



Analysis of Cost Structure and Control of E-Commerce Enterprises - Taking Meituan as an Example

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ABSTRACT

E-commerce, as a mainstream business model in the 21st century, has developed rapidly in China in the past two years. Various shopping websites have provided consumers with a large number of goods. However, the logistics management system is not perfect enough to keep up with the development speed of e-commerce, forming a delivery bottleneck. Based on this, this paper takes Meituan as an example and analyzes the cost control effect of Internet enterprises from three aspects, such as procurement, logistics and marketing, then summarizes its problems, and finally proposes corresponding cost control countermeasures by combining relevant information.

Keywords: Internet enterprise, cost control, Meituan

1. INTRODUCTION

Nowadays, with the progress of science and technology, Internet enterprises develop at a significantly high speed, such as NetEase, Tencent, Baidu, Meituan and so on. With the development of the Internet, it is possible to use apps to connect with the restaurants or groceries instead of telephones. Today, the public just need to click on some icons for their favorite restaurant to choose the commodities they want, they will receive them almost everywhere. More and more companies have explored the area of online delivery now, it is important for e-commerce companies to manage their cost like developing software, cooperation with business and wages of the staff so that they can be the leader in this business. Actually, during this period, almost all the Internet enterprises need to pay attention to the cost structure, and its influencing factors and driving mechanism. Some existing works [1] state that the expenses of Internet enterprises is much higher in advertising and selling, development and research so there is a risk of cash flow if they do not allocate their cost reasonably. Therefore, knowing better about the structure will be meaningful for an Internet company to manage its expenses and set an appropriate plan of innovation and marketing.

However, there is little research about the influential factor and driving mechanism of Internet business

enterprises' cost structure, the research they have done [2] are more about the analysis on composition of the cost structure, but they ignore the influence factors about the formation of the cost structure and driving mechanism. In this paper we will analysis the cost structure of the food delivery company, with the driving mechanism and influence factors behind it. We will also take Meituan as an example, try to explore the reasons why the Internet enterprise changes the cost structure and then study how to further optimize the cost management of Internet enterprises, and put forward the corresponding measures and suggestions..

2. ANALYSIS ON COST STRUCTURE OF TAKE-OUT FOOD SERVICE ENTERPRISES, TAKING MEITUAN AS AN EXAMPLE

With the development of the Internet enterprises, the mode of 'Online order, offline delivery' has been more and more convenient and popular. China's sharing economic report (2021), which was posted by the Sharing Economic Research Center of National Information Center, shows that because of the influence by the COVID-19 in 2020, people are limited in rooms, but their demands of online service increased steeply. Figure 1 shows that the revenue which came from delivery food accounts about 16.6% of the China's cater industry

revenue in 2020, a year-on-year increase of 3.8%. Nowadays, more and more cater business considers starting the food delivery service to follow the improvement of the take-out food industry. Meituan, the leader of food delivery service enterprise, has its own strengths compared with other companies'. We will analysis its expenditure and cost control to research on how to optimize the expenses and achieve a better profit.

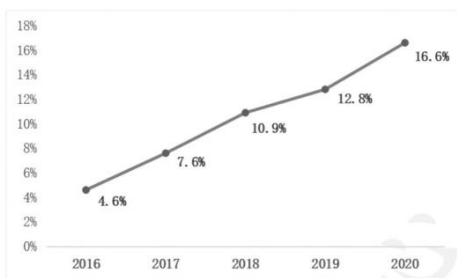


Figure 1 Proportion of takeout income in the national catering industry.

2.1 An overview of Meituan

Meituan, which was set up on May 6th, 2011, has been one of the most successful life service e-commerce companies in China. After Meituan started the hotel reservation and food delivery service, since then, Meituan has regarded these two services as its main business. In 2014, the annual trading volume of Meituan has exceeded 46 billion yuan, and its market share is over 60%. In 2017, Meituan started its supermarkets and tourism, developed new applications. In 2018, Meituan was limited in Hung Kong Stock Exchange. And in 2021, Meituan continued to develop its business. In the future, they will improve the living service categories such as hotel accommodation, scenic spots, beauty salons and so on.

