While Alibaba and JD.com continue to dominate the e-commerce scene in China with 58.2% and 16.3% market share according to eMarketer, a number of relatively smaller specialist players have caught increasingly attention in China’s e-commerce market recently. In today’s rapidly evolving and highly competitive online marketplace, these fast-growing companies provide another option for businesses to market and sell their products. Fung Business Intelligence has identified some of these emerging players, each focusing on a specific area such as group-buying, O2O lifestyle services, social commerce, vertical online platforms and short videos. In this series of articles, we provide an overview of the key business and developments of these emerging player; we also identify their strengths, weaknesses, opportunities and threats.

In this issue, we look at the business model and latest developments of Meituan-Dianping – an O2O e-commerce platform that provides lifestyle services for customers, ranging from food delivery, hotel room booking, movie ticket booking, hospitality services, and more. Meituan-Dianping is a market leader in China’s O2O lifestyle service market, and it proactively partners with various leading hypermarket/supermarket chain operators and commercial property operators to expand their market penetration.

On 22 June, 2018, Meituan-Dianping filed for an IPO on the Hong Kong Stock Exchange, seeking over US$4 billion in funds and aiming for a US$45-55 billion valuation. This could make it the world’s biggest Internet-focused IPO since Alibaba Group’s US$25 billion listing on the New York Stock Exchange in 2014.
Company background

Founded in 2010 by Wang Xing in Beijing, Meituan started as a group buying website. In October 2015, Meituan merged with Dianping, another group buying website and restaurant guide to become Meituan-Dianping. Meituan-Dianping targets the mass market and offers mainly essential and high-frequency service categories. The company engages in various businesses that are closely related to people's everyday life (Exhibit 1 and 2). Its core business involves the operation of an O2O e-commerce platform that provides lifestyle services for customers, ranging from food delivery, hotel room booking, movie ticket booking, hospitality services, and more. Meituan-Dianping's major businesses can be categorized into four areas:

- Meituan (Marketplace for services)
- Dianping (Lifestyle services)
- Meituan Waimai (On-demand delivery services)
- Mobike (Bike-sharing services)

Exhibit 1: Meituan-Dianping’s major businesses

<table>
<thead>
<tr>
<th>Service</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meituan</td>
<td>Online marketplace for services</td>
</tr>
<tr>
<td>Dianping</td>
<td>Online destination for discovering lifestyle services</td>
</tr>
<tr>
<td>Meituan Waimai</td>
<td>On-demand delivery services</td>
</tr>
<tr>
<td>Mobike</td>
<td>Bike sharing-services</td>
</tr>
<tr>
<td>Meituan Paotui</td>
<td>Peer-to-peer intra-city courier services</td>
</tr>
<tr>
<td>Xiaoxiang Shengxian</td>
<td>Providing groceries and fresh food via offline grocery store and mobile app</td>
</tr>
<tr>
<td>(Ella Supermarket)</td>
<td></td>
</tr>
<tr>
<td>Hazelnut B&amp;B</td>
<td>Accommodation booking services</td>
</tr>
<tr>
<td>Meituan Dache</td>
<td>Car-hailing services</td>
</tr>
</tbody>
</table>

Source: Meituan-Dianping, compiled by Fung Business Intelligence
Exhibit 2: Expansion of Meituan-Dianping’s service categories

Meituan-Dianping is backed by Tencent. Tencent first invested in Meituan-Dianping’s Series E funding round in January 2016 as a lead investor. It also led the Series F funding round in October 2017. On 22 June, 2018, Meituan-Dianping filed for an IPO on the Hong Kong Stock Exchange, seeking over US$4 billion in funds and aiming for a US$45-55 billion valuation. Tencent currently own 20.1% of the company.

With its close relationship with Tencent, Meituan-Dianping is the only third-party service provider that has three different entry points on WeChat Pay (Exhibit 4). Meituan-Dianping users can access Meituan Waimai, Dianping and Mobike platforms via Tencent’s WeChat and QQ mobile apps; they can also use WeChat Pay to settle payment for all the transactions incurred on the platforms.

