

UDC 33

DOI: 10.34670/AR.2023.63.10.014

The new business model of a Chinese company in a pandemic

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This paper has been supported by the RUDN University Strategic Academic Leadership Program.

Abstract

For many people, home delivery has long been a habit. Food and ready-to-eat food delivery services have been actively developing in many countries for decades, but they reached their peak of popularity quite recently, during the coronavirus pandemic. During the period of self-isolation, the attitude towards delivery, even among those who have never resorted to online orders, has changed significantly. The pandemic has given a powerful impetus to the development of business on the Internet. And if for the Chinese food delivery used to be an event service; they used it, for example, when they celebrated some holiday, now food and groceries delivery has become an everyday tool. Thus, quarantine and self-isolation only spurred demand. Thus, the number of restaurants working with various services, one of which is Meituan, has increased significantly. Meituan is a company that has no direct analogues in the world and is much more than just a food delivery service. Even before the pandemic, food delivery services in China were significantly more popular than in the West. And with the introduction of lockdowns, they finally strengthened their position and became indispensable helpers in the life of the Chinese. Thus, the quarantine "consolidated the trend" of avoiding unnecessary social contacts, which in this epidemiological situation can jeopardize health. This gave impetus to the introduction of contactless shopping technologies.

For citation

Jieyu Wang, Voskerichyan R.O. (2023) The new business model of a Chinese company in a pandemic. *Ekonomika: vchera, segodnya, zavtra* [Economics: Yesterday, Today and Tomorrow], 13 (2A), pp. 175-182. DOI: 10.34670/AR.2023.63.10.014

Keywords

Logistics, smart technology, food delivery service, contactless shopping technology, pandemic.

Introduction

The coronavirus outbreak has drastically affected food delivery services in China. In the conditions of quarantine and paranoia, business is forced to come up with new formats of work.

Grocery delivery services in China are facing challenges due to the coronavirus outbreak. Due to the rapid spread of the disease, people avoided leaving their homes once again, and 60 million residents of Hubei province, the epicenter of the infection, were completely quarantined. Because of this, food orders skyrocketed, and there were not enough couriers. It was the most critical moment. China has entered a new phase in the fight against the coronavirus.

Meituan is the largest food delivery service in China with a market share of 67.3%, formed by the merger of rival Meituan and Dianping in 2015. In addition to food delivery, the company provides booking services, delivery of flowers, goods from shops and other services. The history of the company begins in 2010, when founder and current CEO Wang Xing decided to create a Chinese copy of the American Groupon. The idea was not new; at that time in China there were more than 5,000 different analogues of an American company [Chinese food delivery service Meituan..., [www](#)].

At first, [meituan.com](#) was a group shopping site where customers would join together to buy electronics or go to a restaurant and receive a volume discount.

Thanks to the strategy of the founder, Meituan managed to outlive many competitors who went bankrupt very quickly due to high promotion costs and price dumping. Wang Xing, on the other hand, focused on efficiency and cost reduction through the use of technology.

Food delivery did not immediately become the main focus. The company launched its online movie ticketing platform in 2012, followed by hotel bookings in 2013, followed by delivery. In 2014, the company was invested by the tech giant Tencent, which still remains one of the largest shareholders [Investments in Meituan..., [www](#)].

In 2015, Meituan began offering train and plane ticketing opportunities and announced a merger with Dianping.com, a popular restaurant review service [ibid.]. The merger allowed Meituan to significantly expand its existing customer base and begin its path to dominance in the online food delivery (O2O) sector. Then taxi services, logistics services and even the possibility of renting bicycles were added. In 2018, the company held an IPO on the Hong Kong Stock Exchange [Chinese food delivery service Meituan..., [www](#)].

Now Meituan has grown to the level of "SuperApp-platform", offering more than 200 different services, among which there is software for providing a full cycle of functioning of third-party retail enterprises. The trends that Meituan sets today are now actively copied not only by Chinese competitors, but also by many Western companies [Chinese food delivery company Meituan continues its strong growth, [www](#)].

The company's services have become an integral part of the daily life of most Chinese. Meituan is a leader in food delivery and one of China's largest technology companies.

The greater popularity of food delivery in China than in the West is caused not only by the mentality, but also by the economic component. In general, shipping costs in China are 10-20% lower than in the US. There is fierce competition between delivery apps in the market, so consumers often get big discounts and coupons when they place an order. The intense practice of discount coupons is the result of price wars between the two main players in the industry, Ele.me and Meituan. Today, the company is actively investing in the development of new directions [Meituan. Opportunity to invest..., [www](#)].

