Research on the Impact of Parallel Contraction and Expansion Strategy on the Financial Performance of Fresh Food E-commerce Enterprises: A Case Study of Dingdong (Cayman) Ltd

Mengyi Zou

International school, Guangdong University of Finance & Economics, Guangzhou, Guangdong, China
Aa2698009120@outlook.com

Abstract. With the rapid expansion of fresh e-commerce industry into the refined operation stage, the contradiction between "scale expansion" and "efficiency improvement" has become the core challenge of enterprise development. The existing research mostly focuses on a single strategy, but lacks discussion on the mechanism of strategy combination under resource constraints. This paper takes Dingdong (Cayman) Ltd as the research object and analyzes the impact of "parallel strategy of contraction and expansion" on the financial performance of enterprises based on the financial data of 2023-2025. The results show that by shrinking non-core regional business, deepening core market and optimizing supply chain, the strategy significantly improves the cost control ability and regional profitability, and promotes the transformation of enterprises from scale competition to value competition. Dingdong (Cayman) Ltd posted a net profit and gross profit margin improved in tandem with operational efficiency, financial data showed. This paper provides a practical path of strategic combination for the industry, enriches the theoretical research on the relationship between strategic choice and financial performance of fresh e-commerce, and has reference value for similar enterprises to optimize resource allocation and achieve sustainable profits.

Keywords: Contraction and expansion strategy, Fresh e-commerce industry, Dingdong (Cayman) Ltd.

1 Introduction

With the rapid development of fresh e-commerce industry, it faces many challenges in the process of market expansion. On the one hand, the overall growth of China's e-commerce market has slowed down, and the industry has gradually entered a bottleneck period; On the other hand, consumer demand shows an increasingly significant trend of stratification and differentiation, especially the rapid growth of category demand to meet the improvement of life quality. Such structural changes provide a potential path

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for e-commerce platforms to achieve differentiated competition through category extension and value reconstruction under the background of limited incremental market.

In this context, fresh e-commerce enterprises are generally faced with the tension between "scale expansion" and "efficiency improvement." On the one hand, in order to gain market share, enterprises continue to invest a lot of resources; On the other hand, high loss rate and fierce price competition lead to low overall operation efficiency, and "high input, high consumption and low-price competition" have become the norm in the industry [1]. The existing literature mostly focuses on the single strategic dimension, which fails to fully reveal the mechanism of how enterprises cope with the complexity of external environment through strategic combination under the condition of resource constraints.

Therefore, this paper takes "parallel strategy of contraction and expansion" as the breakthrough point to explore its impact mechanism on corporate financial performance, and takes Dingdong (Cayman) Ltd as a representative case for analysis.

The study focuses on the impact of Dingdong (Cayman) Ltd 's parallel strategy of contraction and expansion on financial performance, and analyzes the financial role of strategy implementation from 2023-2025 cost, revenue and profit data. It aims to clarify the impact of this strategy on enterprise profitability, operating capacity and other factors, explore the balance path between scale expansion and efficiency improvement, provide reference for peer enterprises to make strategic decisions, and alleviate long-term contradictions in the industry.

The research of this paper not only helps to enrich the theoretical discussion on the relationship between strategic choice and performance in the field of fresh e-commerce, but also provides empirical support for enterprises to formulate a more feasible strategic portfolio under the background of intensified competition and limited resources, which has certain reference value for the high-quality development of the industry.

2 Analysis of the Current Situation of Fresh E-commerce Industry

In recent years, fresh e-commerce industry has experienced a phased transformation from rapid expansion to rational development. According to the "Dianshubao" e-commerce database, the transaction scale of fresh e-commerce reached 736.79 billion yuan in 2024, with a year-on-year growth of 14.67%. That's a slight slowdown from 14.7% in 2023. This change reflects the industry drive from the capital into a fine operation efficiency. The report also pointed out that the penetration rate of the fresh e-commerce industry will be 14.9 percent in 2024, up 19.2 percent year on year. [2]. On the whole, with the popularization of electronic technology and the social background of home isolation, the industry has ushered in a trend of gradual growth.

