



Dewu: Past & Current & Future

Group 3

Fan You, Li Jiarun, Li Yueqing,
Shang Zhou, Wang Chenxin, Wu Jiaqi

Contents

- Theoretical Analysis
- Practical Analysis
- Challenges and Solutions

1 Theoretical Analysis

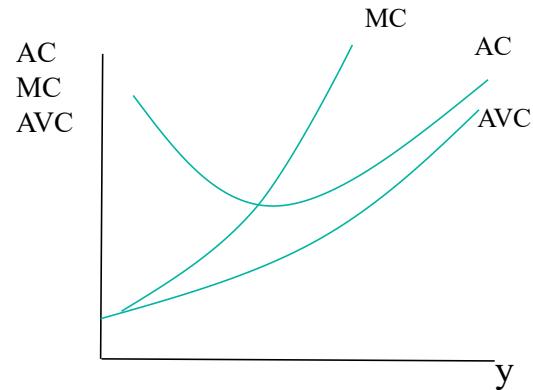
- Hypothesis
- Primary Market
- Secondary Market



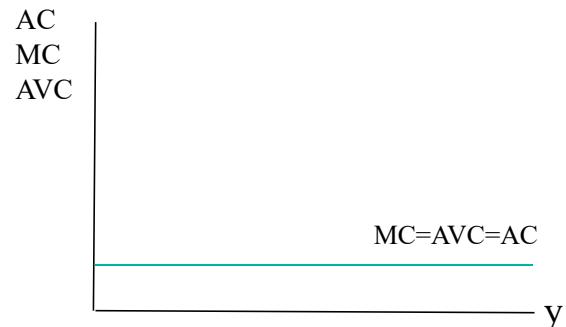
Hypothesis - Supply

► MC=AVC=AC=500

For Nike's General Sneakers



For Nike's **Air Jordan** sneakers



► Nike's Monopoly Position

“The simplest way for a monopoly to arise is for a single firm to own a key resource.”

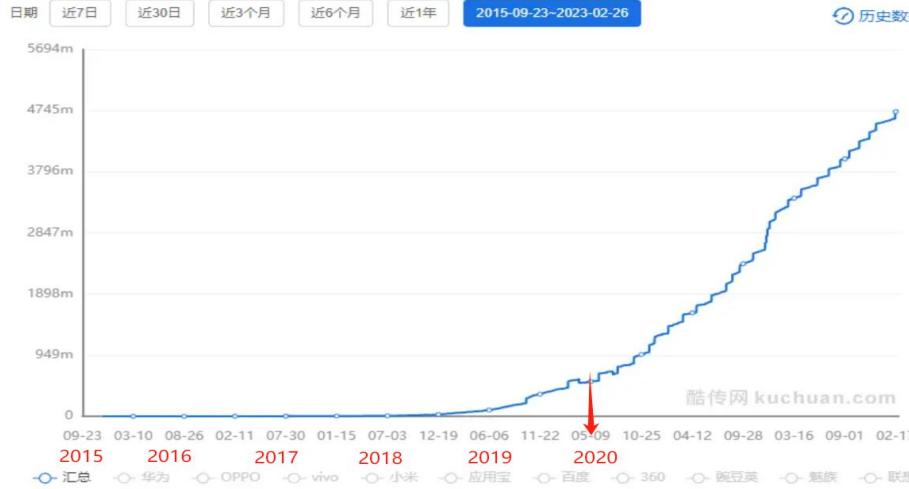
N. Gregory Mankiw

► Stock of AJ is fixed

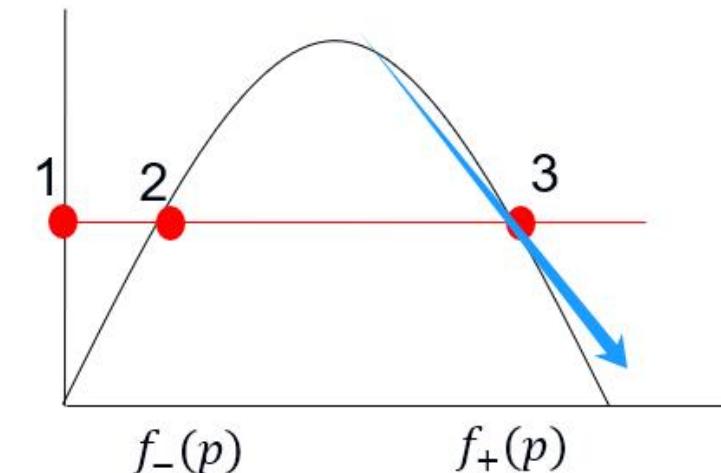
Generally, Nike **seldom replenish the supply** of Air Jordan Sneakers, which may hurt the high end and limited edition image of Air Jordan Sneakers.

Hypothesis - Demand

Network Effect



Demand Curve After Critical Mass



Poizon has Reached Critical Mass After 2020

Primary Market: The Retail Market

1) Primary Market: Perfect Monopoly

7 sneaker lovers: A,B,C,D,E,F,G. However, in the following analysis, we consider WTP to be consistent.

Sneaker Lovers	A	B	C	D	E	F	G
Willingness To Pay	4000	3500	3000	2500	2000	1500	1000

Demand curve:

$$P = -500y + 4500$$

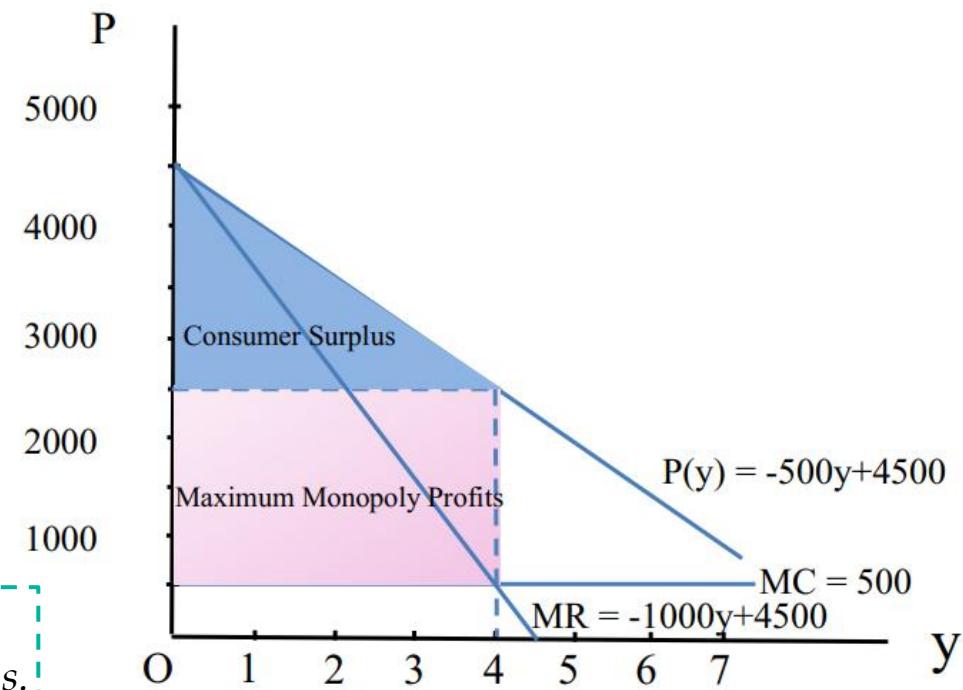
Marginal Cost:

