

# Capabilities Analysis of Dianping Based on Teece Model

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## ABSTRACT

The Internet created a volatile and unpredictable business environment. With Teece model, the economic phenomena can be viewed in a dynamic way to master the basic rules of running a firm in a complex business environment, which requires a combination of theory and practical business cases. The author focuses on several representative business practices of Dianping in early time and analyses them by the Teece model. The statics and introduction come from previous essays and coverages about Dianping.

**Keywords:** *dynamic capabilities, services, marketing strategy, group-buyings*

## 1. INTRODUCTION

Dianping, founded in April 2003, is the first independent third-party consumer review website and the biggest food website and APP. It's a O2O (OnlineToOffline) firm offering user generated reviews, detailed business information, discounts coupon, group buying and other merchant services. According to database from Alexa, Dianping 's highest ranking is between 800 and 1000 around the world. Its behaviors and dynamic capabilities are worth learning from, because it has changed Chinese catering industry and take up the biggest part of market sharing. This thesis consists of brief reviewing of Teece Model, behavioral analysis according to Teece Model and conclusion including limitation analysis and expectation. The purpose is providing the basic knowledge towards setting good business strategies that help explore potential market and survive in a unpredictable market.

## 2. LITERATURE REVIEW ABOUT TEECE MODEL

TEECE model consists of sensing capabilities, seizing capabilities and transforming capabilities. Sensing capabilities require managers not only figure out how to assimilate the technology and information and specify viable business model to create value to customers but know what supplier to choose and how to meet the changing demands of customers. For Seizing capabilities, seizing appropriately requires managers to transform their thinking from know-what to know-how. Sensing is to identify the information while seizing is to

put the element, information and methodology into use properly. The transforming capabilities work on the reconfiguration of internal resources and structure to resist the external threats. Enterprises should also pay attention to both introduction of knowledge and protecting their own intellectual property rights by forming barriers to avoid imitation by competitors [1]. In a dynamic competitive environment, enterprise innovation has changed radically from relying on economies of scale and progressive optimization ability to the dynamic capabilities and the ability to make and execute decisions quickly [2]. The following illustrates representative business behaviors of Dianping and show achievement brought by its dynamic capabilities

## 3. BEHAVIORAL ANALYSIS BASED ON TEECE MODEL

### 3.1. Establishment of platform website

Noticing the Characteristics of WOM (online word-of-mouth), founder of Dianping named Zhang Tao took it as the core idea to apply in the establishment of platform. In the era of Web2.0, OWM was characterized by fast propagation and wide coverage. The traditional point-to-point communication mode of information was turned into node-to-surface communication mode with the Internet. Compared with advertisements, WOM information is more authentic and accurate, which becomes the first factor to move netizens to purchase [3]. Dianping's founding strategy was right. Initially, about 3 million users were brought in and user growth rate was 20% per month. Besides, the service covered 20 cities had 100 million views per month [4].

When it comes to the importance of sensing, the case of Dianping is very symbolic. Dianping chose WOM as the basis for developing the business model, which was never used before in China. As a third-party review platform, Dianping firstly attracted a great deal of users to browse and post comments to create a help public identify good merchants and receive admirable services, which increased customer loyalty with good experiences. Consequently, Dianping has an advantage in the number of users which help explore potential markets. In the following examples, it can be seen how Dianping has achieved great success by relying on its first decision made by sensing ability focusing on WOM to conduct business activities, including developing various sales services with merchants, launching electronic coupon and group buying.

### **3.2. Launch of electronic services**

Dianping launched magazine products in the early stage, but eventually failed for not catering users continuously. However, this did not lead to dianping's total denial of WOM effect. With its outstanding capabilities, Dianping is able to sense the development of external markets simultaneously conceived ideas of service feature, providing its service products with newly-generated technologies. In terms of transforming capability, Dianping reduced the cost of previous products and used the \$1 million investment to expand its business scope by investing in the development of membership card [5]. In the very early 21<sup>st</sup> century, it could be called a brave try when the Internet and membership card sales were not widespread in China. Membership card help cooperative merchants to expand marketing and offer certain discounts to consumers holding membership card. Apart from commission income, it could also achieve the collection and management of consumer and merchant information function, forming a win-win situation for the website, merchants and users. From this case, it can be seen that Dianping attaches great importance to the value of user and merchant information. In recent years, it can be seen that user information has become the most competitive element for the company to profit in the market. No doubt that Dianping is very forward-looking in the field of strategic development and service implementation.

But electronic membership card was finally shut down in 2006 because it was inconvenient to carry and improper operation on VIP system by merchants which resulted in issuing scale of membership card reached the upper limit [5].