The core contradictions accumulated in the rapid growth period of the industry are concentrated in the adjustment stage: first, in order to seize market share, enterprises continue to invest in the construction of performance warehouses and subsidize users, resulting in high performance costs; Second, user repurchase rate and customer unit price growth is weak. The imbalance between scale expansion and efficiency improvement is particularly prominent in the "front-warehouse mode": the front-warehouse requires high-density order coverage to achieve break-even, but the density of warehouse points in non-core areas of some enterprises is insufficient, resulting in the average daily order volume of a single warehouse being lower than the break-even point [3]. This contradiction is essentially a conflict between "Economies of scale" and " Diseconomies of scope ": excessive expansion causes the dilutive effect of fixed costs to be offset by diminishing marginal benefits.

3 The Impact of Parallel Strategy of Contraction and Expansion on Financial Performance of Dingdong (Cayman) Ltd

3.1 Dingdong (Cayman) Ltd Strategic Adjustment Motivation

The strategic adjustment of Dingdong (Cayman) Ltd is to relieve the loss pressure of the operation strategy of expanding by constantly seizing market share in the past and explore the balance path of scale expansion and efficiency improvement. According to Dingdong (Cayman) Ltd2023 income statement, the net loss is 6.3261 million yuan [4]. The core reasons include: first, procurement costs. The supply chain level of agricultural products is complex, and the procurement cost usually accounts for more than 60% of the total cost of the whole cold chain logistics [3]. Second, from 2019, Dingdong (Cayman) Ltd has 254 front positions in Shanghai and continues to expand without break-even. By 2020, Dingdong (Cayman) Ltd will expand to 12 cities. By August, Dingdong (Cayman) Ltd had more than 600 pre-positions and only 600,000 orders per day. The average daily order volume of Dingdong (Cayman) LTD was about 1,000 orders, with a loss rate of about 3.6%. Third, under the trend of consumption classification, middle and high-end users have increased demand for quality and service, while the gross profit contribution of price-sensitive users attracted by the low-price subsidy strategy is less than 10%, and the user structure does not match the profit target. Fourth, its business has low gross margins and is difficult to commercialize. Most of the front warehouse takes high-frequency vegetable categories as the entry point, but as a result, the customer unit price is low and the loss is high. Therefore, it is necessary to expand the whole category and increase the proportion of sales of other categories in the gross profit, so as to make up for the loss cost of vegetables [5]. Only when the gross margin of customer unit price is greater than the cost of fulfilling the order, can it be sustainable. The above factors forced Dingdong (Cayman) Ltd to launch a strategic shift of "focusing on core areas and optimizing supply chains", also known as "expansion and contraction", in 2023.

3.2 Strategy Adjustment

Dingdong (Cayman) Ltd 's expansion strategy continues the operation optimization strategy for North and South China proposed in the third quarter of 2023, aiming to consolidate the scale advantage and profit foundation. Then from May 2023, based on the principle of cost reduction and efficiency increase, the company started strategic adjustment, shifting from early scattered resources to maintain business breadth and focusing on intensive cultivation in core areas. Then it will focus on South China and other advantageous regions in 2024, and continue to deepen user service capabilities by expanding service scope, laying new sites and refining operations.

In terms of the specific operation level of the expansion strategy, Dingdong (Cayman) Ltd2024 will further strengthen the network layout of front warehouses in Jiangsu, Zhejiang and Shanghai region, adding 130 front warehouses throughout the year, 18.2% more than the original plan of 110. Despite the increase in positions, the average daily single volume of regional positions remained at nearly 1,000 orders, up 22.2% year on year, indicating that the operation efficiency of single positions in mature markets was not reduced due to scale expansion, and synergies were achieved through high-density layout. This deep cultivation strategy of focusing on core areas reduces supply chain and performance costs through scale effect, and quickly replicates standardized warehouse distribution operation system, product selection and user service model in the region, accumulating reusable methodology for the new round of urban expansion in 2025.

