

Analysis of the Failure of Ofo Sharing Bicycle Company and Possible Solutions

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ABSTRACT

Society is developing at an unprecedented rate. Air pollution and environmental problems are causing detrimental effects on people's health, both mentally and physically. The emergence of the sharing bicycles makes environment and citizen's health condition better. Companies of the sharing bicycles in China have introduced a few types of bicycles to citizens; some of the cooperations have succeeded whereas some have failed, and the ofo bicycle company belongs to the latter type. This paper aims to explore possible reasons that account for one specific company's failure and to propose several potential solutions to the current situation.

Keywords: *Sharing bicycle, failure, China*

1. INTRODUCTION

Sharing economy is prevalent in China in recent years, and products, such as the sharing batteries, basketballs and umbrellas, are being made. Among all of these various categories of products, sharing bicycles have been the most popular and welcomed products of all time in that it is convenient for people living far from their workplace and conducive to their health. On the contrary, the ofo company, which manufactures sharing bicycles, has failed. There are reasons that accounts for its failure. Several main reasons why it has failed include high maintenance fee, which takes place when people discard their bicycles willfully so that employees need to pay a lot of effort and money to retrieve them. Although this is extremely convenient and friendly to the customers, placing bicycles willfully exerts a detrimental effect when the company wants to maximize its profit.

2. LITERATURE REVIEW

After the discussion of the problems that have caused the failure of the ofo bicycle sharing company, calculations would be helpful to show a much more straight-forward illustration. According to the data provided by a former worker in the ofo company who was responsible for repairing the bicycles, I have known the salaries of different people including those who were responsible for delivering the bicycles, those who were repairing the bicycles and those who worked in the workplace and did the publicity work. Because of the inferior quality of the bicycle they have made, a regular bicycle needs repairing for at least 1.5 times

per month. The company has put in 200,000 bicycles into the city. According to the information gathered, the average number of bicycles that need to be repaired is about 10,000 per day. Therefore, the company would need to repair at least 30,000 bicycles per month. The city would need 200 repairmen and the average salary is about ¥3800 per month. There still are 100 people in total who are responsible for providing necessary accessories and the quality inspectors. The cost therefore goes up to ¥800,000 a month, yet this is only a small proportion of the whole. [1]

3. ANALYSIS

3.1 Discovering the New Market

The reason why the ofo company succeeded in the beginning of its development is because they have discovered a new market. This market exists because people are having difficulties in choosing whether to take a taxi or to walk back to home.

In big cities, especially the distance between the subway station and our residence gives companies opportunities to develop a new market that can make profit. The reason is that it would not be worthy to take the taxi in such a short distance, and also it would be unsafe to walk back to our homes during the night time. This social problem is called the "Last mile" problem. And this is the secret of the ofo company at the beginning. By riding bicycles, people can have a better health condition while do not need to worry about traffic jams.

**China On-Demand Bike Sharing = High Frequency...
2/3 Users Ride 3+ Times Per Week**

Highlights from Shenzhen Municipality On-Demand Bike Sharing Study, 5/17

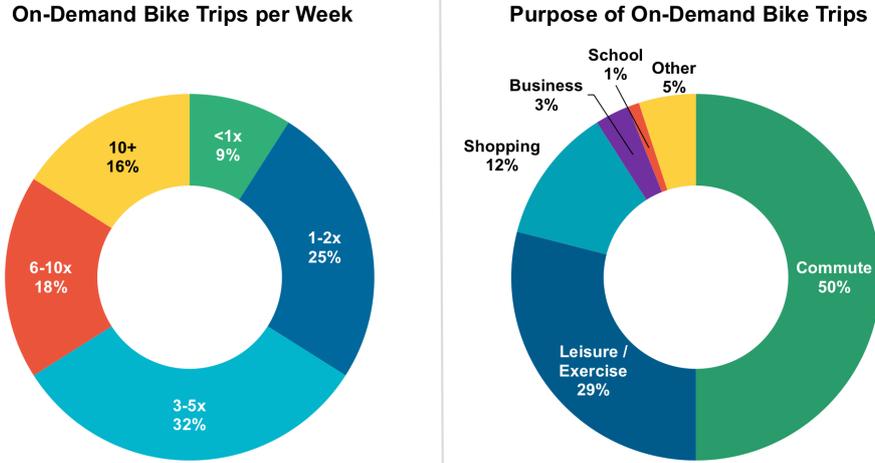


Figure 1. Shenzhen Municipality On-Demand Bike Sharing [7]

