Business Innovation in China (Part 4):
Sharing economy: A disruption to traditional market

February 2017
Key Takeaways

In a sharing economy, individuals can share their idle time/ resources with those in need via online platforms/ APPs and obtain some financial returns.

O2O on-demand service in China adopts the sharing economy concept. Most of the e-platforms are backed by internet giants and/ or venture capital.

The new intermediaries in sharing economy are disrupting the traditional ones:
- The ‘new’ consumers, especially Gen Y and Gen Z, are getting used to the lifestyle of sharing and renting goods and services, instead of buying everything they need.
- A mature, regulated business environment facilitates the development of sharing economy, in terms of data security, intellectual property, taxation, etc.
- The disruptors are able to provide similar services as the incumbents do with a lower/ zero marginal cost.
What do you think of sharing economy?

- A low cost method to use idle resources (52.5%)
- A way to earn money (41.5%)
- A chance to expand social network (34.1%)
- Achieve self fulfillment (31.1%)
- Improve living quality and efficiency (26.5%)

Internet users in China*

* Allow multiple responses, survey conducted by iiMedia Research in 2016
Source: iiMedia, compiled by Fung Business Intelligence
What is sharing economy?

In a sharing economy, individuals can share their idle time/resources with those in need and obtain some financial returns via online platforms/APPs.

1. Too many dresses, never wear twice
2. Party soon, but no dress
3. Sharing e-platform
4. Rent a dress

- Changing perception in ownership, rental and sharing
- Matching supply and demand
- Low transaction cost of sharing via internet
- Idle resources
- Willing to share within a period of time

Source: compiled by Fung Business Intelligence
The market of sharing economy in China is growing fast. Its contribution to GDP is expected to grow from 3% in 2015 to 10% by 2020.

**Contribution of the sharing economy to China’s GDP in 2015**
was 3% at RMB 1,956 billion.

**Source:** State Information Center of China, Internet Society of China, compiled by Fung Business Intelligence
O2O on-demand services adopt the concept of a sharing economy

- O2O on-demand services
  - Online platforms, connecting a number of services providers and users, offer offline on-demand services such as crowd-sourced delivery, home services, etc.
  - The services providers are mainly part time workers or freelancers spending their idle time to provide services

Source: compiled by Fung Business Intelligence
Huge market potential of the O2O on-demand services in China

The market size for O2O on-demand service* in China is expected to reach over RMB 600 billion in 2018

* According to Jiemia, O2O on-demand services cover housekeeping, crowd-sourced delivery, fresh produce delivery, takeaway delivery, laundry, waste and recycling, home service, etc.
Source: Jiemia, compiled by Fung Business Intelligence
Type 1: Service delivery
Well-known O2O on-demand service platform in China (selected)

Beauty
- Beaver’s Home
- Xiaomeidaojia

Wedding planning
- Daoxila
- Xishiwang

Home renovation
- Jia.com
- Tubatu

Baby sitting
- Lejiamaoma
- Ayilaie

Housekeeping
- 1jiajie
- 58.com

Medical consulting & medicine delivery
- Ehaoyao
- J1.com

Icon source: Internet
Source: compiled by Fung Business Intelligence
Type 1: Service delivery
How it works?

1. A user seeks manicure services
2. She looks for an approved manicurist via online service platform /APP
3. She can browse the ranking and reviews of the manicurists shown on the APP and places order to the selected one via the APP
4. She and the selected manicurist would then schedule for the offline service

Picture source: Internet
Source: compiled by Fung Business Intelligence
Type 1: Service delivery
Case: Beauty services - Beaver’s Home

- Beaver’s Home is a Chinese startup providing O2O on-demand beauty services.
- In the APP, users can browse pictures of local artisans’ handiwork including nails, eyelashes, overall makeovers, etc. The APP allows users to make appointments for manicure and other beauty services on the go.
- Profit model of Beaver’s Home:
  - Advertising fee
  - Commission from local artisans
  - Profit of selling tools and supplies of manicure, skincare and makeup to local artisans.

Picture source: Internet
Source: compiled by Fung Business Intelligence
Type 2: Product delivery – crowd-sourced delivery

How it works?

1. A parcel sender places an order on crowd-sourced delivery platform via an APP.
2. Service providers bid for the assignment real-time on the APP, the first “courier” to accept the order secures the task.
3. The approved “courier” picks up the package from the sender and delivers the package to the registered address.
4. The parcel recipient checks and confirms the receipt of the package. And the delivery order completed. The “courier” gets remuneration from the platform.