Since 2022, Dingdong (Cayman) Ltd has started strategic contraction, taking the lead in withdrawing from the front-warehouse distribution business in Sichuan and Chongqing region, and optimizing and adjusting some sites in Guangdong region [6]. This regional business contraction strategy significantly reduced operating costs in the short term, improved supply chain efficiency, Dingdong (Cayman) Ltd' s loss gradually narrowed, and the overall business structure tended to be stable. In the process, the business strategy changed from aggressive market expansion to refined operations deep in existing markets, focusing on tapping growth potential in existing service areas. This change in strategic cognition marks the key transformation of Dingdong (Cayman) Ltd from scale competition to value competition [7].

In essence, this strategic adjustment is a transformation from "giving priority to scale and efficiency" to "giving priority to efficiency and scale coordination". At the same time, the company focuses on strengthening the construction of commodity power, with the development of its own brand and the in-depth construction of supply chain as the core, by optimizing the product selection structure, strengthening the source direct procurement, enhance the differentiated competitiveness of products. Financial data show that the above strategies have achieved remarkable results, not only improving regional operational efficiency, but also enhancing profitability resilience through supply chain optimization [8], achieving a systematic breakthrough from scale competition to value competition.

3.3 The Financial Impact of the Adjustment Strategy

First, the cost control ability has been significantly improved: enterprises have effectively controlled marginal costs through business contraction in non-core areas, which is reflected in the continuous decline of performance expense rate and the improvement of resource use efficiency.

Second, regional profitability optimization: promote expansion strategy and strengthen operation management in key regions to significantly improve the efficiency of single position operation in core markets, thus driving the improvement of local profitability.

Third, overall loss narrowing and structural optimization: although there are still losses in the short term, due to more focused resource allocation and more orderly strategy implementation, the financial structure of the enterprise tends to be optimized, and the loss range is significantly reduced, showing the potential to transform to a sustainable profit model.

The details are as follows: Since the third quarter of 2021, Dingdong (Cayman) Ltd has shifted its strategic focus to efficiency improvement and profitability construction in the target region. After more than two years of adjustment, the profit end has improved significantly. Affected by the measures of closing stores and withdrawing cities in 2023 and the high base effect in 2022, the company's GMV decreased from 26.25 billion yuan in 2022 to 21.97 billion yuan in 2023, and its revenue was adjusted from 24.22 billion yuan to 19.97 billion yuan simultaneously. However, the quality of operation has been improved by leapfrog, and remarkable achievements have been made in loss reduction -- from 2019 to 2023, the loss scale continues to narrow. On a non-GAAP basis, an increasing trend quarter by quarter since the first quarter of 2023.The company's revenue returned to positive growth in the first quarter of 2024, and non-GAAP net profit increased by 1269% year-on-year in the second quarter, marking a significant enhancement in its earnings resilience and sustainable growth capacity [9].

3.4 Logic of Strategic Reconstruction

David Teece put forward the view of "dynamic capability," which is "difficult to copy and imitate, and can drive the sustainable operation of enterprises," pointing out that it "achieves timely and rapid response to environmental changes through integration, reconstruction and establishment of relevant resources and capabilities." Firm capabilities include static and dynamic capabilities. Dynamic capability refers to the ability of an enterprise to update its talent to adapt to the changing business environment by reasonably adapting, integrating and resetting internal and external organizational skills, resources and functions [10]. The strategic adjustment of Dingdong (Cayman) Ltd is a process of integrating, constructing and reallocation internal and external resources to adapt to environmental changes by analyzing the aspects of dynamic capability theory. On the demand side, through data analysis of user portraits, resources are shifted from "casting a wide net" expansion to "precision irrigation" deep cultivation, so as to improve the efficiency of resource allocation in core areas. On the supply side, peel off inefficient assets such as non-dominant regional warehouses. The essence of this two-way adjustment strategy of "shrinking non-core competence and strengthening core competence" is to realize the reconstruction of dynamic capability through organizational reform, so as to cope with and explore the balanced path of scale expansion and efficiency improvement of fresh e-commerce industry.