It is noteworthy that before Meituan merged with Dianping, Alibaba invested in Meituan’s Series B funding round in July 2011 and Series C funding round in May 2014. In 2015, Alibaba sold all its interest in Meituan for US$900 million.
Exhibit 3: Meituan’s major funding rounds, 2010 – 2017

<table>
<thead>
<tr>
<th>Date</th>
<th>Funding round</th>
<th>Money raised (USD million)</th>
<th>Lead investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-10</td>
<td>A (Meituan)</td>
<td>12</td>
<td>Sequoia Capital China</td>
</tr>
<tr>
<td>Jul-11</td>
<td>B (Meituan)</td>
<td>50</td>
<td>Alibaba</td>
</tr>
<tr>
<td>May-14</td>
<td>C (Meituan)</td>
<td>300</td>
<td>Sequoia, General Atlantic, Alibaba</td>
</tr>
<tr>
<td>Dec-14</td>
<td>D (Meituan)</td>
<td>700</td>
<td>Hillhouse, Sequoia, Fidelity</td>
</tr>
<tr>
<td>Jan-16</td>
<td>E (Meituan-Dianping)</td>
<td>3,300</td>
<td>Tencent, DST, Trustbridge Partners</td>
</tr>
<tr>
<td>Jul-16</td>
<td>Strategic (Meituan-Dianping)</td>
<td>Above 100</td>
<td>China Resources Fund</td>
</tr>
<tr>
<td>Oct-17</td>
<td>F (Meituan-Dianping)</td>
<td>4,000</td>
<td>Tencent</td>
</tr>
</tbody>
</table>

Source: PEdaily.cn, various financial news websites, compiled by Fung Business Intelligence

Exhibit 4: Entry points of Meituan-Dianping’s platform on WeChat Pay

Source: Meituan-Dianping
The business

Meituan

Meituan is an integrated marketplace for services, ranging from dining, takeaway, hotel booking, movie ticketing, air and train ticketing, salon, entertainment, education, sports, etc., covering basically everything consumers use frequently in their everyday life. According to iResearch, Meituan is the world's largest on-demand food delivery service provider by number of transactions, with an average of 14.7 million daily transactions in 4Q17. Meanwhile, domestic research agency Trustdata reported that the monthly number of nights booked in March 2018 via Meituan Hotel reached 22.7 million, exceeding the combined totals of Ctrip, Qunar, and LY.com for the first time.

Meituan website

Source: Meituan-Dianping
Meituan Waimai website

Source: Meituan-Dianping
Dianping

Dianping is China's leading online destination for discovering lifestyle services and offerings. Dianping is primarily used as a platform for users to discover and rate services, while Meituan is more for purchasing different products and services. Dianping's platform contains a large amount of authentic, transparent, and detailed user-generated content, such as in-depth reviews of dining experiences and other lifestyle services, local business information, ratings, photos, and recommendations.

Dianping website

Source: Meituan-Dianping
Financials and key facts

In 2017, Meituan-Dianping’s total revenue reached 33.9 billion yuan, up 161.2% yoy (Exhibit 5). Food delivery accounted for 62% of the revenue, in-store, hotel & travel accounted for 32% and new initiatives and others accounted for 6%. It generated 5.8 billion transactions in 2017 with gross transaction volume (GTV) reaching 357 billion yuan. Meituan-Dianping generates revenue from commissions, online marketing services, and other sales and services. In 2017, 82.6% of the total revenue were from commissions, 13.9% from online marketing, and 3.5% from others. The company recorded a loss of 19 billion yuan in 2017, up from 10.5 billion yuan in 2015 and 5.8 billion yuan in 2016.

Exhibit 5: Revenue of Meituan-Dianping, 2015-2017

Source: Meituan-Dianping, compiled by Fung Business Intelligence

As of December 2017, Meituan-Dianping has 310 million transacting customers and 4.4 million active merchants in over 2,800 cities and counties across China. The number of monthly active users (MAU) reached 289 million, as of December 2017.

The number of daily active delivery riders reached 531,000 in 4Q17, while the average delivery time was 30 minutes in 2017.
Recent developments

Partners with hypermarket/supermarket chain operators and other retailers

Since early 2017, Meituan-Dianping has started to cooperation with hypermarket/supermarket chain operators. In January 2017, Meituan-Dianping started cooperation with RT-Mart to offer delivery solutions. In November 2017, it also partnered with Carrefour China to provide online ordering and delivery services for Carrefour customers. Recently, in April 2018, Meituan-Dianping formed a strategic partnership with China Resources Vanguard. All of China Resources Vanguard’s self-operated stores in China will be launched on the platform of Meituan Waimai. Previously, about 300 supermarkets and convenience stores of Suguo Supermarket and Tesco LeGou owned by China Resources Vanguard Group have already launched on Meituan Waimai. In the near future, China Resources Vanguard’s various retail brands will also join the Meituan Waimai platform, involving more than 2,000 stores in major cities across the country.

On the other hand, Meituan Waimai has partnered with other retailers to tap other markets besides food delivery. For example, in July 2018, Chinese apparel brand HLA announced that it has connected with Meituan Waimai and that Meituan Waimai has started to offer delivery and other services for HLA. Users can use Meituan Waimai’s app to search for HLA and make purchase; the ordered products will be delivered by Meituan’s couriers to the designated address in an hour.