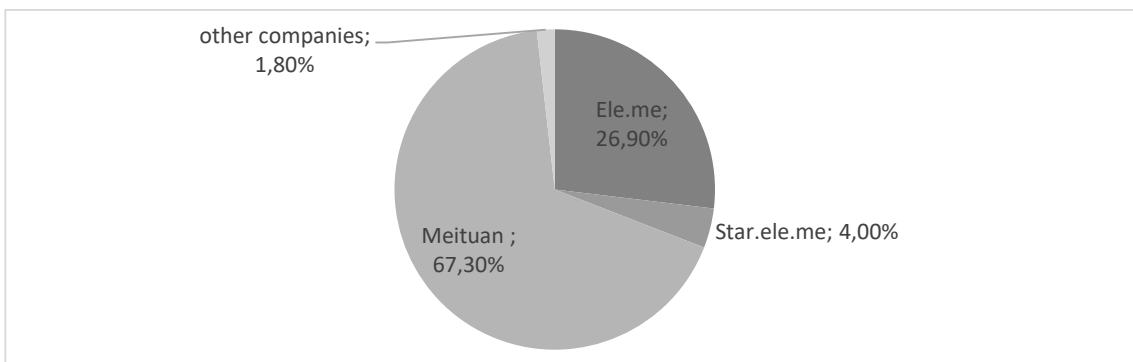


Figure 1 - Market shares of food delivery services in China in 2021

Methods

In the study, the authors used some methods such as analysis and synthesis, induction and deduction, historical and logical, abstraction and concretization.

Results

Let's sum up the analysis of Meituan's business in recent years. The Meituan business consists of three main divisions. Food delivery – 53.77% of revenue, the company delivers food from restaurants. In 2021, the segment's revenue grew by 45.3%. The segment margin is 6.4%.

Delivery from stores, hotels and travel – 18.16% of revenue. Here, the company earns on commissions for booking hotels and shopping at partner stores through the Meituan app. In 2021, the segment's revenue grew by 53.1%. The segment margin is 43.3%.

New initiatives and other, 28.07% of revenue. In this segment, the company earns from its original business, joint purchases (Meituan Select), as well as new directions, the delivery of non-food products (Meituan Instashopping), the delivery of fresh food (Meituan Grocery) and the rental of bicycles and electric mopeds [Chinese food delivery company Meituan continues its strong growth, www].

It is the fastest growing segment of Meituan's business, with revenue up 84.4% in 2021. But it is also the most unprofitable segment for the company: its margin is minus 76.4%.

According to the results of the first quarter of 2022, the company has 9 million sellers. Over the year, their number increased by 26.6%. The number of user transactions increased by 21.7% to 692.9 million. The average number of orders per user per year increased by 21.9% to 37.2 [ibid.].

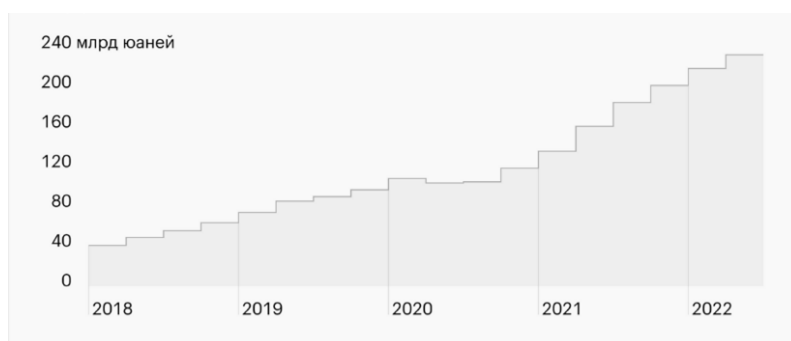


Figure 2 - Meituan Revenue [ibid.]

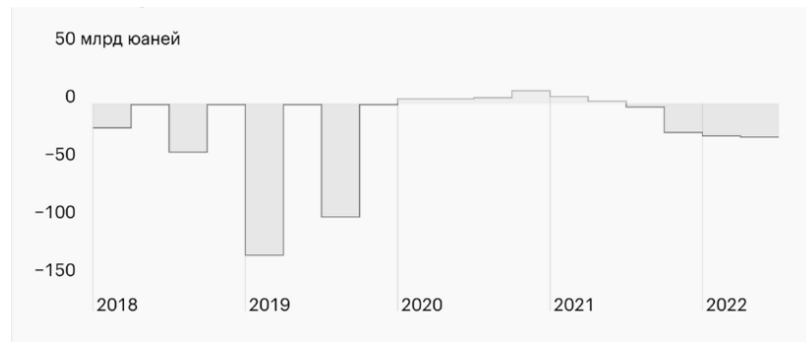


Figure 3 - Meituan profit [ibid.]

The Meituan market is growing rapidly. According to the Chinese consulting company Zhiyan, in 2021 the total number of users of food delivery platforms increased by almost 30% to 544 million people [Meituan. Opportunity to invest..., www].