3.2 Encountering Competition

In fact, the reason why some of the companies can be achieved is that they have their own secrets. Take the Coca Cola company as a case in point. This company has its secret recipe that no other companies or corporations can emulate. Maybe the recipe is simple by just modifying the proportions of the sugar and other ingredients, but no one has ever succeeded yet. As long as a company has its own secret, it can make profit. Although there is still another perspective concerning the definition of the secret, which is that others may know it, one company has no capability to do the same thing or outperform the original one. Nevertheless, in the market of sharing bicycle, there are basically no secrets, and also few technological difficulties would be encountered or obstruct the success of a company. Hence, after other companies have discovered this area of market, the ofo company is now being threatened. [2]

As a matter of fact, there is still another sharing company called the Mobike. This company is also doing the sharing bicycles business, but it is a down-to-earth company. During the early stage of its development, instead of considering how to make the bicycles comfortable, this company made them difficult to ride since this was also a strategy to make them durable and therefore lower the repair fees in the future. Nonetheless, there is always a trade-off. As bicycles become durable, they also become difficult to ride, taking more time to speed up and being strenuous to take turns.

3.3 Devising Strategies

It is right at this time that the ofo company has joined in the market, especially schools and campus. In universities and schools, which no transportation tools can enter, companies do not need to devise a relatively complicated crypto-system since students possess basic moral values and qualities. What is more, it also offers companies a lower repair fee since the use of bicycles in campus and schools are little, so some of the simple repair can be easily realized on campus. In such an environment, it is conspicuous to see that most of the tricky problems in a normal market do not exist anymore. Hence, the Mobike bicycle sharing company and the ofo bicycle sharing company are now competitors, and the ofo company has started to put in a lot of bicycles, which are easy to take turns, take less time to speed up, and possess a simple crypto-system in such environments. Starting from then, many students and faculties prefer the ofo bicycles over the Mobike bicycles. While some may say that the ofo bicycles have numerous merits compared with the Mobike, people have not seen the potential dangers they brings. After a short period of use, the ofo sharing bicycles became fragile and had countless flaws, but in order to secure their market, the Mobike company also invested a lot and put in more bikes, and yet, they over-estimated their after-sale services.

Amount of Funding Bikesharing Companies Raised Over Time

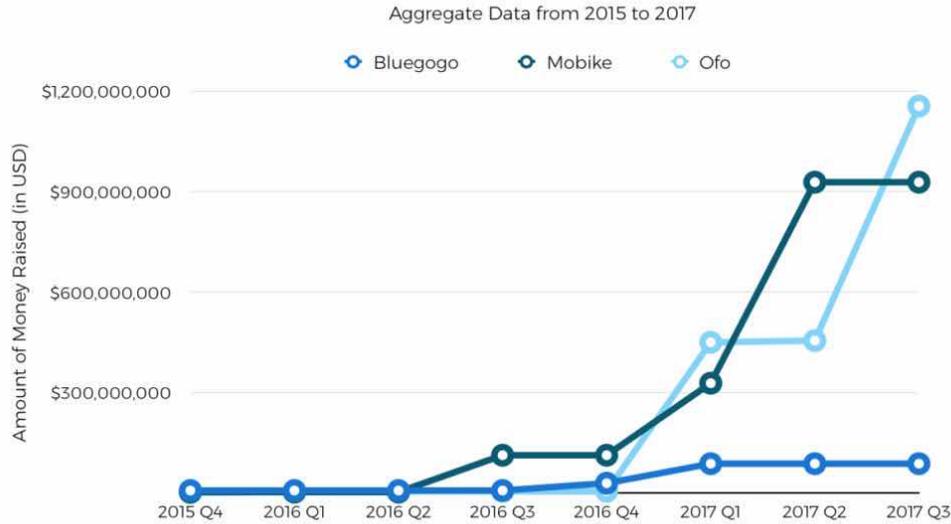


Figure 2. The Competition Between OFO and Mobike [8]

3.4 Capital Chain Rupture

After earning profits from time to time, the ofo bicycle sharing company planned to purchase more bicycles. Despite of the fact that the company has stored money from the rent, it is negligible compared with the capital required to purchase more bicycles. Hence, financing is the best choice under such circumstances. As the financing went well, the ofo bicycle sharing company put an increasing number of bicycles into the market. Nevertheless, the number of the bicycles that the market requires was already enough. Keeping putting more bicycles into the market would only produce excessive bicycles, which caused obstacles on the roads and hindered the public transportation. Therefore, once the capital cannot earn profits anymore, investors would leave the market. As time passes by, the ofo bicycle sharing company has been overwhelmed by the cash pledge for about 36 hundred million. [3]

4. SOLUTION

By identifying the problems discussed in the preceding paragraphs, several strategies can be presented respectively to solve each of them. If the ofo company wants to survive and keep its market share, it has to improve the user experience while lowering their operating costs. Although those two objectives seem to be contradictory, they can be realized.

