

Research on the Social Problems Caused by Meituan and the Feasibility of Adjusting the Business Model

Xiaoyu Ge^{1*}

¹School of Management and Economics, Chinese University of Hong Kong (Shenzhen), Shenzhen City, Guangdong Province, China, 518000

*Corresponding author. Email: 120020408@link.cuhk.edu.cn

ABSTRACT

Recently, Meituan is trapped in political and social disapproval. As a dominant character among e-commerce platforms, its future development affects the direction of the whole industry. Accordingly, the purpose of this research is to investigate the threats and opportunities that political constraints and ethical condemnations bring to Meituan delivery business. By conducting a questionnaire to a random sample (there is no strict limitation nor classification for the sample size because answers from different kinds of users can reflect the market's perspective more appropriately), this research collects the data of users' attitudes about social controversy towards Meituan delivery business and their preference when choosing an e-commerce platform for different kinds of services besides food delivery such as cab-hailing and hotel booking. Except for the direct information gained from users, the research also cites the opinions from previous articles on related topics as well as official data to support the conclusion which derives from the questionnaire. After the whole research being done, the following conclusions are made. First, political constraints on the Meituan delivery business are compulsory and inevitable that Meituan should carve out new markets instead of struggling in its original business model. Second, although users' number decreased after the problem of unethical treatment to deliverers was mentioned, the change rate is quite small, indicating the strong user's stickiness and precious opportunity for Meituan to improve its profit structure. Third, several businesses have fertile land for Meituan to transfer its focus, including acting for advertisement, cab-hailing, and hotel booking.

Keywords: Meituan, E-commerce platform, Delivery business, Political constraints, Consumers

1. INTRODUCTION

The E-commerce platform has been a popular topic in academic research after its prevalence. Meituan, as one of the biggest O2O platforms in China, has been a major research topic for plenty of scholars. Nevertheless, most of the existing academic researches focus on either macro/micro economics aspects or operating management aspect. For example, Ying-Ju Chen and several scholars investigated the existing problems for online platforms from operating aspect that need to consider without providing any solution to the questions they mentioned [1]. Ou Wang and his partners tried to find out that consumers prefer what kind of food when using different e-commerce platforms [2]. Both of these studies ignored the political and public opinion factors. Currently, Meituan's unethical treatment of its deliverers and the government's attitude toward its future development become a social focus. The stock price of

Meituan also reflects this trend. After the State Administration for Market Regulation published the statement that Meituan should buy insurance for its deliverers on July 26th, 2021, its stock price dropped from 273.2 points to 194 points in two days, which is the lowest point in a certain period. Such intense shifts in macro policy and public opinion is a black swan event, which is the basic reason why previous research doesn't include these factors. The purpose of this research is to evaluate the political factors and social commentaries' effect on Meituan's development prospect and find out any possible strategy it can use to overcome this predicament by using both quantitative and qualitative methods.

2. METHODOLOGY

This study seeks to answer two major questions: what effect political constraints and ethical condemnation have on Meituan's delivery business, and whether Meituan can

gain more profits outside of its delivery market. The derivations of final conclusions are also based on two kinds of supports. The first one is the analysis of a well-designed questionnaire's answers and the second kind of evidence includes previous research outcomes and existing data.

In the questionnaire part (as shown in the figure1), the research focus on investigating consumers' preferable apps when using different kinds of services provided by

plenty of platforms and their attitudes towards Meituan's social controversy. Base on participants' answers, researchers can evaluate the direct feedback to Meituan's ethical problem from consumers and prospect for Meituan's future expansion in other services' markets besides Meituan delivery business.