The research company IMARC Group estimates the food delivery market in China at \$58.7 billion in 2021. According to her forecasts, the market will grow by 12.1% per annum until 2027 and will reach \$118.5 billion [ibid.].

Recommendations and conclusions

After the start of the epidemic, the company launched a new service, contactless delivery of orders. The courier leaves the order at the place agreed with the buyer, moves away from it at least three meters and calls the client who picks up the package, avoiding a personal meeting with the courier. For the first time, the service performed such a delivery at the end of January in the city of Wuhan, which turned out to be the epicenter of the disease. Now the service is extended to the whole of China.

In the package with the order, customers received cards with the temperature of all the people involved in the preparation and delivery of food, as well as information about the disinfection of the service equipment.

Contactless delivery was requested by customers in more than 80% of cases, and in Wuhan – in 95.1%. During the pandemic, the number of orders for more than one recipient increased by 31%. And the number of orders for five or more persons increased by more than 70%. Meituan has noticed an increase in demand for the delivery of non-food items, in particular, medical masks and sterilizers.

At that time, the company employed 700,000 couriers, but they were still not enough. Meituan is partnering with restaurants closed due to the coronavirus outbreak by recruiting employees to deliver groceries [Most popular food delivery apps in China, www].

In the United States, the cost of food delivery by courier is about \$10, and the cost of delivery by an autonomous drone is \$1.5. Both the courier and the drone deliver up to two orders per hour on average. In China, the situation is different from the US. Firstly, the cost of delivery by courier in China is much less, about \$ 1 per order. This, by the way, was one of the reasons for the persecution of Meituan by the authorities, who sought an increase in the wages of couriers [ibid.].

Second, most Americans live in the suburbs, while in China people live and work primarily in metropolitan areas. Moreover, China has developed a 996 culture, the idea that employees should work from 09:00 to 21:00 six days a week. Therefore, the main consumer of food delivery is an office worker in a metropolis, and it is difficult to deliver food to him by a ground-based autonomous drone [China Online Food Delivery Market..., www].

The Chinese, amid restrictions, have become even more active users of online food delivery applications. More than 27% order food six to 10 times a month, and 14.3% order food 11 to 20 times a month. In 2022, office workers accounted for 83% of orders. About 60% for users aged 18 to 30 years [ibid.].

As restrictions are fully lifted, these figures may decrease, but the fall will probably not be too critical. In general, the food service market in China is expected to grow at a rate of 7.9% (CAGR) until 2027, and the online delivery market is expected to grow in the region of 13-15% (CAGR) [ibid.].

Of the actively developing areas, it is worth highlighting the delivery of non-food products and ready-made kits for cooking. The latter is growing especially actively in China. The semi-finished products market amounted to 345 billion yuan and increased by 19.8% y/y in 2021. The company's expenses within the framework of the "Retail + Technology" strategy are precisely aimed at occupying a dominant position in these areas [Three meters to the courier..., www].

It is worth noting another method of acquiring products that is gaining a lot of popularity, "group purchases". The current volume of this market is 72 billion yuan. Growth amid COVID restrictions amounted to 112% y/y. The bottom line is simple: groups of people unite for bulk purchases and, thanks to the volume, as well as the reduction in shipping costs, save significantly. Meituan was able to become one of the leaders in this direction too, offering buyers on its platform the possibility of group purchases Meituan Select [Zhao, 2018].

At the end of 2021, Meituan launched a pilot project in Shenzhen: in several districts of the city, food from shops and restaurants is delivered by drones to special street kiosks near offices. In September 2021, Meituan applied to launch a drone delivery service throughout Shenzhen, with the application expected to be approved in 2022. Delivery automation should help the company reduce staff costs and increase delivery speeds in the future. This will not have a direct effect on business performance immediately, but investors should like it [China Report Network, 2021].

In China, as in the rest of the world, no one was prepared for what the pandemic would turn out to be, not only did the introduction of restrictions immediately affect small and medium-sized businesses that lost some of their customers, the tough quarantine measures of recent months affected almost everyone who was locked up at home.

It is worth saying that Meituan and Ele.me treated restaurateurs very humanely – back in 2020, for example, they temporarily reduced payments for placements on the platform. In recent days, when the whole world heard about Shanghai, the media also wrote how Meituan sent almost 1,000 additional workers to Shanghai to help deliver food to millions of residents who are experiencing real food shortages that government supplies could not cover.

In a number of cities, the previously introduced functions of "urgent deliveries" of essential goods (应急特需) or group deliveries (团购版) have become very popular in applications, which have become very relevant in Shanghai, where residents of the same complex were allowed to come together to make a common order of products under the new servants "complex order" (社区团餐). In some areas of the metropolis, where food is traditionally transported by couriers, autonomous vehicles have been connected and parcel terminals have been installed for contactless transfer of the order to the client [Zhao, 2018].