Launches fresh-produce supermarket Xiaoxiang Shengxian

Officially opened in May 2018 in Beijing, Xiaoxiang Shengxian (aka Ella Supermarket) is Meituan-Dianping’s offline grocery store focusing on fresh-produce and on-site catering services. The store integrates online and offline information and makes use of advance technologies to provide seamless experience for customers. Customers can visit the store and pay at the self-checkout counters. Xiaoxiang Shengxian adopts various technologies and big data analytics to enhance customer experience and operational efficiency – consumer purchases and preferences are logged on the app; analytics offer them a personalised product page, and machine algorithms plan the best delivery routes. Meituan-Dianping launched two more Xiaoxiang Shengxian stores in Wuxi in August 2018.
Overview of Xiaoxiang Shengxian (Ella Supermarket)

The first store of Xiaoxiang Shengxian was launched in May 2018 in Beijing. With a store area of 2,000 sqm, the supermarket focuses on fresh food and catering. It provides online to offline (O2O) services via its app and offers speedy O2O delivery service to customers. Leveraging Meituan-Dianping’s well developed logistics network and smart logistics technology, Xiaoxiang Shengxian can deliver orders to online customers within 3-5 km radius within 60 minutes.

Xiaoxiang Shengxian cooperates with more than 50 fresh food brands and suppliers; fresh produce is delivered to the store directly from suppliers by Meituan’s cold chain logistics.

The in-store catering area is around 200 sqm, housing five food booths. With the help of big data analytics, Xiaoxiang Shengxian has developed its own private label “Chef Xiang” which offers popular half-ready meals to consumers to reheat at home. There is also a “Cooking Studio” to demonstrate popular dishes to consumers, and the chef will also interact with consumers.
Xiaoxiang Shengxian adopts various advanced technologies in-store such as smart carts which can track the shopping route of consumers, electronic tags, smart shelves for more efficient stock management, self-checkout machines, and facial recognition payment system to enhance shopping experience. It also applies big data analytics to identify the most suitable products and meals offered in-store.

Establishes e-commerce platform Shangou

In July 2018, Meituan-Dianping launched another e-commerce arm “Meituan Shangou”, providing a marketplace for merchants such as supermarkets to sell FMCG, fresh produce, pharmaceuticals, flowers and plants, as well as apparel. Leveraging the delivery capabilities of Meituan-Dianping’s delivery riders, Meituan Shangou can provide customers with 24/7 services and deliver orders in 30 minutes. Currently, Meituan-Dianping reportedly has 531,000 delivery riders providing services in 2,500 cities and counties across the country. Meituan Shangou helps businesses optimize sales through performing data analysis, pinpointing customer profile and features of the communities. Meituan Shangou also provides services to traditional retailers on its platform in areas of marketing, delivery, and technology.
Launches autonomous food delivery system

Meituan-Dianping launched its Meituan Autonomous Delivery (MAD) Platform in July 2018, which provides meals delivery services from restaurants to consumers. The MAD Platform is open to third-party autonomous vehicle operators, and Meituan-Dianping hopes to work with enterprises, schools, and governments in the future. Currently, the MAD Platform is being tested in Beijing Joy City Mall, Shenzhen Lenovo office, and Shanghai Songjiang University town. Each destination’s model is slightly different. In Beijing, the autonomous vehicles pick up orders from restaurants and brings them to a collection point where drivers take over. In Shenzhen, the autonomous vehicles collect orders from drivers and distribute them in offices. Only in Shanghai is there a full loop, where autonomous vehicles conduct the whole delivery process. Going forward, Meituan-Dianping believes the lack of workers will force the traditional logistics industry to transform and Meituan-Dianping will be able to “deliver everything for everyone everywhere”.

Forms strategic cooperation with various commercial property operators

In August 2017, Meituan-Dianping and Dalian Wanda Group signed a strategic cooperation agreement. The two companies committed to providing consumers with better and more convenient online and offline consumption experience. Meituan-Dianping’s four-in-one service capability of “Marketing, Big Data, Payment, and Service Platform” can help Wanda Plaza to better serve its customers. In addition to providing a marketing platform for the plaza, Meituan-Dianping can also help build a smart payment platform, offering users more promotions and convenient payment methods.

Earlier in March 2017, Meituan-Dianping announced strategic cooperation with Joy City Property to share business data and information and cooperate in all aspects of business operations. In April 2017, Meituan-Dianping and Cloud Nine shopping mall in Shanghai signed a strategic cooperation agreement to cooperate in smart retailing, smart delivery and precise marketing, with an aim to provide users with an integrated online and offline experience in all areas of lifestyle services.