$$MC = 500 = AC$$

If we set $y=4$, and get $P=2500$, then:

Producer's profit=8000
 Consumer surplus=4000
 Social total welfare=12000

Though we introduce discrete consumers above, we assume that there are enough consumers in the market for the demand function to be continuous.



Primary Market: The Retail Market

2) Primary Market: Limited Production & Limited Price

"If the market mechanism does not work fully, people will engage in competition other than price."

Due to the limited strategy, Nike implemented **queueing and lottery sale mechanism**, which is apparently fair by allocating scarce resources on a first-come first-served principle and by the random draw.

Demand curve:

$$P = -500y + 4500$$

Marginal Revenue:

$$MR = -1000y + 4500$$

Marginal Cost:

$$MC = 500 = AC$$

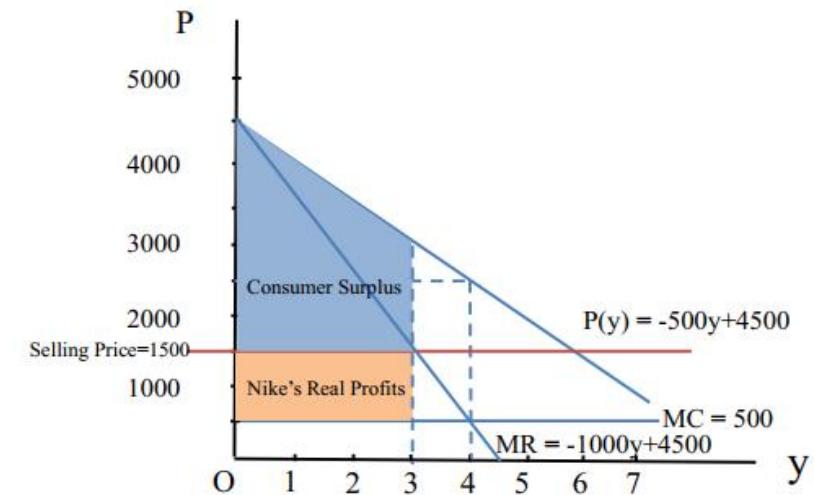
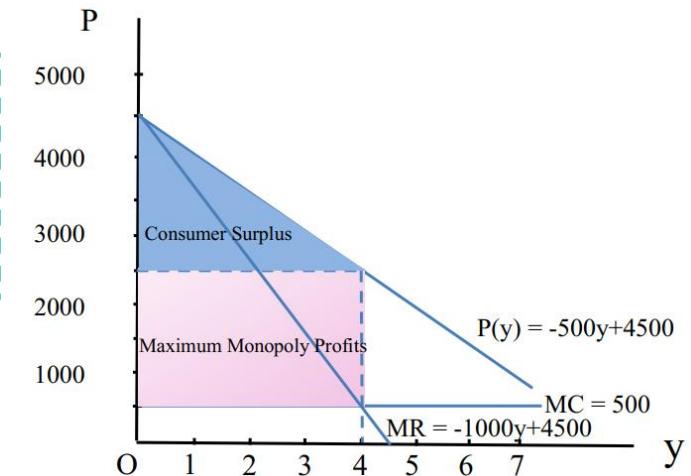
Set $y=4 \rightarrow 3$, and get $P=2500 \rightarrow 1500$ (Nike's strategy), then:

Producer's profit=8000→3000

Consumer surplus=4000→6750(maximum)

→2250(minimum)

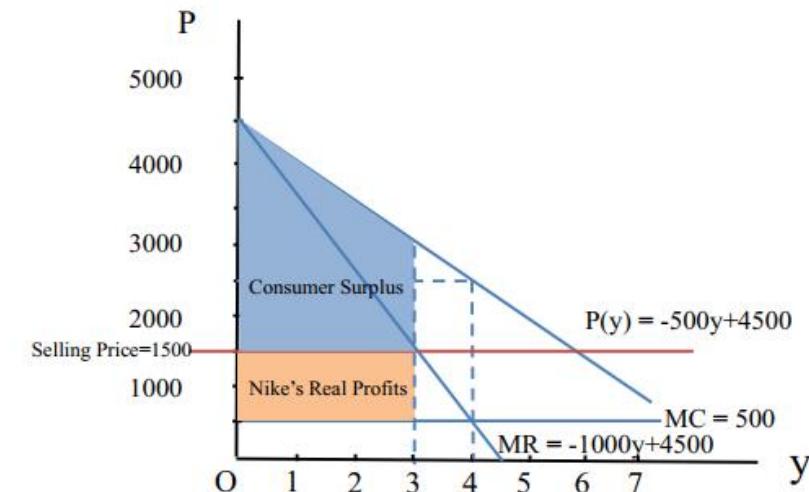
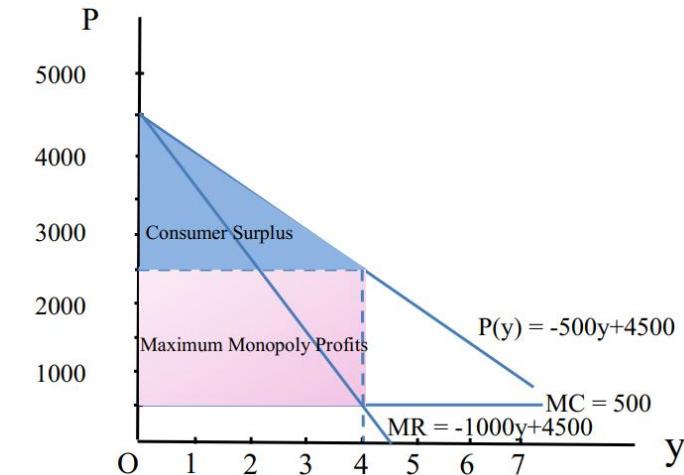
Social total welfare=12000→9750(maximum)
→5250(minimum)



Explanation Of Nike's "surrendering part of the profits"

SQPR (small profits and quick returns)

- Loss: Part of the profits in primary market.
- Gain: Customer Loyalty; Attention; Expectation; Financing; Stock price...