Despite the fact that platforms have experienced huge difficulties due to network congestion and an excessive influx of orders, companies to this day continue to say that they will cooperate with the government in every possible way and supply residents of closed cities with everything they need during the difficult fight against COVID-19 in China.

Key advantages of Meituan [Chinese food delivery company Meituan continues its strong growth, www]:

- The company's services have already become an integral part of the lives of most Chinese people;
- Is a leader in food delivery (O2O);
- Generally proved to be profitable, but management decided to continue investing in new areas;
- Key destination markets will grow strongly in the coming years;
- Based on the assessment, the shares have upside potential of 25%;
- Absence of direct analogues for investment in the world.

Of the key risks of Meituan, it is worth highlighting [ibid.]:

- Current economic slowdown in China;
- Potential increased competition in the food delivery market due to JD.com's expansion plans;
- Regulatory risks due to the large impact of the corporation on the lives of the Chinese;
- Low likelihood of sustaining growth rates without active consumer incentives.

The country is currently the world's largest online food delivery market. China's strong economic growth, changing lifestyles, and the growing penetration of the Internet and smartphones are among the key factors in the development of this market. Moreover, China's large young population, which constitutes the majority of the consumer base, has further contributed to this growth. City dwellers who lead a hectic lifestyle tend to order food online more often than others [How Meituan is redefining food delivery in China with drones, www].

Today, the market is mainly dominated by the two players Meituan, backed by internet giant Tencent, and Ele.me, backed by Alibaba. Key players in the country are currently focusing on expanding their operations in smaller cities, which have great growth potential as they are less developed markets than large cities such as Beijing and Shanghai. Players are also expanding their grocery offerings and targeting off-peak eating hours such as afternoon tea or late-night snacks.

The food delivery market in China is growing rapidly, and there are plenty of people who want to take a share from Meituan. In addition to Alibaba-backed Ele.me, the second largest service, JD.com plans to enter the market. The Douyin food delivery service was launched by TikTok's parent company, ByteDance. The food delivery market in China is very concentrated, with two companies controlling 90% of the market.

Meituan is showing rapid business growth, but so far this has not helped the company become profitable. To maintain market share, they have to spend money on advertising and maintaining user loyalty. In 2021, advertising and marketing spend grew by 46%.

Meituan can grow either by expanding the targeted food delivery market or by developing additional destinations. For example, such as the delivery of non-food products and ready-made kits for cooking.

The food delivery (O2O) market in China is expected to grow to 941 billion yuan by the end of the year. In 2021, the penetration of online delivery applications among Chinese users was 52.7%, and by the end of 2022 it may increase to 58-60%. It is not surprising that Meituan does not stop investing in an already profitable segment for itself, but actively invests in the popularization of its services. There is still room to grow.

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Новая бизнес-модель китайской компании в условиях пандемии

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Аннотация

Для многих людей доставка на дом уже давно стала привычной. Сервисы доставки еды и готовой еды активно развиваются во многих странах уже не одно десятилетие, но пика популярности они достигли совсем недавно, во время пандемии коронавируса. За период самоизоляции отношение к доставке даже у тех, кто никогда не прибегал к онлайн-заказам, существенно изменилось. Пандемия дала мощный толчок развитию бизнеса в Интернете. И если раньше для китайцев доставка еды была редким сервисом; ее использовали, например, когда отмечали какой-то праздник, сейчас доставка еды и продуктов стала повседневным инструментом. Таким образом, карантин и самоизоляция только подстегнули спрос. Так, значительно увеличилось количество ресторанов, работающих с различными сервисами, одним из которых является Meituan. Meituan – компания, не имеющая прямых аналогов в мире и представляющая собой гораздо больше, чем просто сервис доставки еды. Еще до

пандемии сервисы доставки еды в Китае были значительно популярнее, чем на Западе. А с введением локдаунов они окончательно укрепили свои позиции и стали незаменимыми помощниками в жизни китайцев. Таким образом, карантин «закрепил тенденцию» избегать ненужных социальных контактов, которые в данной эпидемиологической ситуации могут поставить под угрозу здоровье. Это дало толчок к внедрению технологий бесконтактных покупок.

Для цитирования в научных исследованиях

Ван Цзюй, Воскеричян Р.О. The new business model of a Chinese company in a pandemic // Экономика: вчера, сегодня, завтра. 2023. Том 13. № 2А. С. 175-182. DOI: 10.34670/AR.2023.63.10.014

Ключевые слова

Логистика, умные технологии, служба доставки еды, технологии бесконтактных покупок, пандемия.

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