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BUSINESS MODEL ANALYSIS OF MEITUAN

Abstract. *In order to understand and analyze the business model of an enterprise, this paper selects Meituan as a case study. First of all, it introduces the general situation of the company. Secondly, the paper introduces the business model of the company in terms of profit model, key resources, main activities, value proposition and customer segmentation. Potter's five force model is used to analyze the competitive environment of the business model of Meituan. Finally, the advantages and disadvantages of analysis, put forward that the business model needs to focus on innovation, transformation, and creating brand influence.*

Keywords: *Business model; Meituan; Potter's five force model; competitive advantage*

Introduction

The business model is the basic mechanism used by an enterprise to create value, that is, it defines the form of the enterprise [1]. The theoretical explanation of business model first came from the famous American economist – Joseph Alois Schumpeter. He believed that competition between price and output was not important, but what was important is the competition from new technology, new business, new sources of supply and new business models. With the rise of internet technology, the business model of the emerging internet enterprises has been given considerable attention and is the subject of several academic studies.

The business model of the case study company Meituan is principally an operational model. The definition of the operational class considers the business model of the enterprise to focus on the operating mode, which refers to the various business processes and organisational designs centre around the process of creating value and transferring value, and the management of the participants relationship with other enterprises.

The aim of this article is to analyse the business models of the case study enterprise, and use the Potter five force model to analyse the competitive environment of the model, so as to understand the driving force and importance of understanding the business model for the development of commercial enterprises. The article commences with an introduction to the general situation of business corporations in Meituan. This is followed by an analysis of the case study business model, including the main products and services provided by the company, and the Potter's five forces model is used to analyse the competitive environment of the enterprise. The current situation and developmental advantages of the American business model are analysed from the point of view of enterprise profits, management costs, target customers, business processes, and other elements.

Introduction of the case study company – Meituan

The Meituan network is the first Groupon like e-business website in mainland China, launched by the founder, Wang Xing, on March 4, 2010. The business scope is online shopping, but this differs from the Groupon network, as it introduces a number of boutiques every day, offering restaurants, bars, KTV, SPA, hairdressers, etc. Meituan provides netizens with a low price by offering coupons and group discounts. The purpose of the mission is to find the most trustworthy businesses for consumers and to allow consumers to enjoy very well discounted high-quality services, whilst enabling businesses to find the most suitable consumers, maximising profits and promoting internet commerce.

Analysis of Meituan's business model

Based on the theoretical model of the basic business model [2] proposed by Johnson.et.al, the corresponding elements of Meituan are analyzed. The interaction between key processes, key activities, and profit model and the value orientation of customers promote each other. It plays an important role in the further development of Meituan.

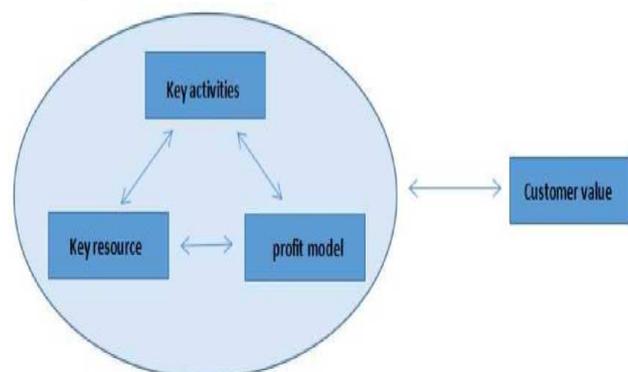


Figure 1 – Johnson.et.al business model [2]

Business profit model analysis

At present, the profit model of Meituan has the following four aspects:

Commission mode. The most important profit model of Meituan is to earn the middle price directly by selling the group purchase goods, or by pumping out a high percentage of the products, or to make discounts and promotions to the merchants through agreements, and generate revenue according to the agreement amounts. Meituan achieves commission entirely through its large group purchase turnover, rather than by imposing high transaction costs. It discount rate for business to business only charges about 10% sales commission (Groupon charge up to 40% -50% commission) and the merchants eventually receive between 5% to 10% [3].