Signs strategic cooperation agreements with banks

In October 2017, the Bank of Qingdao and Meituan signed a comprehensive strategic cooperation agreement. Their cooperation will focus on big data, artificial intelligence, and cloud computing in working towards constructing a financial technology business operation. They will work towards creating a seamless online and offline environment, merging financial services with everyday life to create a “finance + Internet” service model.

Further expands into travel-related services

In April 2018, Meituan Travel partnered with the German National Tourist Board to cooperate in areas of big data analytics and destination marketing and to promote travel to Germany. Using Meituan-Dianping’s platforms, a series of online and offline activities will bring the most German foods and attractions to Chinese consumers. In May 2018, Meituan Travel and Hangzhou Tourism Economics Experiment centre reached a strategic cooperation agreement; both parties will work together on big data – through data mining and analysis to support the growth of the Hangzhou tourism industry.
Comments from Fung Business Intelligence

China’s local lifestyle service sector has seen very rapid development in recent years. According to iResearch, the gross merchandise value (GMV) of local lifestyle O2O service sector in China reached 1.1 trillion yuan in 2017, up 49.6% yoy; it is expected to exceed 2.9 trillion yuan by 2020. This provides huge development opportunities for Meituan-Dianping.

Over recent years, Meituan-Dianping has created an all-encompassing lifestyle service platform which provides a wide range of O2O services from food delivery to hotel room booking to movie ticketing and more. To remain a market leader, the ability to retain and broaden consumer and merchant base remains crucial. Indeed, Meituan-Dianping has done quite a lot in this area. For example, it has proactively invested in technologies such as artificial-intelligence powered dispatch system, robotics, smart delivery devices, and even drones to increase delivery efficiency and provide better services for customers. It has also provided a wide range of solutions facilitating merchants on its platforms to do business, including targeted online marketing tools, cost-effective on-demand delivery infrastructure, cloud-based ERP systems, integrated payment systems, and supply chain and financing solutions.

That said, Chinese consumers generally have low loyalty in the O2O lifestyle service market. They are easily attracted by platforms which offer lower prices and more discounts. A key challenge for Meituan-Dianping is to find some ways to increase consumer loyalty. A possible solution is to engage in cross-selling through its different consumer touchpoints and provide more effective targeted marketing and personalized recommendations.

Recently, Alibaba has made concerted efforts to tap into the O2O lifestyle service market by acquiring Ele.me in April 2018, another market leader in the O2O food delivery market. The acquisition of Ele.me complements Alibaba’s businesses in O2O catering market, especially its local services platform Koubei. With Ele.me and Koubei, Alibaba hopes to better compete with Meituan-Dianping in areas of online platforms, offline merchants, online and offline entrance, smart technologies, big data, and logistics. We expect Meituan-Dianping to face tougher competition ahead. To stand out in the market, Meituan-Dianping should continue to adopt technologies to better the shopping experience and improve the ease of doing business for merchants. Creating value for both the consumers and merchants is crucial for continued success.
### Strengths
- Maintains a leading position in the O2O lifestyle service market. Meituan held a 62% market share of the on-demand food delivery market in 2017.
- Engages in cross-selling via its different consumer touchpoints to increase sales and improve customer stickiness.
- Proactively invests in technologies such as artificial-intelligence powered dispatch system, robotics, smart delivery devices, and even drones to increase delivery efficiency and provide better services for customers.
- Partners with various leading hypermarket/supermarket chain operators and commercial property operators to expand their market penetration.

### Weaknesses
- Retailers usually partner with various O2O delivery platforms at the same time, Meituan-Dianping may easily lose its uniqueness.
- Meituan-Dianping has yet to turn profitable – it made a loss of 19 billion in 2017.

### Opportunities
- China’s local lifestyle service sector has seen very rapid development in recent years. According to iResearch, the GMV of local lifestyle O2O service sector in China will exceed 2.9 trillion yuan by 2020. This provides huge development opportunities for Meituan-Dianping.

### Threats
- Faces fierce competition as there are many O2O lifestyle service platforms in China, e.g. Alibaba has made concerted efforts to tap into the O2O lifestyle service market by acquiring another leading O2O food delivery platform Ele.me in April 2018.
- Chinese consumers generally have low loyalty in the O2O lifestyle service market. They are easily attracted by platforms which offer lower prices and more discounts.

Source: Fung Business Intelligence
References

1 "Monthly number of nights booked in March 2018 via Meituan Hotel exceeds the combined totals of Ctrip, Qunar, and LY for the first time", 17 May 2018. NBD. http://www.nbd.com.cn/articles/2018-05-17/1218074.html


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