After we have an analysis on Meituan’s annual reports, we consider that the main revenue is from food delivery and providing service is the biggest character for the e-commerce enterprises like Meituan. With the help of the Internet evolution, Meituan is constantly expanding its own business scope and showing a good development trend.

2.2 Analysis of the cost control measurement in Meituan

2.2.1 Cost control of sales cost

There are many factors influencing the total cost of a company, and cost of sales is an important part [3]. Different from traditional manufacturing enterprises, the cost of sales of Meituan is from delivery, advertising and so on instead of manufacture in factory. We can understand that the main business of Meituan is food delivery, advertising, and wages of the employees. Those

costs have close connection with the revenue of the main business.

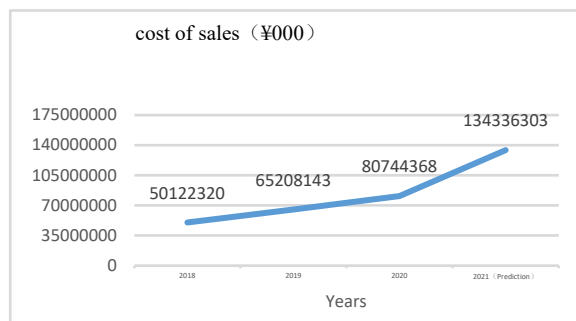


Figure 2 The cost of sales in Meituan in recent four years.

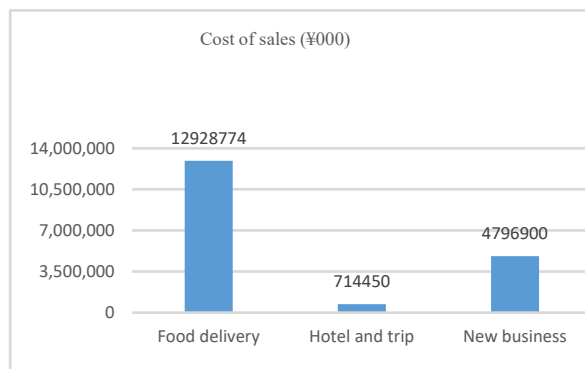


Figure 3 The components of sales cost in Meituan.

(The 4th quarter of 2018)

There is a significant increase of Meituan’s cost of sales from 2018 to 2021 from Figure 2. In the last three years of 2018, the sales cost of Meituan has maintained a steady growth. After the second half of 2020, Meituan suddenly made efforts in the development of its main business, and the sales cost increased rapidly. The increase of sales cost also reflects the increase of sales revenue. The number of orders of Meituan increased from 457 million in 2020 to 628 million in 2021. This change shows the increase of sales revenue.

From Figure 3, we can also see that catering takeout accounts for the vast majority recent years and Meituan also began to gradually increase the cost investment of other businesses. Accommodation, tourism and new businesses will become a new round of driving force, drive the next development of Meituan and bring its upgrading vitality.

2.2.2 Analysis on selling and marketing expense

In order to promote its corporate popularity, Meituan has increased its marketing efforts both online and offline in recent years. Marketing expenses mainly include advertising expenses, rental expenses, promotion expenses related to sales, business entertainment expenses and travel expenses related to sales activities. For Meituan's expenses in marketing and sales, some

items acquire income because of the expenses. Therefore, Meituan has converted this part of the expenses into costs and calculated it in the sales cost when calculating the cost. In order to prevent some misunderstandings, we regard the whole marketing expenditure as selling expenses when analyzing.

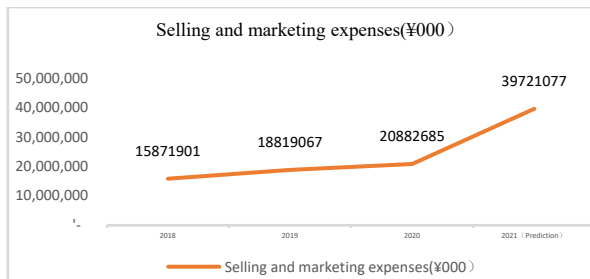


Figure 4 The selling and marketing expenses of Meituan in recent four years.