Advertisement Income. Customers in Meituan advertise on the internet, and the network thus charges advertising costs.

Referral fee model. Meituan directly links the page to the company to which the product belongs, so as to obtain more known opportunities for the company to which the product belongs and develop more potential customers. Hence, Meituan collects a referral fee from the company.

Activity kickbacks. Merchants in Meituan participate in activities and exhibitions and it receives rebates and access to income.

Analysis of key resource

Core entrepreneur and his entrepreneurial team. Wang Xing has experienced four business ventures, and has rich practical experience for the socialization of the network. The entrepreneurial team, led by a strong executive force, is the main force of Meituan to successfully seize the market.

For enterprises, the strong reputation of Meituan has created the huge customer base of itself, and businesses need to have enough customer support to make money.

For consumers, the group selects companies that provide high quality services to provide products and service resources for consumers. At present, the consumer services introduced by the group involve catering, beauty, massage, movies, concerts and so on.

Analysis of key activities

First of all, as a group-buying website, the group buy market is naturally the main area of business activity. In addition, Meituan needs to conduct two-way commercial activities on the basis of this. On the one hand, it must deal with the interests of the businessmen, the geographical location of each business and the costs of the stores are different. On the other hand, the "customer-centric" marketing model of Meituan also determines that it must give full consideration to the

consumer's position. Finally, Meituan launched a series of activities such as "rebate" and "give up profits" under the premise of giving consideration to the interests of businesses and consumers, and striving for greater market share of group buying.

Value proposition

The customer value orientation of Meituan mainly lies in its full selection and convenience for the customers as far as possible, so as to achieve "brand loyalty". As the value embodiment of e-commerce, it will include individuation and customization of product supply, reduction of product query cost, and push transaction through delivery management. Among them, as Meituan is a group buying website, the "group" effect is paid attention to, so the channel of personalized customization has not been widened. In the logistics channel, the group's purchase products are delivered to the consumers in two ways: by volume and delivery to the door (including the postal service). For life oriented services, consumers mainly pursue convenient consumption and economical entertainment, so they spend most of their consumption on the form of volume collection, and most of them are door-to-door or even postal service.

Analysis of the customer segmentation of Meituan

There are differences between customers, and if the company wants to maximise sustainable development and long-term profit, it is wise to focus only on the correct customer base. Customer segmentation refers to categorisation of customers on the basis of customer attributes [4]. This is not only an important theoretical aspect of Customer Relationship Management (CRM), but also an important management tool. It depends on the basic principles of researching clients, conducting effective customer evaluation, allocating service resources rationally, and successfully implementing client strategies. It provides theoretical and methodological guidance for enterprises to maximise customer value. Meituan divides customers into two types, specifically:

– Online customers

Online customers are divided into online consumers and online customers who are not yet consumers. These two categories require different types of marketing for different modes of promotion.

– Offline customers

These are consumers who have not yet been online such as consumers who form a potential customer group in Meituan. In the case of these customers, Meituan makes full use of existing customer networks for "customer relationship marketing", and launches "rebate activities" for marketing. These platforms are used to introduce Meituan to a wider range of potential customers.

A brief introduction to Potter's five force model

The five-force analysis model, put forward by Michael Porter in 1980s, has had a far-reaching global impact on the formulation of enterprise strategy and business design [5]. It can be used for competitive strategy analysis to effectively analyse the competitive environment of enterprises. The five forces are the bargaining power of suppliers, the bargaining power of buyers, the ability of potential competitors to enter the market, the replacement ability of substitutes, and the competitive ability of competitors in the industry.

Analysis of the competitive environment

The bargaining power of suppliers

At present, most of the main development objects of the Meituan are smaller companies. Group buying can provide popularity to these suppliers and increase consumption. Therefore, these enterprises are more dependent, and have relatively weak bargaining power, which promotes the relatively strong bargaining power of the group.