4 Impact of Contraction and Parallel Strategies on Financial Performance

4.1 Multi-dimensional Improvement and Improvement

First, the shrinking area leads to short-term pressure on the revenue scale. For example, the revenue in 2023 is 18.7 billion yuan, and it slightly increases to 19.2 billion yuan in 2024, but the profit structure is significantly improved. Second, in terms of user engagement and efficiency optimization, the average number of monthly orders in Q4 was about 7.74 million, up 16.1% year on year, and the average monthly revenue per user increased 3.7% year on year. Q4 users placed 4.2 orders per month, up 3.0% year on year, among which members placed 7.0 orders per month, up 4.5% year on year; Third, benefiting from the implementation of the operation scheduling of this strategy, the turnover efficiency of commodities and the defect balance ability are also constantly optimized. In 2024, the turnover days of short-term guaranteed commodities with a sellable period of less than 28 days on the platform are shortened to an average of 2.3 days, and the efficiency is increased by 6.4% year on year. Fourth, in terms of regional penetration, in 2024, Dingdong (Cayman) Ltd will have double-digit GMV growth in 22 cities covered by Dingdong (Cayman) LTD. In Q4, GMV in Shanghai will increase by 16.8% year-on-year, and that in Jiangsu and Zhejiang will exceed 20%. At the same time, Dingdong (Cayman) Ltd continued to increase the layout of the pre-warehouse network in Jiangsu, Zhejiang and Shanghai region, with 130 new positions opened throughout the year. The average daily single volume of the annual warehouse was still close to 1000 orders, with a year-on-year growth of 22.2% [11].

5 Comparison and Analysis of Financial Indicators of Dingdong (Cayman) Ltd

Table 1. Dingdong (Cayman) Ltd 's Annual Report on the Income Statement 2023-2025[4]

Unit: US dollar	To2024-12-31	To2023-12-31	To2022-12-31	T2021-12-31
Total operating income	3.205 billion	2.819 billion	3,597 million	3.12 billion
-Operating cost	2.945 billion	1,971 million	2.514 billion	2.526 billion
gross profit	260 million	847 million	1.083 billion	594 million
-Sales management and administrative expenses	230 million	866 million	1.189 billion	1.576 billion
- Other operating expenses	-12.8704 million	--	--	--
Earnings before interest and taxes	29.8123 million	-1,868.94 million	-106 million	-981 million
+ Non-operating	21,281,200	2,251,560,000	7,252,500	6,193,200

income (expenditure)				
Non-recurring expenditures	--	--	--	6,893,200
Interest expense	6.5721 million	1,396,660,000	1,985,740,00	1,320,300,000
Net profit before tax	44,5215 million	-10,142,400	-119 million	-995 million
Income ta	2.2256 million	2,741,000	1,001,200	1,453,300
+ Other after-tax adjustment	--	--	--	44,717,60
+ Profit equity of the co-signing company	--	--	--	--
Consolidated net profit	42.2959 million	-12.8834 million	-120 million	-1.042 billion
-Minority shareholders' equity expenditure	1,294,000million	1,213,800	1,112,300	--
Net profit	41,001,900	-1,40.972 million	-121 million	-1.042 billion
Preferred stock dividend	--	--	--	--
Net profit from general available income	41,001,900	-1,40.972 million	-121 million	-1.042 billion
Basic earnings per share	0.19	-0.07	-0.56	-4.81
Diluted earnings per share	0.19	-0.07	-0.56	-4.81
Earnings before interest, taxes, depreciation and amortization	--	3.1859 million	-7,58.951million	-948 million