In the same year, Dianping employed the 400 million dollars investment of Sequoia Capital into the development of e-coupon service [4], which had profound influence on its profitability and survival in the future. Dianping had a very strong transforming capability. This was not only reflected in how it

restructured the allocation of capital, but also in restructuring the thinking of products and services. E-coupons were the result of powerful transforming capabilities.

Dianping developed electronic coupons by changing the attributes and forms of its service products, making up for the defects of electronic membership cards. After identifying user preference, consuming frequency and actual needs, Dianping was able to choose proper merchants to launch e-coupon. As for e-coupons, it is a coupon in electronic form launched by Dianping. It has both discounts and promotional function encouraging consumers to seek services actively. Compared with membership cards, there was a wider range of publicity and faster circulation forms. Besides, the convenience of use was also greatly improved because e-coupon was available in both print and SMS download in cellphone. In addition to this, it has some other strengths, for example, e-coupon operation system was easier to understand by merchants, and merchants did not have to worry about being forced to lower prices in a long time because coupons have an expiration date. What is important, for the platform, e-coupon can track consuming records like membership card, thus information value can also be obtained.

In a word, e-coupon existed in a new form and succeeded in connecting the Internet and physical business, which is a typical O2O way. Dianping was so confident about the e-coupon that they offered the services to merchants for free at first. And many merchants began to pay for the service after seeing the traffic increased by e-coupon. According to the 2009 Beijing Life Consumption Report released in January 2010, the page views of electronic coupon in Beijing exceeded 16.65 million times in 2009, with a year-on-year growth of 30.4%, and the downloads reached 2.04 million times, with a year-on-year growth of 31.6% [4].

### **3.3. Promotion services**

Due to the economic crisis in 2008, Dianping found it hard to finance and decided to discover marketing strategy. With a large number of users and merchants accumulated Dianping had since launched specific promotion services including keyword promotion and advertise promotion matched to e-coupon service. The combined services further increased the publicity of merchants they worked with. On the one hand, customers were motivated to upgrade their levels to receive greater discounts by consuming and reviewing. On the other hand, merchants were encouraged to invest more to gain the visits that high-level users pay and high-quality reviews from consumers. Dianping mastered the stickiness of both users and merchants by this mechanism. And it is the best example to show how dynamic capabilities influences the business model of a firm and create demands for both merchants and customers.

Since there were few catering advertising platforms at that time and paper media advertising cost was expensive. Dianping, gathering a large number of foodies, had become the preferred platform for merchants to place advertisements. In 2010, Dianping's annual promotion revenue reached 30 million dollars [6].

### **3.4. Introducing Location Based Services**

Transforming capability also made a great attribution to upgrading existing products with new technology to enter market segment. Entering market segments creates differentiated competitive advantages which meet users' specific requirements and improve customer satisfaction when plenty of homogeneous products come out.

Due to efforts of collecting location information of merchants that began since 2005, finally in 2009, Dianping was able to put LBS into mobile phone client in Android System, and IOS was available after [7]. LBS, whose full name is Location Based Services was a value-added service based on the user's location [8]. Dianping's initial goal was to establish a real information platform, and the introduction of audited data was considered to be the basis for the platform to retain customers. Through the Dianping APP, users are allowed to upload reviews containing real geographic information. Geographic data can not only help users quickly find specific locations of businesses but attach meal records to comments, improving the authenticity of the information environment on the platform. Moreover, when LBS was combined with the coupon service of Dianping, the usage rate of coupons was increased. because it is easier for people to know where are those merchants that issued e-coupon nearby through LBS. In addition, LBS also provides entertainment and social functions. Firstly, users are allowed to upload pictures and location information to share their dining mood and experience with the public. Secondly, merchants can hold various interesting activities on the platform, such as check-in. When users complete the check-in task on the client, they can get a bigger discount.

### **3.5. Group-buying**

Dianping also had a case of lack of sense capability, resulting in its follow-up development seriously lagging behind the elite firms in the group-buying industry. The case below illustrates that how an adverse effect was brought to profitability if a firm ignored trends of external market and intended to make no changes in the core business.

Actually, Dianping had done well in its existing business. By the end of 2011, there were more than 42 million monthly active users, nearly 20 million reviews, and more than 1.5 million cooperative merchants, covering more than 2,300 cities across China. Even though it has not made any headway in the very hot and

competitive group-buying market, it was still valued at about 1 billion dollars by investment organization [5]. The author believes that because mass media has shaped the product attributes of mass media according to its first business model strategy, it can meet the expectations of consumers and investors for the future development of the company. The business characteristics of Dianping's third-party review model are the main reason for the gradual increase of its user scale, which helped Dianping catch up with other companies in the group-buying market. That was the reason why Dianping completed the third round of financing, which was jointly invested by Zhixin Capital, Sequoia Capital, Qiming Venture Capital and Lightspeed Venture Capital, raising more than \$100 million in 2011 [9].