Source: compiled by Fung Business Intelligence
Type 2: Product delivery – crowdsourced delivery
Case: JD.com’s practices

- Online shoppers obtain a 2-hour delivery lead time guarantee by using JD.com’s crowdsourced delivery service
- By maintaining the service quality level, only the approved service providers within 3km of the dispatch point can bid for the order. The bid winner will pick up the goods at allied physical store of JD.com and deliver the goods to the online shopper
- The service provider earns RMB 6 per order

Picture source: Internet
Source: compiled by Fung Business Intelligence
However, most of the O2O on-demand services platforms in China are not really profitable. Why?

Q&A Forum

How to enjoy a luxurious life in Beijing with a RMB 2000 monthly salary?

Answer by Creative Guru

• Get a free ride through car hailing APP (Top up RMB50, get RMB50 free ride)

• Enjoy a decent lunch at RMB 9 by browsing if any restaurant review APPs are running promotion campaign (E-coupon)

• Request for free housekeeping and massage services through various O2O on-demand services APP (Free trial for new user)

Source: Internet, compiled by Fung Business Intelligence
Most of the O2O on-demand services platforms in China are not really profitable

- Lots of the O2O on-demand service companies shut down in 2015.
- Common challenges facing:

  - Run out of cash due to huge spending on users’ subsidy
  - Unable to retain active users without subsidy
  - The services may not be necessities to the users
  - Expensive labour cost
  - Difficult to ensure the quality of non-standardized service
  - Keen competition, as a successful model would be copied by numerous O2O platforms in a very short time

Source: compiled by Fung Business Intelligence
Still, certain traditional business sectors have been disrupted by sharing economy

Case: China’s car hailing market*

- In China, the car hailing market has rapidly developed over the past years. Many car hailing platforms emerge and provide a wide range of on-demand car services to customers via mobile apps. Among all, Didi Chuxing is the prominent market leader in China.

- In the early stage of business development in China, Didi burned cash to gain market share and offered huge subsidies. Quite a number of drivers have registered as full time drivers, instead of sharing their idle time. By then, some may argue the Didi model is no longer the perfect case of the sharing economy.

- No matter how, Chinese consumers have got used to car hailing service and no longer queue for taxi on the street.

For more detail of China’s car hailing market, view also Fung Business Intelligence’s Report “Sharing economy in China: Car-sharing market in China” Sep 2016

Source: compiled by Fung Business Intelligence
Lately, Didi is not only targeting on car hailing market, but also building a cross-sector ecosystem with allied partners.

**Sharing economy**

**Property**
- On-site doctor consultation/medical delivery
- Installment program for Didi’s drivers to buy automobile
- Didi allies with other 300 mobile apps and offers various innovative services

**Medical**
- Property
- Finance
- Trains
- Takeaway
- Hotel
- ... others

**Finance**
- Installment program for Didi’s drivers to buy automobile

**Travels**
- Coach travel to property sites
- Hutong tour service
- Costume services on modified car

**Takeaway**
- Takeaway delivery

**Hotel**
- Chauffeur service

Source: Internet, compiled by Fung Business Intelligence
Another trend:
Chinese internet giants earnestly invest in sharing economy
The web of interdependent businesses generate great value to the business ecosystem via big data

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<td>Alibaba Health*</td>
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* Own 100% stake
Icon source: Internet
Source: compiled by Fung Business Intelligence
Closing: Watching for sharing economy

The traditional market was dominated by a few major incumbents in the past; while numerous potential disruptors may find their niche in the future sharing economy.
The new intermediaries in the sharing economy may disrupt the traditional ones under the following circumstances:

- The ‘new’ consumers, especially Gen Y and Gen Z, get used to the lifestyle of sharing and renting goods and services, instead of buying everything
- A mature, regulated business environment facilitates the development of sharing economy, in terms of data security, intellectual property, taxation, etc.
- The disruptors are able to:
  - provide similar services as the incumbents do with a lower/zero marginal cost
  - eliminate asymmetric information barriers via the Internet
  - maintain the service quality at a standardized level
  - build a trust system linking the service providers and users
  - optimize social resources
Business innovation in China

**Previous reports**

- **Part 1: Embracing new opportunities by adopting O2O strategies & building business ecosystem**
- **Part 2: Internet-enabled borderless trade**
- **Part 3: Customization: A reality under the fourth industrial revolution?**

**This report**

- **Part 4: Sharing economy: A disruption to traditional market**
Management Theories and Business Models

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