The following is shown in Table 1: First, the total operating revenue from 2021 to 2024 is 3.120 billion dollars, 3.597 billion dollars, 2.819 billion dollars and 3.205 billion dollars respectively. The revenue fluctuates. In 2024, it rises compared with 2023, but does not exceed the peak value in 2022, indicating insufficient overall stability. Second, gross profit: after increasing from 594 million in 2021 to 1.083 billion in 2022, it will decrease to 847 million in 2023 and 260 million in 2024. Gross profit will decline significantly, so we need to pay attention to cost control. Thirdly, profit indicator: Profit before interest and tax: From 2021 to 2024, it gradually improved from -981 million to 29.812 million, achieving a turnaround. Fourth, net profit before tax: From -995 million to 44.521 million between 2021 and 2024, losses continued to narrow and turn positive.

Fifth, net profit: $41.019 million in 2024, compared with losses of -1.042 million, -121 million and -14.0972 million from 2021 to 2023, indicating a significant improvement in profitability. Sixth, basic earnings per share: profit status of 0.19 in 2024, loss of -4.81, -0.56 and -0.07 before, further confirming the profit trend. Seventh, operating expense control: sales management and administrative expenses decreased year by year from 1.576 billion yuan in 2021 to 230 million yuan in 2024, with a significant decrease, which played a positive role in profit improvement.

In general, total operating revenue fluctuates and gross profit declines significantly in 2024, but the company promotes profit indicators, profit before interest and tax, net profit before tax, net profit, etc., by effectively controlling expenses. From loss to profit, earnings per share from negative to positive, the overall operating conditions in 2024 showed a positive trend. Dingdong (Cayman) Ltd 's positive figures are also related to its "expansion and contraction" strategy adjustment.

6 Discussion and Enlightenment

Although Dingdong (Cayman) Ltd has achieved a profit recovery through strategic adjustments, it still faces many challenges. In terms of market competition, the competition in core expansion areas is fierce. Meituan Vegetables, Hema and other leading enterprises have deeply engaged in first-tier cities, weakening Dingdong (Cayman) Ltd 's user adhesion in corresponding regions. At the supply chain level, its supply chain direct procurement relies on long-term cooperation with local farmers, and the collection of agricultural products in the front warehouse is vulnerable to weather, resulting in insufficient supply stability.

Based on this, suggestions are put forward for fresh e-commerce enterprises: first, precise regional positioning, abandoning the strategy of "full regional coverage", and establishing regional entry/exit mechanism according to the evaluation of order density and consumption power to avoid inefficient resource input; Second, build dynamic capabilities, establish an agile strategy adjustment mechanism, use digital tools to monitor operational data in real time and quickly respond to market changes; The third is to grasp the nature of competition. The competition in the fresh e-commerce industry is a dual contest of "efficiency and experience". Enterprises need to find a dynamic balance between scale expansion and profitability to cope with the long-term challenges brought by consumption upgrading and technological change.

7 Conclusions

The study finds that after the rapid expansion of fresh e-commerce industry, the contradiction between scale and efficiency is highlighted, which is manifested as high-performance cost, insufficient user repurchases and unbalanced regional development. Dingdong (Cayman) Ltd achieved profit recovery by shrinking non-advantageous regions, deepening core markets, expanding high-margin businesses, optimizing cost structure, and providing practice samples for the industry with its dynamic ability to integrate resources. The key to industry profitability lies in balancing economies of scale and refined operation, and it is necessary to improve the ability to resist risks through supply chain integration and business innovation. The contribution of this strategy is as follows: it not only provides the transformation path of the front-warehouse mode in the stock competition, but also provides reference for the regional focus and supply chain optimization of similar enterprises; In addition, through the analysis of dynamic capability mechanism, the application of Internet retail strategy adjustment theory in fresh e-commerce is supplemented, and the academic empirical perspective is enriched. Future research can extend the period to track the relationship between long-term financial performance and strategic sustainability of enterprises, expand the comparison of multiple cases, and explore the common rules of strategic adjustment of different modes such as community group buying.

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