It is indisputable that the ofo company has spent too much money repairing the bicycles due to their poor quality.

Because of the inferior quality of the bicycle they have made, a regular bicycle would need to be repaired for at least 1.5 times per month.

4.1 Installing Smart Locks

Currently, users do not really concern the price of sharing bicycles. Instead, what they care about is to find the ofo sharing bicycles in time, unlock it unobstructed, and take a safe ride smoothly and comfortably. Therefore, instead of keeping using the traditional mechanical locks that have no electronic components, the ofo company can upgrade them by using smart locks. Not only would applying smart locks save users' time, but they would also provide precise locations of the bicycles, which is convenient for both the users and the workers responsible for retrieving the bicycles. Additionally, equipping bicycles with smart locks can offer institutions and facilities important statistics such as the riding time, popular places in cities and the rush hours. Thus, by comprehending those crucial statistics, the company could redistribute the sharing bicycles and make retrieving bicycles easier.

The second solution that helps to revive the ofo bicycle sharing company is that it should become a real bicycle sharing platform. To have a deeper understanding of how, there is another case in point. The DiDi company in China is the counterpart of Uber, and it has solved the heavy asset problem. In DiDi, the company does not buy but use the taxis.

Total Amount of Money Bikesharing Companies Raised

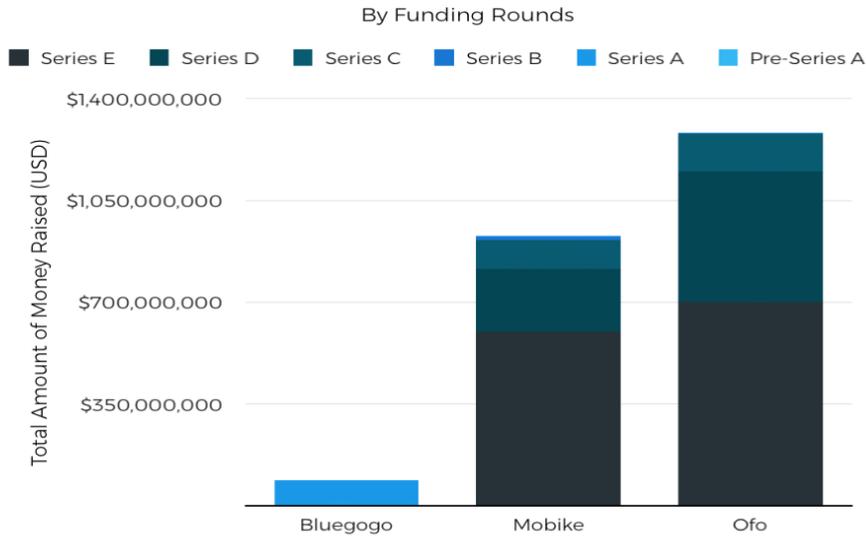


Figure 3. Total Amount of Money Bike-sharing Companies Raised [8]

4.2 Finding the Bicycle Renting Company

The ultimate goal for any corporations or companies in the world is to make profits, and the way the ofo company is running their business is problematic. In contrast with the DiDi company, the ofo bicycle sharing company in China purchased millions of bicycles and is also responsible of repairing them. This would definitely cost a lot of money and make earning profits almost impossible. One possible option is that citizens could give out their bicycles and the

ofo company would be in charge of modifying and putting them into the market. But this option might not be the best since the category and the quality of those bicycles vary significantly. It seems that the ofo bicycle sharing company would have to wait for another company responsible for providing all the bicycles, hence ensuring the consistency of those bicycles. In this way, the ofo company could solve the heavy asset pattern. And this is, as a matter of fact, the most annoying problem the ofo bicycle sharing company has. [4]

	LOCK TYPE	MODEL	IMAGE	WEIGHT		LOCK CIRC.		LMI KG/M
				KG	LB	M	IN	
LITELOK	Flexible Lock	Silver 85		0.830	1.8	0.850	33.46	0.97
LITELOK	Flexible Lock	Silver 70		0.730	1.6	0.700	27.56	1.04
LITELOK	Flexible Lock	Silver 52		0.630	1.4	0.520	20.47	1.20
ABUS	Folding Lock	BORDO 6000/75 white		1.030	2.3	0.750	29.53	1.37
ABUS	D-Lock	410/150 HB 180 Ultra Mini		0.776	1.7	0.490	19.12	1.60
ONGUARD	D-Lock	Onguard Bulldog LK8012		1.100	2.4	0.640	25.22	1.72
ABUS	Armoured Cable Lock	Steel-O-Flex 1000/100		1.850	4.1	1.000	39.37	1.85
KRYPTONITE	D-Lock	KRYPTOLOK SERIES 2 LS		1.401	3.1	0.740	29.30	1.89
HIPLOK	Chain Lock	Hiplok Original		1.800	3.9	0.850	33.46	2.12