2.1. Related Research Sources

Table 1 An English version of the questionnaire spread to random participants

| |
|---|
| 1. Which of the following ages is pertain to you? |
| 0-20 |
| 21-35 |
| 36-50 |
| 50+ |
| 2. Which of the following delivery apps you use most frequently? |
| Meituan Takeout |
| Eleme |
| Baidu Waimai |
| 3. Which of the following cab-hailing apps you use most frequently? |
| How long have you been used? |
| Meituan Taxi (time used) |
| Didi (time used) |
| Caocao (time used) |
| 4. Which of the following traveling apps you use most frequently? |
| Ctrip |
| Tour |
| Meituan |
| Fliggy |
| 5. After the ethical condemnation for Meituan has been mentioned, do you still use it currently? |
| Yes, with the same frequency |
| Yes, with a lower frequency |
| No, now I use other apps |
| 6. Have you ever used the recommendation function on Dianping? |
| Yes, I view the content published by others |
| Yes, I share my experience and comment besides viewing |
| No, I never use it |
| 7. What's your opinion of the anti-monopoly investigation on Meituan? |
| (free response) |
| 8. Why do you choose Meituan in the very beginning? |
| (free response) |

After the deadline of finding participants to fill the questionnaire, all the answers are collected and summarized draw several graphs, showing consumers' preference and attitudes. For the free-response questions, this research paraphrases the answers that appear with a high frequency to represent most of the users' thoughts.

2.2. Data of The Answers Collected

Users' preference in Food delivery business

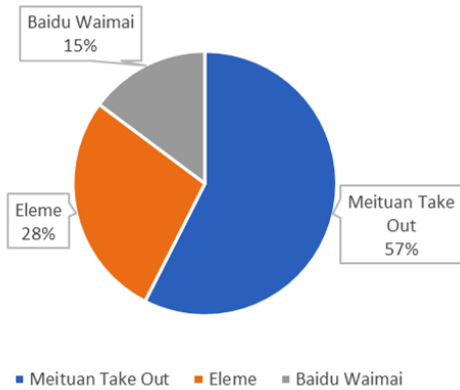


Figure 1. The proportional distribution of participants' preference among different food delivery apps

Using rate of the 'recommendation' function

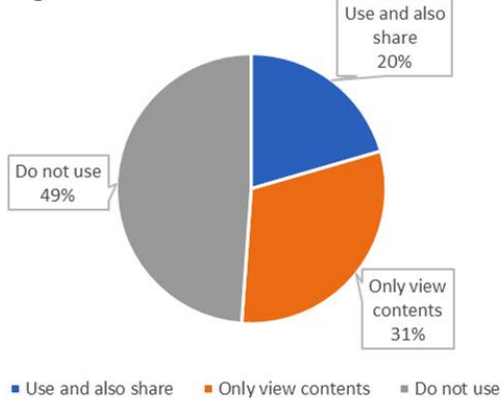


Figure 2. The using condition for users who use Dianping app

Users' preference in Cab-hailing business

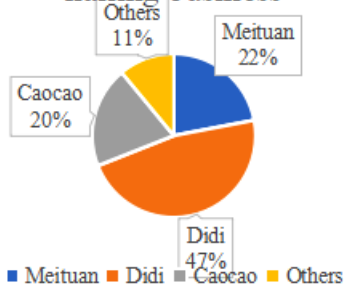


Figure 3. The proportional distribution of participants' preference among different cab-hailing apps

Users' preference in hotel-booking business

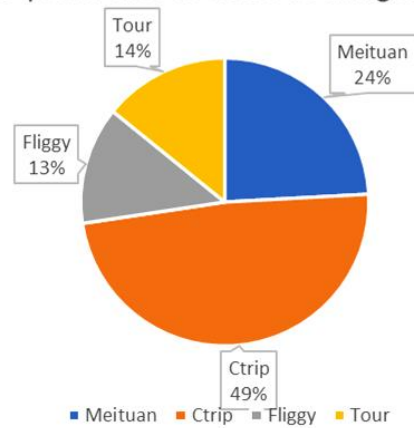


Figure 4. The proportional distribution of participants' preference among different hotel-booking apps