From Figure 4, we can see the change of marketing expenses. Similar to the cost of sales, Meituan's marketing expenses increased steadily from 2018 to 2020, from 1.58 billion to 2.08 billion. The marketing expenses will reach 3.97 billion in 2021, more than double that in 2018. It can be seen from this that Meituan will achieve a large-scale breakthrough in its marketing strategy after 2020, follow up the advertising expenses at the same time, and continue to expand the influence of the enterprise in the country.

2.2.3 Analysis on research and development expenses

As an Internet enterprise, Meituan needs the operation support of the Internet user platform and the development of Meituan's supporting distribution related technologies. Research and development expenses, which can be abbreviated to R&D expenses, also account for an important part of operating expenses. R&D expenses are mainly from the salary and welfare of R&D employees and equipment investment. Compared with traditional manufacturers, Internet companies such as Meituan spend more and more on R&D expenses.

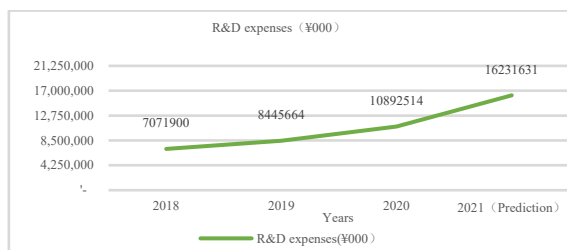


Figure 5 R&D expenses of Meituan in recent four years.

From Figure 5, we can see that Meituan's expenditure on R & D has been increasing, and the growth rate is fast. The estimated R & D expenses in 2021 will exceed 16 billion yuan, which reflects the growth of R & D personnel of Meituan under the business expansion and

the continuous filling of new business technology vacancies by Meituan.

2.3 The influential factors and driving mechanism of cost structure of Meituan

From analysis above, we can see the increasing trend of Meituan's costs. Especially in 2021, cost investment of Meituan has increased significantly. In order to understand Meituan's cost growth, we will further analyze the influencing factors and driving mechanism of its change.

2.3.1 Expansion of business scope in Meituan

Meituan has occupied most of the market share of catering delivery in large and medium-sized cities. Therefore, developing catering delivery and distribution of other products in more remote areas has become a further development goal. The expansion of business scope is bound to increase the number of restaurants and fresh supermarkets cooperation with Meituan, raise the advertising and marketing expenses used to strengthen publicity, increase the number and wages of enterprise employees, including distribution personnel, and so on. For example, due to the improvement of the sales scale of catering takeout and new businesses such as beauty, medicine, daily necessities and clothing, Meituan's commodity distribution scale has increased, and the transportation cost has also increased. The transportation cost in 2021 has increased three times compared with that in 2016. Therefore, the growth and expansion of business is constantly bringing the rise of Meituan's expenses.

2.3.2 Meituan conforms to social environment requirement

In China, the development of enterprises needs the guidance and standardization of national policies. At the same time, they are deeply affected by the consumption demand and culture of domestic users. Nowadays, the trend of Internet consumption continues to rise, and more and more users gradually accept online shopping and consumption. Internet takeout platform gradually replaces telephone ordering. Meituan takes full advantage of the Internet, pays attention to consumer demand and formulates corresponding marketing plans to enhance the effect of advertising input and output. The Meituan has set up small programs on WeChat, Alipay and other applications, and consumers can buy goods without downloading Meituan APP, which will increase fees to advertise.

After the outbreak of China's COVID-19 in 2020, the order of the Meituan took away considerably, and the income and investment cost decreased. After the epidemic situation eased in 2021, the takeout industry gradually resumed operation, and the costs of Meituan

also increased. With the state's vigorous advocacy of saving logistics packaging costs and the successive introduction of environmental protection laws, the auxiliary cost of logistics is becoming higher and higher, and the expenditure on environmental protection is increasing.

From this point of view, the society needs Internet enterprises to shoulder more and more social responsibilities, which will inevitably lead to changes in the cost expenditure policy of enterprises.