Primary Market: The Retail Market

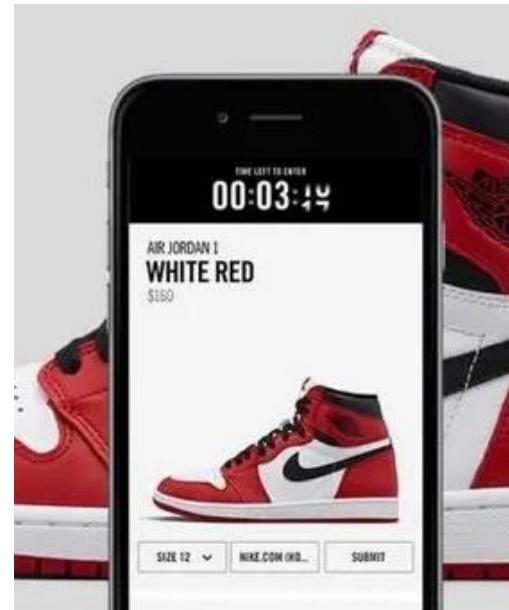
3) Primary Market with sneaker resellers

Sneaker resellers' advantages:

- Low time cost (win in queueing)
- Technical means (win in lottery)
- Relationship with Nike (early access)



Due to these reasons, most of the supply of sneakers in Primary Market flows into the hands of sneaker resellers.



A sneaker lover's lottery



A sneaker reseller's lottery

Flow of sneakers:

Nike→Sneaker Resellers (at lower retail price)

Secondary Market: Sneaker Resale Market

1) Secondary Market with a platform

The supplier of the secondary market changed from Nike to sneaker resellers and the market changed from monopoly market to competitive market. Because of the existence of the platform, a reseller can **meet every consumer** in the market.

Demand curve:

$$P = -500y + 4500$$

Supply curve:

$$y = 3$$

As an equilibrium, we get:

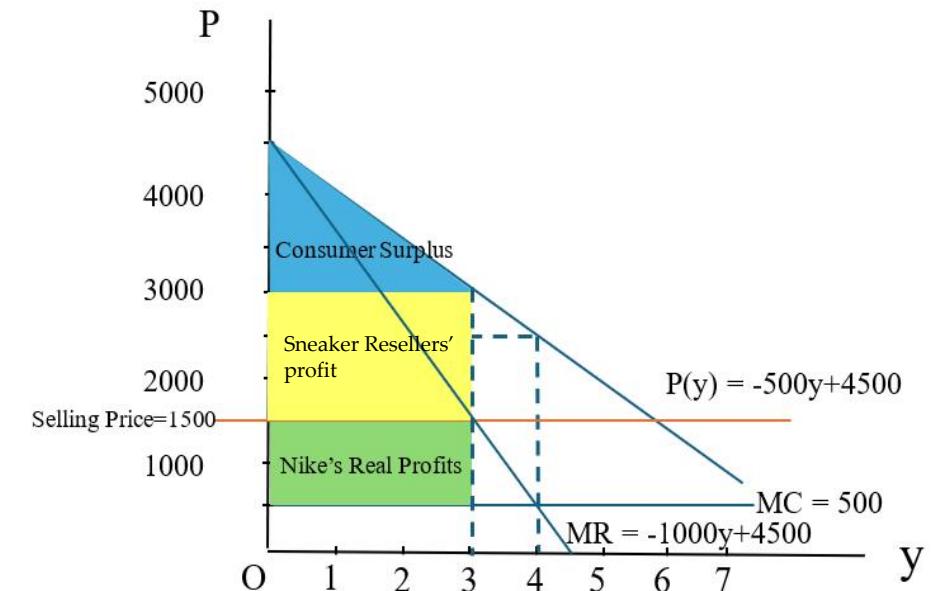
$$y=3; P=3000$$

Producer's profit=3000 (Nike)

Consumer surplus=2250

Social total welfare=9750

Sneaker Resellers' profit=4500



The profit space of secondary market = The monopoly profit Nike gives up

Secondary Market: Sneaker Resale Market

2) Secondary Market without a platform

Because of the lack of a platform to gather large numbers of consumers, we assume the reseller can only get in touch with half of the sneaker lovers.

Sneaker Lovers	A	B	C	D	E	F	G
Willingness To Pay	4000	3500	3000	2500	2000	1500	1000

Demand curve: shown in the figure

Supply curve:

$$y = 3$$

As an equilibrium, we get:

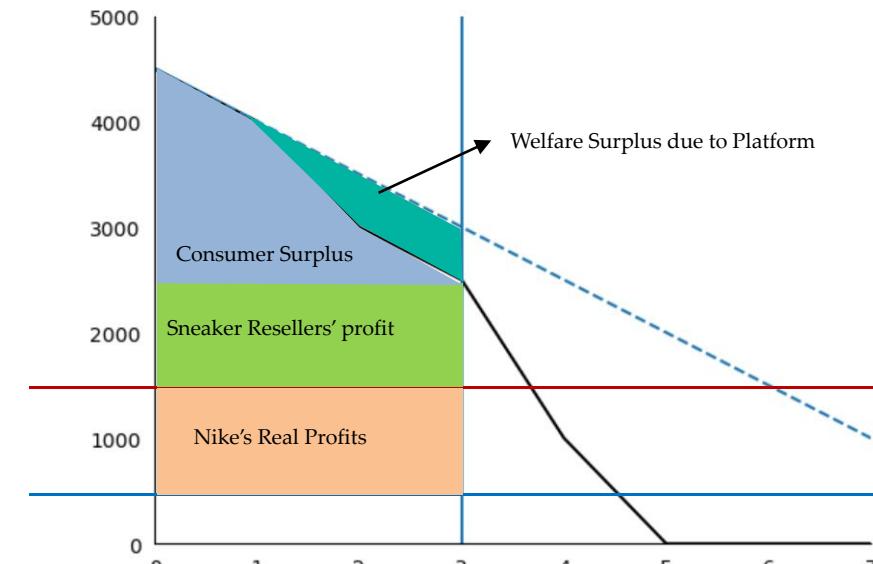
$$y=3; P=2500$$

Producer's profit=3000(Nike)

