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Analysis on the Rise and Fall of Ofo Company

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ABSTRACT

Since the emergence of sharing economy in China in 2012, Ofo has rapidly expanded in a blowout unfold. However, the development of the sharing economy seems to be unstable. Some products are short-lived, rising and falling at a flash, which makes us have to consider their problems. This paper will review the process of Ofo company from its rise to decline, describe and analyze the reasons for its decline from the three aspects of profitability, management and financing, hoping to provide some references for other small and medium companies.

Keywords: *Sharing economy, Ofo, Management, financing*

1. INTRODUCTION

The sharing economy refers to institutions or individuals with idle resources that transfer the right to use resources to others for a fee, the users get rewards, and the sharers create value by sharing the idle resources of others. Ofo is one of the company that developed in the trend of sharing economy. It shares idle bicycles to people who need to travel within a very short distance. Although shared bicycles also share the right to use resources, most of its resources do not come from idle bicycles, but from incremental resources which means that bicycles are newly created by the company, which in this case is Ofo, not social idle resources [1].

The founder of Ofo, Dai Wei, was graduated from Peking university in a master degree of economy. In the process of studying for a master degree, he took a gap year and went to Qinghai Province in China to support local education. Due to poor transportation system in Qinghai province, he depend mainly on his bicycle for traveling around, which pave the way for his shared bicycle entrepreneurship in future. When he went back to Peking university and continued his study, he decided to create Ofo tourists item with several friends and he had received an angle investment from a senior student. However, the Ofo tourists item ended in failure. Therefore, Dai Wei and his partners had to change the strategy they run the company and the way they are making profits, so that they started the shared bicycles.

This paper will analyze the rise and fall of the Ofo company from market evaluation of 20 billion to in debt of 3.6 billion. Looking at the reason why a company could succeed or fail is a fantastic way to learn about entrepreneurship. This might also serve as some enlightenment for the development of other small and medium companies.

2. THE BACKGROUND OF OFO COMPANY

In 2016, Zhu Xiaohu, general manager of GSR Ventures, was the first capitalist to find this company, Ofo. Zhu Xiaohu is a very prestigious investor, he invested in 5 unicorn companies in 10 years, Zhu Xiaohu believes that Ofo's business model is very promising, the cost of a bicycle is 200 yuan, riding once cost fifty cents, if it is used 10 times a day, then the cost of a bicycle can be earned back in about forty days. When Dai Wei learned that Zhu Xiaohu was convincing other major investors, preparing to invest in Ofo, he became more confident and firmly believed that Ofo could surpass Didi with the help of these capitalists [2].

Prior to October, 2016, Ofo was still mainly aimed at campuses, toward students, with 800,000 users in more than 20 cities and more than 200 colleges and universities in the country, with an average daily order of 200,000. Dai Wei, originally intend to continue his expansion in campus, placing sharing bicycles in 2,000 colleges and universities across the country, but because of the encouragement of capitalists, Ofo started to explore the customers in the entire city, no longer limited to campuses. Due to the sharp increase in the number of cars and the increasingly inconvenience of transportation in cities, shared bicycles soon became popular in city as well.

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For Dai wei and investors, every bike put into the city is a "moving coffer". Users need to pay a deposit of 100-300 yuan in order to gain the right to use shared bicycle. On average, if there is a deposit of 6 people per bike, then each bike can receive a deposit amount of 600-1800 yuan. The increase in the number of bicycles means that the deposit amount received is greater, and as long as the user needs to use the bicycle all the time, they will not refund the deposit.

From 2016 to 2017, Ofo received more than 5 rounds of financing with a total amount of more than $1.3 billion. After a year and nine months, Ofo development reached its peak, and by the end of 2017, Ofo had raised at least 8.8 billion yuan and daily orders rocketed to 32 million and more.

The decisive change in the market was at the end of 2017. In fact, Ofo has become the abandoned son of the giant! In the crazy time of sharing bicycles, the big background is the dispute between WeChat payment and Alipay traffic. The founder did not grasp the olive branch thrown by the giant, which led to the overnight popularity of harrow blue car!

3. ANALYSIS ON THE REASONS FOR OFO’S DECLINE

3.1. Profitability

There are three ways for Ofo to make revenue, deposit (each user is required to deposit 199 Yuan before they could share the right to ride the shared bicycle) and leasing income, advertising revenue, user data income, financing income and cross-border marketing. From the perspective of deposits, deposits can indeed bring short-term capital income and turnover, but once there are problems in profitability and too many deposits, they will cause great harm to the operation of enterprises [3].

Industries based on the development of the sharing economy such as shared bicycles must rely on a long-term sustainable way to make profit, which, if missing, can lead to over-reliance on capital investment. The unsustainable profit model of the Ofo is the essential cause of its failure. It is difficult to make profit only from a meager deposit of 199 yuan or from the usage fee.