The bargaining power of the buyer

The buyer in a group buying website is a dispersed individual or a group of consumers. A single buyer cannot buy large quantities, so the buyer's bargaining power is weak, but consumers in group buying can achieve very low prices due to good discounts. If the discounts are not attractive, consumers will shift to other websites, so the buyer's bargaining power is generally strong.

Threats from new entrants

Group buying is a low threshold industry, without the thresholds of capital, scale, personnel and even technology. Hence there a number of followers, leading to the "Millennium war" for over a year. However, the industry profits are generally less than 10%, and with brand effect previews, user experience value and value creation gradually becoming the focus of competition, the competition in the industry makes it difficult for new entrants to enter. Innovation is also difficult for a group purchase website, so the threat of potential entrants is relatively small.

Threats from alternative products

The group buying industry is a relatively new business model and industry development is not yet mature. The well-known B2B, B2C and C2C websites that occupy a large market share are powerful alternatives to group buying websites. Since the products or services sold by group buying websites are also easily available on other e-commerce sites, this leads to a greater threat of substitution of group buying websites, so Meituan should strengthen its service differentiation.

The degree of competition

In March 2010, Meituan triggered a Chinese group buying upsurge. According to statistics from China

Electronic Commerce Network, at the end of the first half of 2016, there were a total of 6,246 group buying websites in China. At present, the domestic group buying websites have different losses. In 2016, the total number of group buying sites was 75%. ERI predicts that there will be no more than 3 independent group buying websites that will survive into the future, and the metabolic rate of the group buying websites is rapid. The main competitors of Meituan are currently a group of excellent group buying sites such as Lashou, Nest, Manzuo, etc, so the competition is relatively fierce.

The competitive advantage of the enterprise

As of the first half of 2017, Meituan ranked No.1 in the market with a turnover of 171.32 billion yuan. The number of daily transactions of Meituan was 18 million, representing the largest O2O platform in the country. Seen in this light, the advantages of Meituan are more obvious. Compared to other groups, it has the following advantages:

Meituan's brand strength is stronger. It is China's first buy site, which led the development of China's buyout industry. Meituan has millions of registered users and has maintained and sustained rapid growth. Wang Xing, the founder of Meituan, enjoys high popularity and a good reputation in the internet industry.

Meituan has better service advantages. It enhances the user experience in many dimensions and puts consumers first. Apart from the strict business review, Meituan invested RMB10 million in the construction of a call centre and took the lead in launching the "No Consumption within 7 Days, Unconditional Refund" program, the "Consumption Not Satisfied, Meituan Free" program and the "Outdated Consumer, a key refund " as part of a series of consumer protection plans.

Meituan has more financial advantages. Meituan has placed top in the industry in terms of revenue and the investment from Sequoia Capital and others show that it is stronger and more powerful.

Meituan has extensive operating experience. Meituan has a strong business team and has extensive experience in business cooperation negotiations. The various modes of coexistence of Meituan include various new businesses such as take-away and internet booking, and the organic connections with various subsidiaries.

Meituan has 100% control of logistics. Meituan ensures that customers will receive payment after the payment of Meituan verification code, and by using the verification code in the appropriate city to purchase, the consumer can save courier time and costs

The disadvantage of Meituan development

In recent years, Meituan business model does have its advantages, but there are also some shortcomings. First of all, in terms of funding, even though the O2O

"burn-in mode" of Meituan can temporarily fill the gap in its business model and raise considerable finance, the business losses cannot be effectively alleviated. Since 2015, the losses of Meituan have exceeded 10 billion, and the estimated losses will continue into 2018 as shown in the table below.