Consumer surplus=2250 -> 3000

Social total welfare=9750 -> 9000

Sneaker Resellers' profit=4500 -> 3000



Secondary Market: Sneaker Resale Market

	Primary Market with no sneaker resellers	Secondary Market with a platform	Secondary Market without platform
Producer's Profit	3000	3000	3000
Consumer Surplus	6750 (maximum) 2250 (minimum)	2250	3000
Sneaker Resellers' Profit	0	4500	3000
Social Total Welfare	9750 (maximum) 5250 (minimum)	9750	9000

Sneaker resellers and platform both increase Social Total Welfare.

2 Practical Analysis

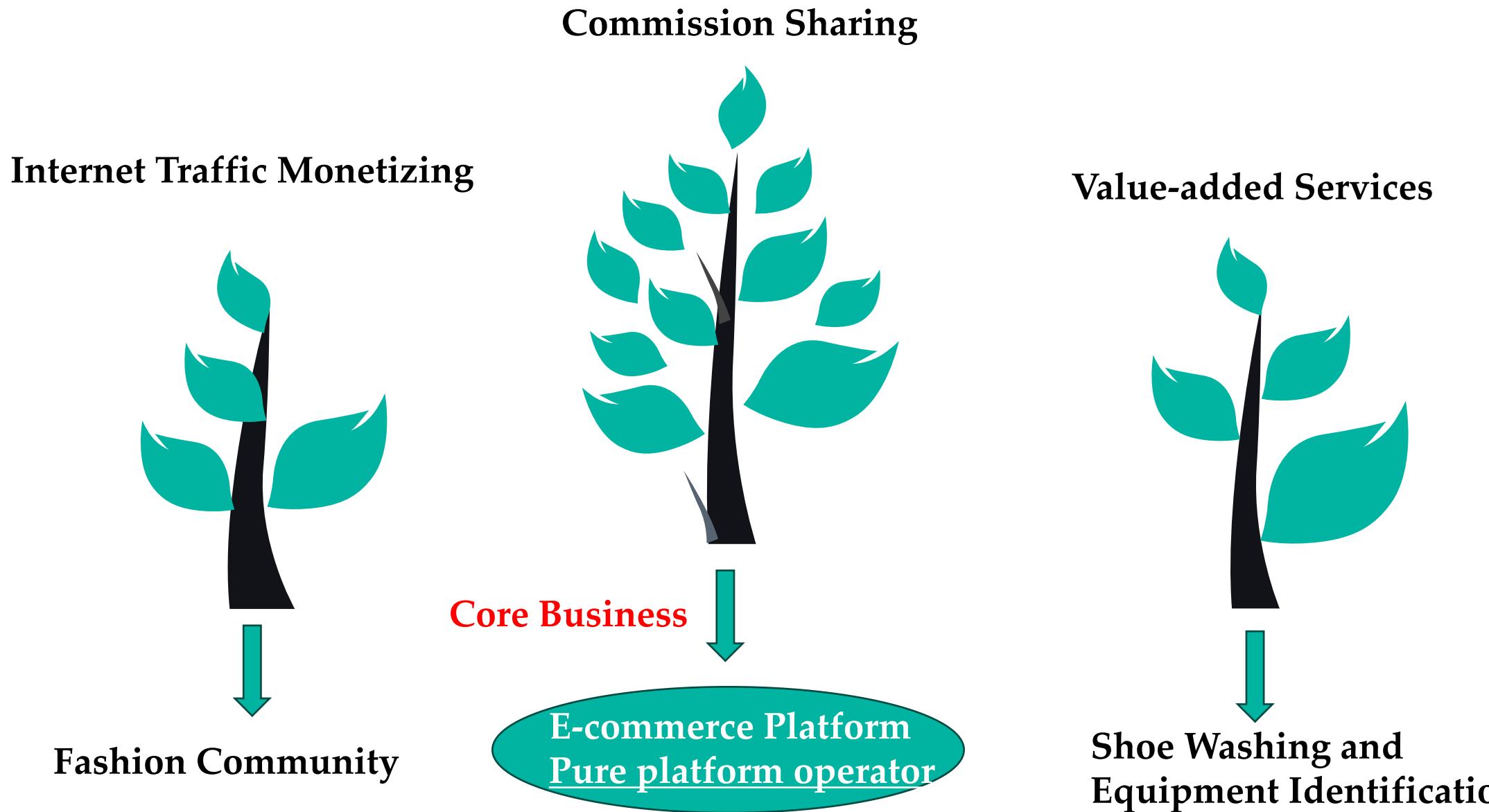
- Early Stage
- Growth Stage



The Early Stage: 2015-2019

- Upgraded the social function (discovery, small video, punch card, private message, live broadcast etc.)
-
- 2015
- Established as Poison
 - Launched identification function
-
- 2016
- Launched trading function, creating the "first identification, after delivery" trading mode
 - The identification volume exceeded 1 million in May
- 2017
- Gaorong Capital, Sequoia Capital, and China Pusi Capital raised tens of millions of dollars for Poison APP
 - Poison App 1.1.0 was officially launched
- 2018
- DST completed A+ round of financing for the Poison APP
 - The Poison APP has become the largest professional sneakers resale platform in China, with the C2B2C operating model
- 2019
- The initial user mainly from the fans of Hupu community

The Business Model of Dewu



Internet Traffic Monetizing

- **Direct approach:** users (KOLs, ordinary buyers, sellers) post photos, recommendations and news in community
- **Indirect approach:** platform provides guidances, initiates heated topics, pays KOLs for promotions etc.
→ Both approaches promote traffic and purchases