Let’s make an simple calculation, even if Ofo’s shared bicycles cooperates with Phoenix, reducing the cost to produce a bicycle, the production cost of a bicycle will still remain high, about 280 yuan. Assuming a bicycle’s lifespan is 6 months (being available for only 150 days) and the average repair fee per bike is 50 yuan, labor cost is 30 yuan, and the possibility of losing it is 20%, then the total cost of one bike is 430 yuan. If each bicycle could be used by 4 times, 1 yuan per hour used, then the net profit is about 170 yuan [4]. Such a profit seems to be pretty tall, but if you include the monthly sales promotion, as well as frequent free rides and discount, profits will be seriously reduced, not to mention high advertising costs [5].

3.2. Management

With the problems that Ofo has been exposed, it is not hard to see that Ofo's mistakes in operation management have come to the fore.

First of all, the investigation in Wuhan City indicates that the damage rate of Ofo’s bicycles was extremely high [6]. Bicycle borrowing also adopts a "pileless" mode, and there is no demarcation of parking areas, and thus its parking is scattered and unregulated. Despite under this situation, the Ofo company did not dispatch any workers to tidy up bicycles that laid all over the streets, and thus caused lots of inconveniences for pedestrians. The GPS positioning of bicycles in the APP is also inaccurate, making operation and maintenance of bicycles extremely difficult. Nevertheless, this was just a minor problem [7].

The major problem was the management within the company, between the capitalists and investors. Huateng Ma, one of the founders of Tencent and an entrepreneur, once made his point about the failure of Ofo. He believes that the most important reason is that of the control of the enterprise vote system. In Ofo's management decision-making, the founder Dai Wei, financing capitalists including Ali, Didi, Jingwei China and GSR Venture Capital all have the power of “one vote veto”, so it is hard to have in-depth discussion and research over a decision, but to directly veto it. In the later stages of Ofo's imminent path to failure, there might be three turning points where Ofo could change its current situation and hit the Chinese market forcefully, but Ofo had missed all the opportunities due to the power of “one vote veto”, and eventually catalyzed the demise of Ofo [8].

All individual investors have their own interest needs and are therefore, during company's decision-making, any strategy or decision that might threats their own interests, but benefiting overall, will be veto for the sake of self-interest. Having one-vote-veto power means that it is difficult or even impossible for companies to make decisions. If unified opinions cannot be achieved, unified management could not be established. Conformity was a major problem.

3.3. Financing

In the initial period of the emergence of shared bicycles, it was indeed a focus for the sharing economy industry. Injecting the fresh vitality, but also provides great convenience for people's life, so more and more investors started to pay attention on shared bicycle industry, which has also led to the “Tulip mania” development of the shared bicycle industry.

In 2016, Ofo completed round A, round A+, Pre-A round, B round, and C round of financing respectively.

With 6 million bicycles putting into use, Ofo had an absolute advantage in the shared econmy market. Subsequently, it cooperated with Didi, Alibaba and Ant Financial to raise funds and made the pie bigger and bigger. After a year and nine months, Ofo development reached its peak, and by the end of 2017, Ofo had raised at least 8.8 billion yuan (approximately 1.4 billion dollars).

Table 1. Financing and Valuation of Ofo [9]

Time	Round	Financing Amount (in dollar)	Investment institution
2015-03-17	Angle Investment	Several million	Beijing WeiLie
2016-04-28	Pre-A	1.4 million	Oriental Hongdao, Beijing WeiLie
2016-08-02	A	2.4 million	JingShaChunagTou, Oriental Hongdao
2016-08-02	A+	1.6 million	ZhengGe Foundation, Angle investor Gang Wang
2016-09-02	B	Tens of millions	JingWei China, JiangSha ChuangTou, Beijing Wei Lie
2016-09-26	B+	Tens of millions	DiDi
2016-10-10	C	130 million	DiDi, Coatue Management, XiaoMi tech, ShunWei tech
2017-03-01	D	450 million	DST, DiDi, ZhongXinChan Ye Foundation
2017-04-22	D+	Hundreds of millions	MaYiJinFu (Alibaba)
2017-07-01	E	700 million	Alibaba, HongYi Investment, ZhongXinChanYeFoundation
2018-03-04	Strategic Investment	280 million	Alibaba
2018-03-14	Strategic Investment	870 million	Alibaba, JunLi Capital, MaYiJinFu

In order to seize the market, shared bicycle companies continue to produce bicycles on a large-scale, burning enormous amount of capital. However, the profit did not increased tremendously as most people should expect. Money spent on reparation and maintenance makes it even more difficult to earn the expected profit. Profits earned from user's cycling have became a tip of the iceberg, and therefore, eventually becomes a capital bubble.

4. CONCLUSION

Despite the tragedy of Ofo's business failure, there might be several possible solutions to help the company overcome its crisis. They could explore a sustainable way to make profit, seek opportunity to merge with other company so that they could eliminate potential competitors and monopolize the market and improve their management strategy by rejecting "one vote veto" [10]. In an enterprise, the chief manager needs to coordinate the capital relations of all parties. One major decision-maker does not represent dictatorship, the appropriate dictatorship is conducive to the integration of multiple opinions and to achieve corporation cohesion. This paper hopes to provide some references for similar small and medium companies for future development.

AUTHORS' CONTRIBUTIONS

This paper is independently completed by Yilin Bai.

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