Billion (RMB)	2014	2015	2016	2017	2018	2019
GMV	676	1.545	3,953	7,498	12,747	18,810
sales	28	65	132	287	560	920
Valuation		1,143	1,143	1,143	1,143	1,143
Valuation/ GMV		0.62	0.29	0.15	0.09	0.06
Valuation/ sale		17.5B	8.66	3.98	2.04	1.24
EBITDA	(23.94)	(103.42)	(94.95)	(63.56)	45.01	199.82
Gross profit	23	45.3	56	196.9	401.4	694.5
Net profit	(23.94)	(105.37)	(98.20)	(69.29)	36.6	143

Figure 2 – The losses of Meituan

At the same time, there are problems with the model of subsidies granted by Meituan. In the case of Meituan users, the subsidies for new stores are very high, but in fact Meituan shops in most densely populated cities are not sufficient. In recent years, there have been no more subsidies for it. Not only has Meituan started accepting commissions from most businesses, but they also have to spend half a year or one year for them. Judging from feedback from other community platforms, Meituan's commission model mentioned above squeezes almost all of the offline platform's profit margins.

Second, in terms of competition in the vertical industry, Meituan's under-stratified vertical category leads directly to weaknesses in the weak supply chain. Meituan's previous focus on horizontal expansion and lack of focus on deep-rooted strategies resulted in a loose supply chain with poor surrounding support. Therefore, the group has not achieved a stable platform, and there are likely to be other hidden flaws. It is necessary to find a way to attract consumers, but also to attract businesses, while achieving a certain degree of lock-in. This is the key to Meituan innovation, and in the long term, Meituan is also concerned with the short-term cash flow, and the business model.

Finally, there is some difficulty in transforming Meituan's business. Its main business is focused on group purchase, and the ongoing take-away business can be considered a new attempt. This can also present new risks, and hence it is necessary to watch closely.

Suggestions for the development of Meituan

The above analysis of the existing Meituan business model outlines the business strategy and the shortcomings. The following suggestions are made to improve the model.

Meituan should strengthen the safety management of advances and strengthen the credit system. It can strengthen its cooperation with successful e-commerce companies and learn from the successes of their credit system construction, such as Alipay's third-party payment platform. The credit system construction should try to reflect the competitive advantages of Meituan.

Focus on innovation, promote business transformation, and improve the brand effect. Relatively speaking, in the group buying industry, the threshold to enter is low, competitive advantage is more difficult to maintain, and consumers are often directed by the purchase price of goods, so the maintenance of a stable customer requires innovation and the development of new projects to attract consumers.

Strengthen the use of new promotional channels. At present, Meituan still uses traditional propaganda channels as its mainstay, and the utilisation rate of new advertising channels is still insufficient.

Improve after-sales service. Its service is good, but there are still customer complaints that could be improved on. By reducing the time to handle customer complaints, and identifying and eliminating the cause of complaints, it is possible to win consumer trust.

Conclusion

In sum, Meituan should be "people-oriented" as the center of the establishment of the online platform and its target customers' trust as a major work. It is important to build confidence in the brand, build trust in service, to support construction technology. Network group purchase will be deeply rooted in the customer's brand image in the soil. I believe that only such e-commerce brand will adapt to the changes of the social market, and it will become a leader in the group buying industry.

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АНАЛІЗ БІЗНЕС-МОДЕЛІ МЕЙТУАН

Анотація. Для того, щоб зрозуміти та проаналізувати бізнес-модель підприємства, було обрано Мейтуан як об'єкт дослідження. Перш за все, це вказує на загальну ситуацію в компанії. По-друге, в статті представлена бізнес-модель компанії з точки зору моделювання прибутку, ключових ресурсів, основних видів діяльності, цінової пропозиції та сегментації клієнтів. Модель п'яти сил Поттера використовується для аналізу конкурентного середовища бізнес-моделі Мейтуан. Нарешиті, переваги та недоліки аналізу лягають в основу того, що бізнес-модель повинна зосереджуватися на інноваціях, трансформаціях і впливі на бренд.

Ключові слова: бізнес-модель; Мейтуан; п'ять силових моделей поттера; конкурентна перевага

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