3. PROBLEMS OF COST MANAGEMENT OF MEITUAN

The theoretical research of cost management of Meituan lags behind. At present, the theoretical research of cost management of Meituan in China has made great achievements, but the system is poor, and there is no perfect system of cost management methods. In practice, the application of cost management methods is not articulated, and the new cost management methods are not well connected with the old ones, which makes cost management lack consistency and produce adverse effects, but increases management costs. Cost research is limited to the Meituan and lacks the thinking of strategic management [4]. It only focuses on production cost management and ignores supply cost management.

Cost management concept is backward. Inaccurate understanding of the scope, objectives and methods of cost management. Most Meituan cost management scope is still limited to the cost of Meituan production process, ignoring the management of other costs within Meituan. The objectives of cost management are limited to cost reduction and mainly by means of savings without focusing on the cost effectiveness of Meituan. The principle of cost effectiveness cannot be applied to obtain greater benefits through the costs already incurred. The traditional cost management concept has failed to adapt to the increasingly competitive economic environment, where traditional cost management focuses on reducing product costs through economies of scale and improved negotiating power with suppliers and distributors [5].

The cost management methods of Meituan are backward. Firstly, the cost management of Meituan is not comprehensive and systematic, lacking scientific and feasible cost budget and cost plan beforehand, no effective control during the event, and unscientific summary and analysis afterwards, without effectively running the cost management through the whole process of Meituan production [6]. Secondly, the basic work of cost management is weak, and there is no set of perfect cost management system. In addition, the original cost records of the Meituan are incomplete, the implementation of the regular and irregular inventory system of assets is not strong, the basic management system of budget management and measurement and

acceptance is not perfect, and even individual Meituan only seek formality, not practicality, and the system has completely lost the role of supervision and assessment. Very few of them have become "no income and expenditure plan, no normal approval procedures, no reporting system". Thirdly, the Meituan did not take into account the actual situation and market environment to develop a cost assessment system suitable for the Meituan, the responsibility was not implemented to individuals, and the implementation of the assessment was not strong enough to fully mobilize the enthusiasm of the staff of the Meituan.

4. COUNTERMEASURES FOR THE PROBLEMS OF COST CONTROL OF MEITUAN

Meituan currently has some problems in cost control. The following article will give some countermeasures. Implement budget cost control. The key to cost control is to develop a scientific and reasonable cost budget. The cost budget of Meituan needs to be made by summarizing and analyzing the past cost data, the current actual situation of Meituan and the future profit target of Meituan and making a detailed cost budget suitable for each production link. In the process of making cost budgets, it is important to have a comprehensive understanding of the production process of each production link [7]. Other departments of Meituan should be actively encouraged to participate in the formulation of cost budget and guide the cost management of Meituan comprehensively [8]. In addition, the finance department should not blindly develop cost budgets based on a single data analysis. Once the budget cost is formulated, it must be strictly implemented in practice and cannot be modified at will. It is a form of budget control, which is to maximize cost control and carry out the whole process of cost budget management in all aspects [9]. To strengthen cost analysis and improve cost management. Cost analysis is a cost analysis based on actual cost accounting data [10]. It provides effective guidance for later cost forecasting and cost budgeting and has a certain significance for cost control of Meituan.

5. CONCLUSION

In general, in this paper, based on basic accounting data, we use accurate analysis methods to analyze costs in depth and to properly evaluate the results of the implementation of Meituan's cost budget, providing effective data to evaluate and motivate the work of Meituan's costs in order to improve the enthusiasm of Meituan and its employees to pursue economic benefits. To identify the causes of cost overruns in a timely manner, assess the impact of these causes on costs, and further guide the preparation of cost budgets at a later stage.

In order to further search for ways and means to reduce costs, cost analysis can also be combined with changes in the production and operating conditions of Meituan to correctly select the most appropriate cost level to adapt to the new situation. Meituan should establish and improve the cost analysis system, conduct cost analysis regularly, summarize the reasons in time, and improve the cost management level.

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Guangxuan Wu and Weiqun Wang contributed equally to this work and should be considered co-first authors. Liang Xu is the second author.

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