3. ANALYSIS

3.1. Reasons behind the inevitable trend for Meituan to change its business model

In the political aspect, the government should consider the public opinion when it conveys the attitude towards Meituan. Base on China's basic social structure which is socialism, the government weights people's equality and social welfare most. Accordingly, the policy dictates Meituan to take sufficient care to its deliverers and there is almost no space for Meituan to bargain. If Meituan is responsible for purchasing insurance for each delivery, its net profit will be negative once more, posing a significant risk to the entire business, including other markets. Since the profits gained by delivery service can be divided into four sections, including the commission fees collected from registered restaurants, delivery fees paid by consumers, advertising fees paid by registered restaurants, or other businesses for extra publicity. The commission fees contribute the biggest proportion of Meituan's total revenue. Although Meituan owns certain bargaining power toward sellers, there is still a ceiling for the commission rate. Such drawbacks also can be identified in Meituan annual financial reports. In 2018, the net profit rate for delivery commission is 13.8%. In 2019, the net profit rate grew to 18.7% but still not really high according to the data collected by Yufei Huang[3]. Showing that Meituan is unable to rise commission without any constrains or the registered restaurants will move to other platforms such as "Baidu Waimai". The study done by Yongrok Choi indicates that price plays the most important role when attracting long-term users with a higher coefficient of 0.186 than other factors[4]. This conclusion implies that rising profits from consumers side is quiet unsustainable for Meituan delivery business. Under these situations, the research derives the conclusion that considering the feasibility of increasing other businesses' profits and improving the company's gross profit structure are essential.

3.2. Evaluation of possible business area Meituan can choose as its future business target

3.2.1. Advertising Agency

Base on the result of the questionnaire which is shown in the figure 2 and 2019 Q3-market share of Meituan Take Out, the research finds that the relationship between the consumer's reuse intention and the company's consideration to deliverers is negative. However, the absolute value of the negative coefficient, which is -0.12, isn't so large. The reason behinds this number is that Meituan has built up a robust foundation in the e-commerce area in recent years by contesting a larger market share. Its effort provides users with fewer substitutes to choose. Accordingly, Meituan enjoys stronger user stickiness than other delivery brands. The 2020 and 2019's data of food delivery market share also support the result above. The market share of Meituan delivery is 68.2%, outweighing the 25.4% of 'ELeMe Xingxuan' and other food delivery brands according to the data collected by Liu Liu[5]. The numbers above directly show Meituan's dominant status in the delivery business. Of the 431 participants who answer the questionnaire, 247 use Meituan to order food delivery services. What's more, the answer users provide for choosing "Meituan Take out" is that because of its brand prevalence appears most frequently according to the result of question 7. But delivery service is affiliated with the whole platform, which provides us possible strategies when considering the new business structure. After collecting the results of question 8, the research finds that among the 247 participants who use the "Meituan Take out" app, 127 participants view the "recommendation page" to find some fantastic restaurants and groceries. Instead of using user traffic to strengthen bargaining power to sellers and deliverers, Meituan can gain advertising fees from businesses who want to promote their services or products since the result of the research shows that its delivery service contributes a foundation for opening advertising business and there's still a blank for attracting more users. In some words, it is time for Meituan to transfer its business focus to new business such as advertising after delivery service has opened the users market but reached the profits ceiling.

3.2.2. Cabs-hailing Service

Meituan Taxi becomes competitive in cab-hailing market after Didi has been punished for purloining and leaking users' private information in 2021.July 9th. Previously, the number of daily orders generated by users on Didi app reached almost 2,400,000, which contributes the 90% of total daily orders in the whole cab-hailing market. Nevertheless, Didi was banned by government in all the apps store after being accused for stealing users information. With its demise, 90 percent of the cab-