Group-buying service was officially launched by Dianping in June 2010, which started very later than other companies. Group-buying websites such as Meituan and Lashou has rapidly expanded the coverage of group-buying merchants, leading to a widening gap in the number of online merchants and market share with Dianping.

According to the internet data platform in 2013, Dianping ranked 2 to 5 in user coverage from January to October. In the first half of 2013, there was a big gap between the number of Dianping users and Lashou. Taking April 2013 as an example, Meituan and Lashou had 180 million and 170 million users, respectively, while Dianping had only 0.8 million users.

In 2014, Dianping made great efforts to develop into group buying again, ushering in the transformation era of the fastest development in its history. With larger cost inputs, it eventually regained its leading position in the industry. The huge gap in the number of users warned that Dianping needed to increase the scale of cooperation with merchants in group-buying to launch more discount activities to attract new users.

Zhangtao, founder of Dianping, never diminished acuity of market analysis. He divided Internet market into four elements: "people", "information", "goods" and "service". As a service company, it was hard to handle such a wide range of life services alone [10]. To fulfill the needs of service specialization from catering to hotel, Dianping let Tencent invest and took a 20 percent stake. With high service quality of Dianping and the user traffic of Tencent, they cooperated in recreating O2O services and had a further success.

By looking at the competition for group purchase market share in the past from present view, many experts believe that the group-buying business will ultimately become a competition between companies to invest capital rather than using a new methodology. There is no doubt that Dianping had invested far more capital to bridge the gap caused by its late entering.

## 4. INSPIRATION AND REFLECTION

In reality, there were many factors that limited the development and use of products. In the PC era, direction of R&D of membership card was advanced, Dianping's sensing capabilities is so strong that it could accurately predict the market trends. Realizing the shortages of membership cards, it pushed out electronic membership cards as an upgrading alternative. Membership cards have not been eliminated from the market, instead, it has been put into E-wallet and widely used with our cellphone, which is also welcomed by the public like e-coupon. Therefore, the author thinks that different products are suitable for different technologies eras. Only after Reconstructing existing product structure and innovating with newly-generated technology can firms take the lead in gaining market share and exploring Blue Ocean market. That would not happen in firms that lack of dynamic capabilities.

In terms of transforming capability, it also indicates protecting your own property from transforming. China's legal system does not widely support IPR protection in a whole new area of business. As the core knowledge information of Dianping, user comments and merchant information were once carried by Koubei immediately, which meant Dianping could protect its intellectual property by no means. There were lots of the same kinds of companies and homogenized products coming out at that time. Protecting their business information and being different are the particular concerns for these innovation companies according to transforming capability.

## 5. CONCLUSION

### 5.1. Summary

This paper focuses on how Dianping had explore new markets and made continuous innovation with its dynamic capabilities, thus becoming the top competitor in the industry for more than ten years and achieving great achievements. Its typical business behaviors can explain the important role of dynamic capabilities in the Internet era. The author can draw a conclusion that the sensing ability determines the upper limit of the development of an enterprise while the transforming ability determines the lower limit of business operation. Sensing ability determines the vision and direction of Dianping, which can be reflected from Dianpings' entering the market by creating a platform based on the nature of WOM. With WOM, it developed various products and kept enduring in the rapidly changing Internet era. What is more, its transforming ability determines its lower limit of user scale. When Dianping failed in the group-buying market at first, its core business has not lost much of its profits. This is because its development and adjustment in the original coupon service and marketing service had been shaped well by

transforming ability, which was its stable resource of income.

### 5.2. boundedness

There are many parties of dynamic capability and their detailed definition is not uniform, thus cases of Dianping may not be fully analyzed by theories mentioned above. Besides, this essay does not have further research in its rivals, which may lead to a lack of comprehension of motivation of business behaviors of Dianping.

### 5.3. future prospects

Dianping has been acquired and merged by Meituan, but its core business remains and operates almost independently. At present, there are a large number of homogenized group-buying services and coupon services in the market. Dianping needs to transform itself again. In view of the current software development trend, Dianping can provide users with more ways to independently generate user-generated content and encourage users to become well-known bloggers and generate more check-in information. Dianping can be packaged as a high-quality life recording software like Xiaohongshu, so as to increase the exposure of more merchants and launch new promotion services.

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