business Intelligence

11/F LiFung Tower

868 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com

W: http://www.fbicgroup.com