Direct: KOL promotions & discussions

Ootd|今天是棕色系女孩

相信每个女孩子衣柜里都有一件棕色的衣服吧，秋天我就对棕色系列的东西爱不释手；
今日份穿搭：
上衣：棕色毛领棉衣
裤子：白色牛仔裤

来都来了，说两句 149 49 14



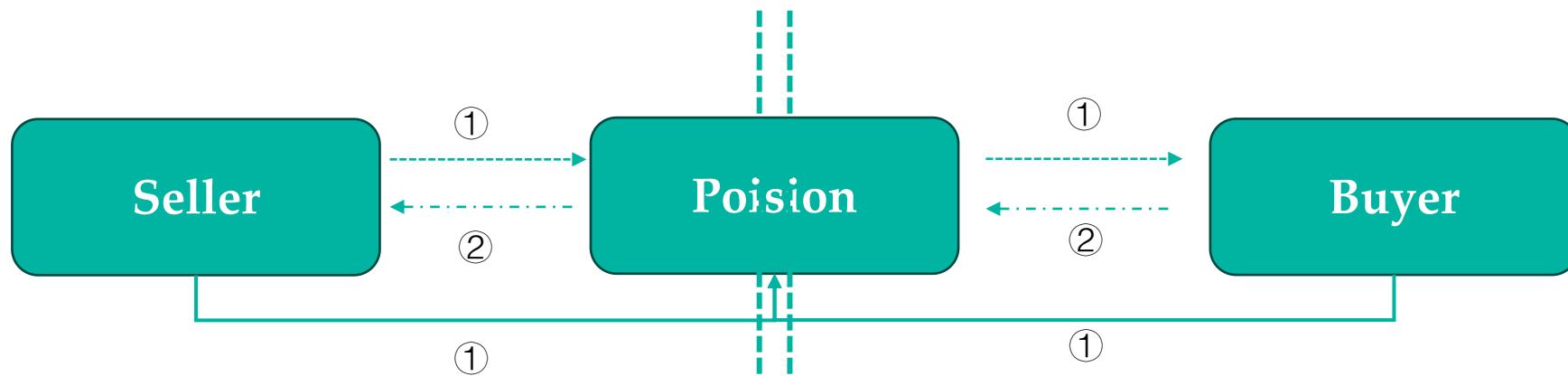
Fitting guidance

不知道怎么穿？就来得物社区！ #夏季穿搭指南#

Commission Sharing

- C2B2C trading model

- Identification



→ Information flow

- ① The buyer publishes the commodity on the platform at the expected transaction price
- ② The commodity information is displayed on the platform

→ Cash flow

- ① The buyer snaps the item and pays for it
- ② The platform will not pay the seller until the goods have been identified and the buyer has confirmed the receipt of the goods

→ Material flow

- ① The seller sends the goods to the platform for inspection
- ② After the appraisal is passed, it shall be sent to the buyer

Commission Sharing

✓ For new goods:

Service Item	Charging Standards
registration fee	<ul style="list-style-type: none"> • 2,000-20,000, depending on the category and size
technical service fee	<ul style="list-style-type: none"> • ≥ 5% for each product (except for goods for promotional activities) • minimum 35 yuan, maximum 249 yuan
transfer fee	1% of product price
inspection fee	<ul style="list-style-type: none"> • 8 yuan/pair for sneakers • 10 yuan/transaction for other categories
identification fee	<ul style="list-style-type: none"> • 15 yuan/transaction for sneakers • 18 yuan/transaction for other categories
packaging service fee	10 yuan/transaction sneakers
storage fee	<ul style="list-style-type: none"> • Within 35 days: free • 35-120 days: 0.2 yuan/product • more than 120 days: 0.5 yuan/product

✓ For secondhand transactions: 2% service charge

Value-added Services

- The value-added services of the acquisition mainly include two parts: shoe washing and equipment identification.



Platform Launch

Subsidize Users

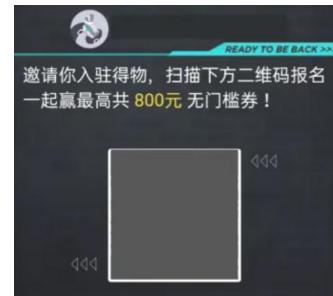
- ✓ Subsidy Package for new users



- ✓ Free lottery



- ✓ Bargain: call friends to help cut price



- ✓ Buy popular sneakers at discount

Increase (perceived) Value to New User

- ✓ Explore More Service

- Fashion Community
- Shoe Washing
- Equipment Identification

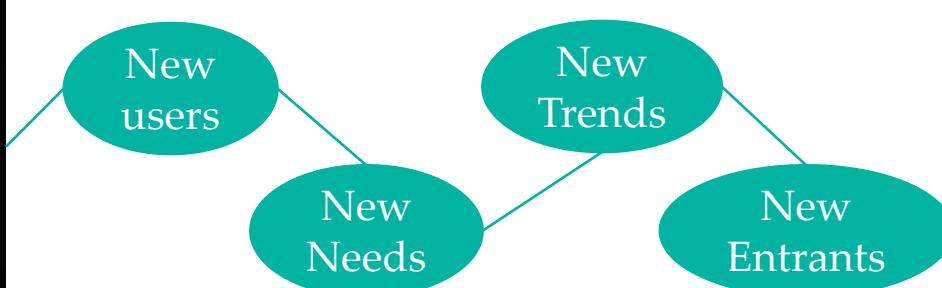
- ✓ Start in Niche Market

- Trendy & Customized
- Young: age 24-35 takes up over 85%
- High WTP & High repurchase rate



Turning Point: 2020

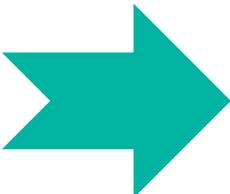
Focus on increasing user base



Focus on creating value for users



- Early Stage: 2015-2019
- Estimated Value: **\$ 1 billion** (3 consecutive rounds of financing in 6 months, led by Hupu, Pulse, Hongshan, DST Global etc.)
- Market Position: **Top 1** in niche



- Early Stage: 2020 - Now
- Estimated Value: **Unknown?**
- Market Position: **Unknown?**