hailing market share becomes available to other apps, including Meituan Taxi. Actually, Meituan took action immediately. It republished its cab-hailing app with the new name "Meituan Taxi" and continuously sent coupons to attract more users. The result of the questionnaire verifies Meituan's effort. Of the 431 participants who answer the questionnaire, 93 of them use Meituan Taxi as shown in the Graph 4 and nearly 78 percent of users download the app within three months. Although the absolute value of user number compared to the total number is not appreciable, the growth rate is extraordinarily higher than the other apps. Meanwhile, it is easy to see that there is an obvious decline in Didi's market share, indicating a strong user flow from Didi to Meituan Taxi. In the long term, Didi's user traffic will vanish gradually since new users cannot download Didi anymore. For the future competition, Meituan also has comparative advantages because it made a lot of endeavor to carve out sinking market when developing its food delivery business, which is beneficial for crabbing the market share of cab-hailing since most of the possible users are already familiar with its brand name. Being strategically significant as a brand effect, a huge number of coupons sent by the app system encourage users to hail cars more frequently and then become fans of Meituan Taxi. conclude, the immigration of users traffic from Didi to Meituan Taxi is inevitable, providing the latter a valuable chance to enlarge a new business and improve the sources of its profits.

3.2.3. Hotel-booking Service

Last but not least, the business of hotel booking shows promise in contributing to a larger proportion of Meituan's total operating profits due to the special market characteristics of traveling service. According to studies done by Feng Zhu, who did a research to investigate the new entrants' competitiveness among different kinds of E-commerce businesses, markets with higher interconnectivity(degree measures the needed interaction frequency between different markets to complete a trade in a certain business model) is harder for new entrants to compete with incumbents[6]. Because it is exhausting for them to develop in several markets simultaneously. Hotels booking is a typical business with high interconnectivity since local consumers seldom trade with local providers. Most of them use the platform to connect hotels outside their local cities. There is a natural barrier prevents Meituan from being threatened by entrants. The article also makes the point that the lower the cost of advertising, the easier it is for new entrants to capture market share. Obviously, Meituan can advertise its cab- hailing app at almost no cost unless nobody uses its delivery app anymore. For all the businesses, coping existing users from one platform to another platform is extremely easier than exploiting new users. In 431 answers, nearly half of the participants use Ctrip to book hotels while only quarter of participants use Meituan. The

research results indicate that there is still a user gap between Meituan's delivery service and hotel booking service, but attracting more users to order traveling service is a bigger challenge to Meituan than in cabs-hailing service due to the existence of "Ctrip". Ctrip enjoys the dominant status in hotel booking and ticket selling businesses currently, with a firm consumer foundation. A possible gap for Meituan is to focus on the users in second-tier cities and third-tier cities since its food delivery already infiltrated the sinking market. Hotels also can be divided into different levels based on their price. To a certain degree, hotels with higher prices occupy a larger proportion of Ctrip's business. While Ctrip earns a higher commission from a single order, Meituan can earn less commission from several orders simultaneously.

4. CONCLUSION

After the research has been done, answers to the questions mentioned in the introduction part become obvious. Political constraints impair the operating profits of "Meituan Take out" seriously by adding a new cost to business which is called the deliverer's insurance fees. The appearance of new cost will turn the net profit into a negative number and Meituan can't parry it. Luckily, the research data indicates that such political and social factors do not affect consumers' stickiness to a larger extent. User's choices provide Meituan opportunity to make innovation to its business model and profit structure which is essential since delivery service is hard to run after new regulations are published. Advertising, cabs-hailing and hotel booking are all the possible directions which Meituan can exploit deeper in the future, supported by as stubborn consumers base or special characteristics of the whole industry. This research also has several drawbacks. On one hand, the sample size isn't large enough to represent the whole consumers group appropriately due to the limited spreading ability of a single person. On the other hand, the conclusion of this research is not very sustainable for long round since political factors are hard to predict just like what happened in previous months. Accordingly, for future research, identifying how to forecast the political attitude towards an e-commerce industry or other electronic platforms can be a possible area that deserves more investigation.

ACKNOWLEDGMENT

Thanks to all the participants who finished the questionnaire, without their time this research can't move forward so smoothly. Thanks to the enlightenment from Prof. Liebenau, who depicts the general view of social economics and enterprise management.

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