Figure 4. Various kinds of Locks [9]

4.3 Product Placement

The ofo bicycle sharing company has a small variety of income, since the rental income is basically the only one for the company, and the profits it earned are not even close to optimum. But the ofo bicycle sharing company can also use advertisements to make profits, yet random advertisements may not be the proper ones. The ofo company has already implanted advertisements before, and users felt annoyed. The advertisements the company could implant need to be related to the public health and traveling. By introducing advertisements like “ green traveling ” , people’s environmental awareness could be roused . In this way, the company could not only make more profits by implanting advertisements, but also arouse people’s environmental awareness. In the future, the ofo bicycle sharing company can act as an advertising agency, by displaying advertisements of others on the ofo company’s application. Therefore, the ofo bicycle sharing company can have another way to increase their income.

There are also other kinds of services that the ofo company could provide their customers, such as self-customization

and traveling services. In those new services, customers can feel the pluralism, so the company may consolidate their relationships with the customers and leads into a virtuous circle eventually. [5]

4.4 Promoting the Market Expansion

As is known to all, the ofo bicycle sharing company provides countless sharing bicycles in schools and universities. What has to be clarified is that whether or not the market still has the capability to expand in the future. As a company focuses on the “ Last mile ” problem, the market share of the ofo bicycle sharing company has been burgeoning at an unprecedented rate for the last few years, yet some customers have complained that some of the remote areas lack the sharing bicycle service because of the rugged geographical characteristics. Although the ofo bicycle sharing company has not provided bicycles to those areas, it is, as a matter of fact, a potential market with unlimited possibilities. [6]

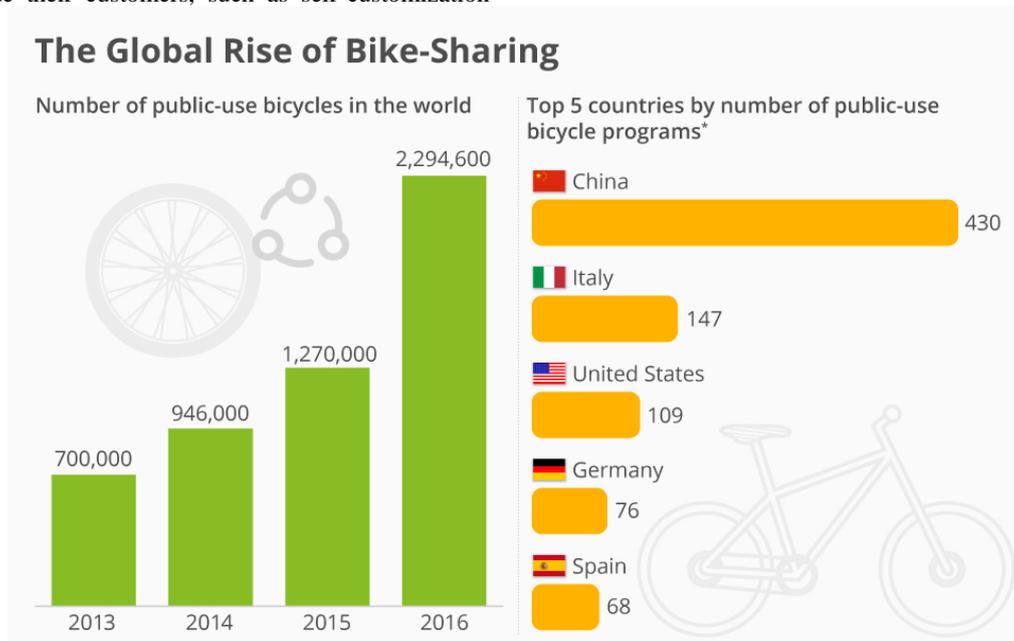


Figure 5. Number of sharing bicycles around the globe [10]

5. CONCLUSION

This paper aims to investigate why the ofo bicycle sharing company has failed, including great damage ratio, excessive number of bicycles, capital chain rupture and immature online application. By identifying the problems one by one, plans can be drawn accordingly. First, the ofo bicycle sharing company should install smart locks and develop their online apps which provide comprehensive data and solve the heavy asset problem by utilizing those bicycles rather than purchase in directly.

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