Three Approaches



Technological Upgrades



Community Culture



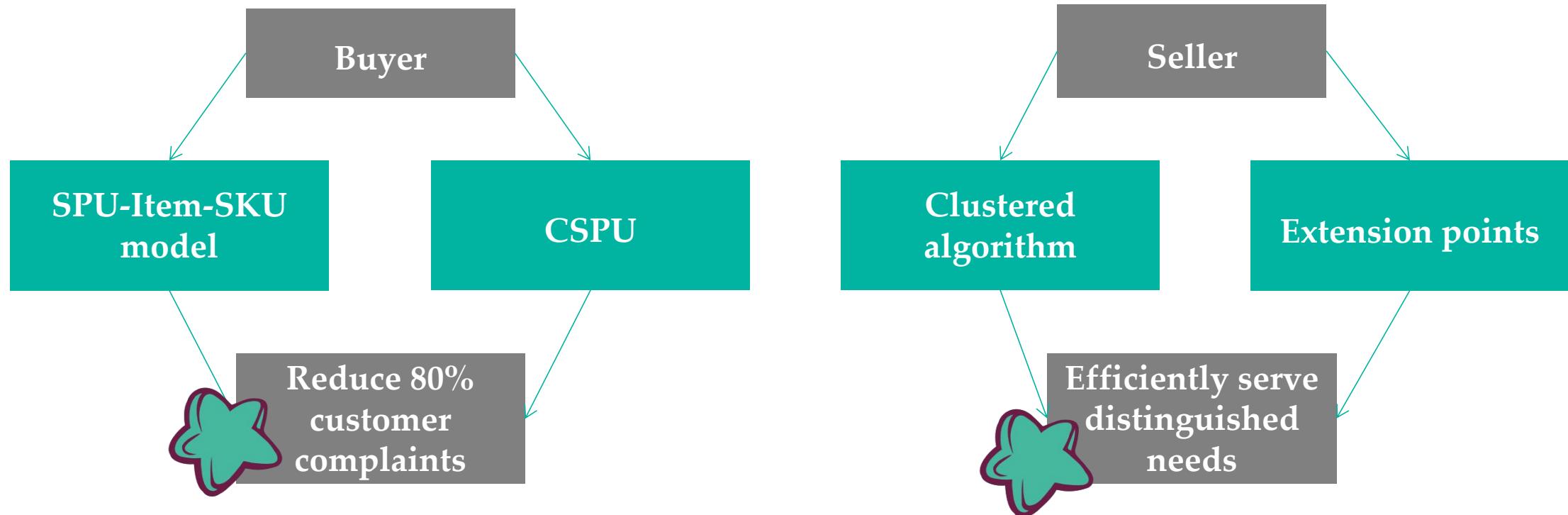
Extension of Product Category



Technological Upgrades

Prior trading platform began to expose problems since 2019 H2 due to

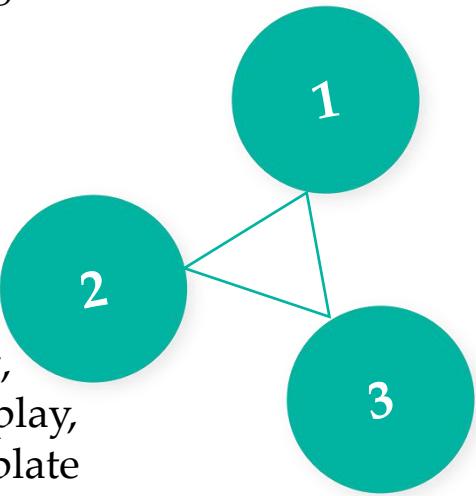
- increasing users: fail to serve all users during peak/slow response time
- diversifying requirements: fail to fully meet specifications



Community Culture - Page Design

- Convenient access to community
- Encourage UGC

UGC on the home page



Five content sections

- Live Streaming, Album, AI Display, Shooting, Template
- Produce content with higher quality

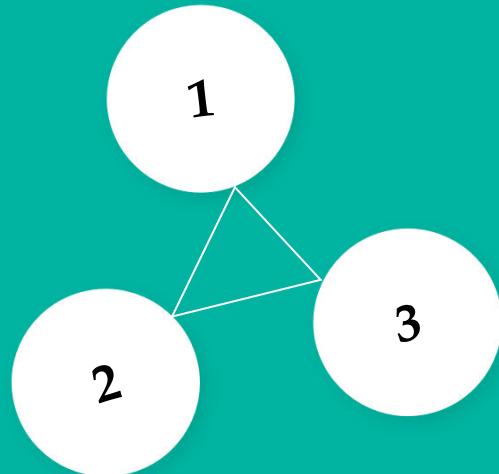


“Creator Center” as an independent segment

- Displays data and information related to published content
- “Creative incentives and growth records”: greatly increases sense of belonging



Product information and ads on the home page



Only one image editing function

Integrate “Creator Center” within ‘Function Center’

Community Culture - Marketing Strategies



Free Traffic from community

- ✓ Increase public exposure
- ✓ Saves marketing expense

- ## Linkage with other platforms
- Weibo, XHS and short video platforms



Differentiated service marketing

- e.g. exclusive packaging
- ✓ Sense of identity
- ✓ Increase loyalty

Public Relations

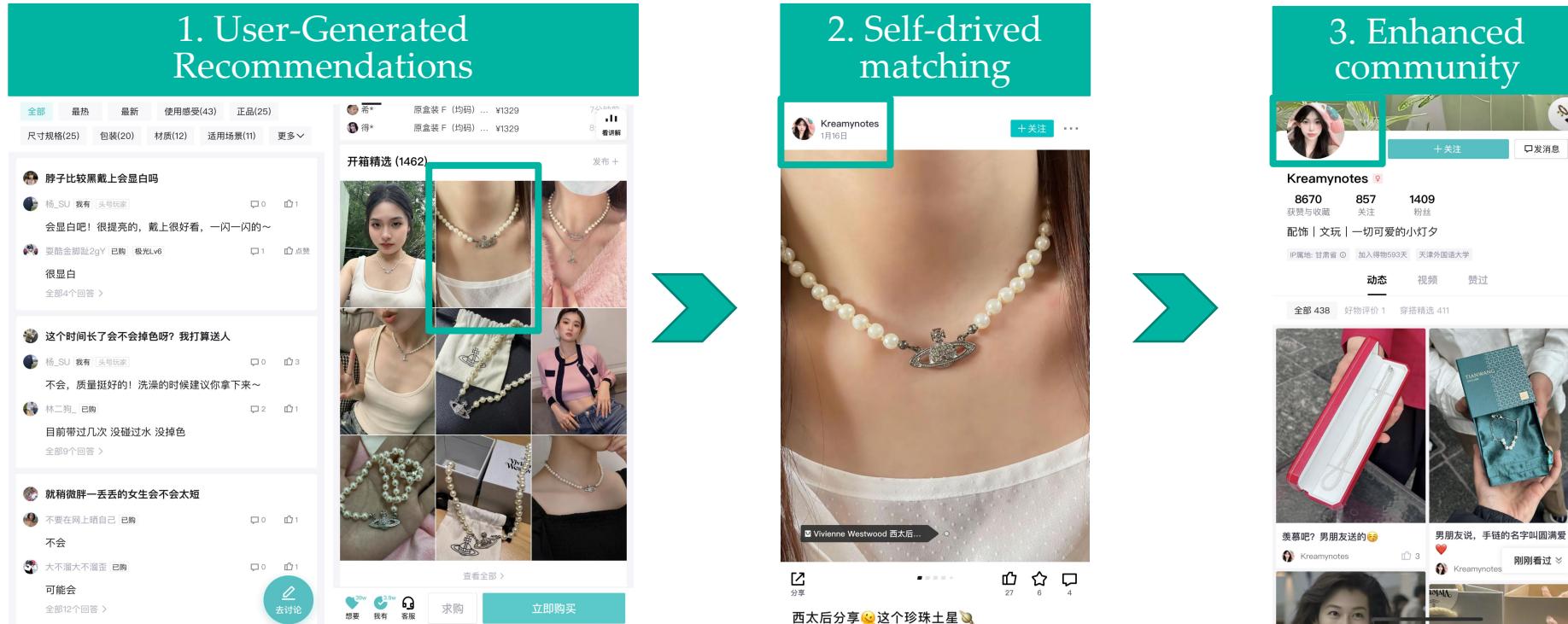
- ✓ Perceptions of goods: third-party testing, live inspections
- ✓ Public image



Precisely target on the trendy group (heavy platform users, need identification, social responsibility)

Community Culture - Recommendation System

- **Underlying Logic:** recommendation system that directly linked with community
 - **User-Generated Recommendations:** organically generated as to improve reliability and objectivity
 - **Positive Feedback Loop:**
 - ✓ enhanced traffic to community + more informativeness to recommendation system
 - ✓ more accurate and efficient matching: combination of content-based and collaborative filtering e.g. click-in, likes, follow
 - **A Richer Ecosystem:** buyers + sellers, separate displacement & discussion



Extension of Product Category

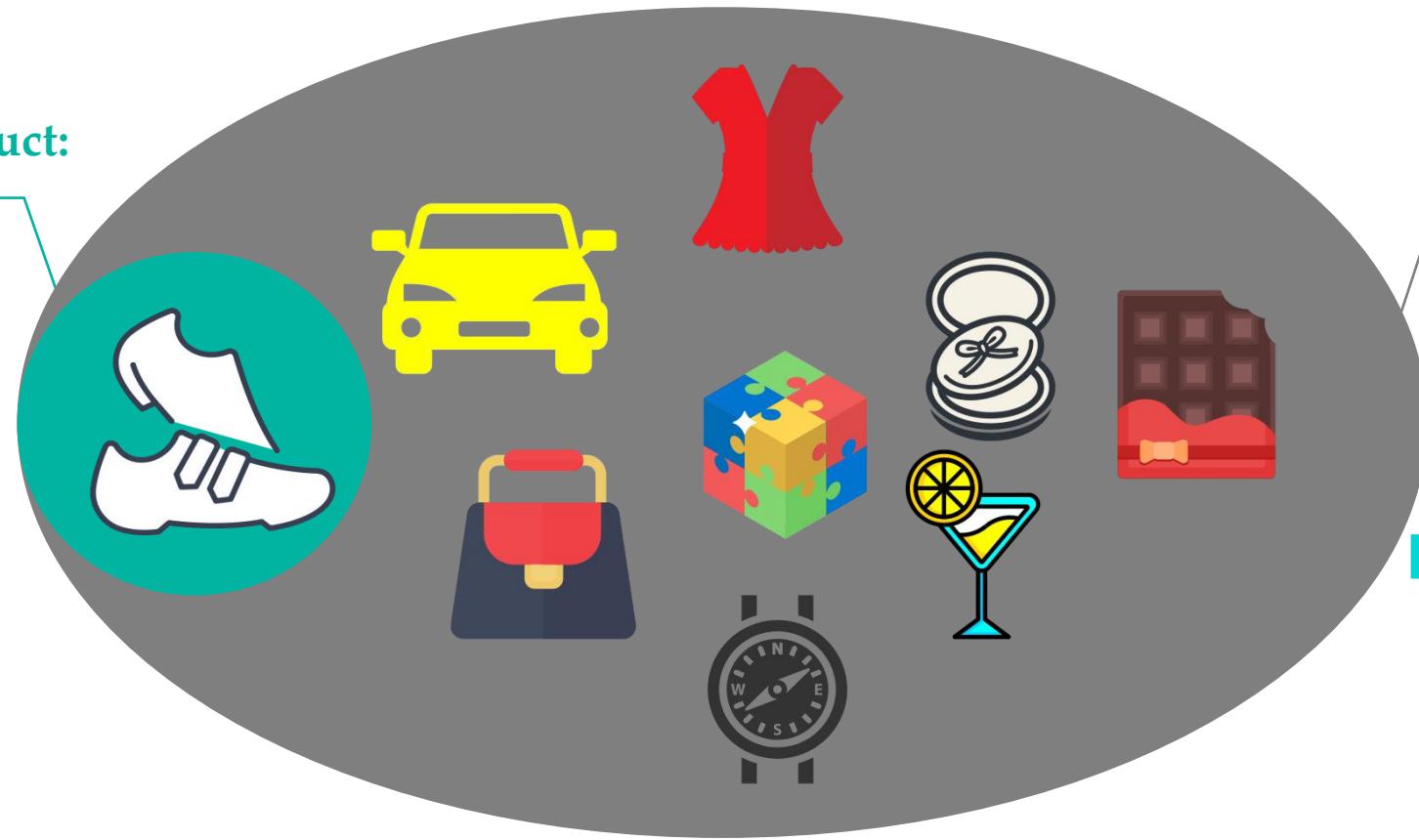
Aggressively invest in support activities and programmes

- Trend Catchers' Program (2020): **10+ million** in cash, **5 billion** in traffic
- Trendy's homie plan (2022): **320 million** in cash, **20 billion** in traffic
- Branding Plan (2023): **1 billion+** for differentiated products, **10 billion** in traffic

得到未来 · 招商计划

◎ 百亿流量补贴 ◎ 专享0门槛激励

A single product:
Sneakers



Full-line product category

- 6950+ brands (2022)
- Across categories
- Middle-to-high end
- Trendy brands

Indirect Value for buyers

Price Band

500-1,000

200-4,000

Brands

外国品牌

new balance

PONY

VANS

REEF

ANTA

CIGA Design

drew house

I3DE MARZO

OLD ORDER

ROARINGWILD

国产品牌

PEAK

ANTA

CIGA Design

old order

roaringwild

Extension of Product Category

足够年轻 足够热爱

全国2.6亿年轻人中，得物用户渗透率超70%



Direct Value
for sellers

1

Established Brands

- Expand online market
- Release new products



2

New Brands

- A launching place
- Celebrities' personal brands...



3

Luxury Brands

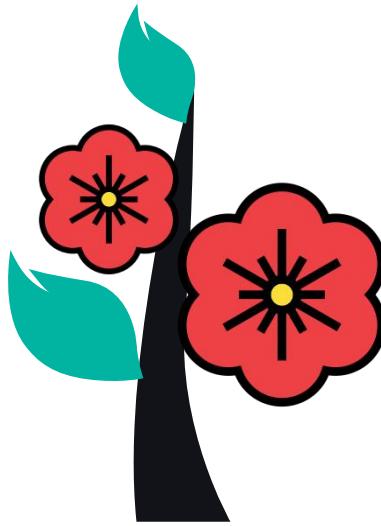
- A marketing tool targeting young people
- Indirect collaboration through co-brandings
- Direct Partnerships



Three Standalone Values

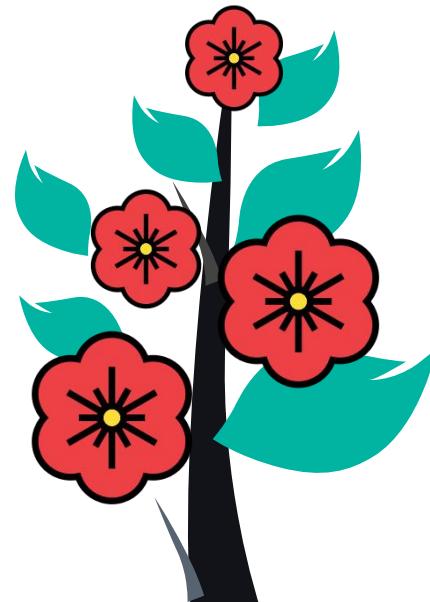
- ✓ **Buyers and Sellers:** better experience
- ✓ **Platform:** reduced cost

Technological Upgrades



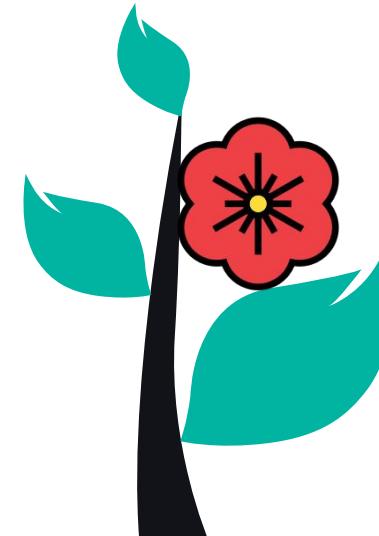
- ✓ **Buyers:** sense of identification , communication with peers...
- ✓ **Platform:** target precisely on trendy group, free traffic, more accurate recommendation

Community Culture



- ✓ **Buyers:** indirect value from network effect
- ✓ **Sellers:** direct value from partnerships

Extension of Product Category



Successful Transition

得物

Focus on creating value for users



~



海底捞



比亚迪汽车
BYD AUTO

- Early Stage: 2020 - Now
- Estimated Value: \$10 billions (10times)
- Market Position: Largely widened gap (6~7 times)

唯品会
vip.com



中國東方航空
CHINA EASTERN

3 Challenges and Solutions

- Current Risks
- Future competition



Risk of counterfeit goods

Risk of counterfeit goods

- Description:** Dewu has been criticized by a notification from *the China Consumers Association*, for being suspected of selling counterfeit goods
- Negative impacts** including:
 - negative perception about product quality
 - negative word-of-mouth
 - decline of consumers' purchasing behavior



Implementations

- ✓ Send positive signals
- ✓ Strict management of supplier performance
- ✓ Strengthen commodity inspection
- ✓ Establish a reporting mechanism



消费者称在得物买到假货,涉嫌销售假冒
伪劣产品被中消协点名

然而,这款名为“得物”的APP却因
涉及销售假冒伪劣商品等问题,被
中国消费者协会点名通报。6...



Supply chain problem

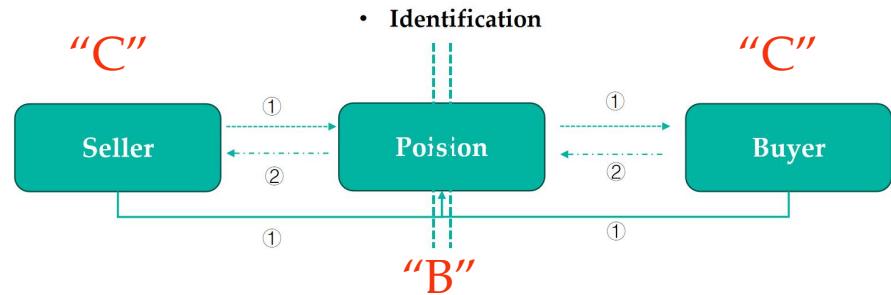
C2B2C mode

- **Description:** the platform only directly connects buyers and sellers
 - Low control power of “B”
 - Lack of trust between “2Cs”

Slow logistics aging



Instability of supply



- **Description:** Above-Average transportation time because goods **must be authenticated by the platform** before being shipped to the buyer



✓ Implementations:

- ✓ Improve logistics network with optimal inventories
- ✓ Accelerate authentication process
- ✓ Facilitates collaborations with reliable logistics companies

- **Description:**
 - Seller side is mainly composed of self-owned retailers, who are **non-professionals**
 - **Moral Hazards:** tend to choose cheaper logistics



✓ Implementations:

- ✓ Subsidize professional sellers
- ✓ Diversified supplier cooperation
- ✓ Penalties for delays

Price manipulation

- **Sellers' independent pricing power** can artificially create negative hypes
- In 2019, Dewu has become a negative textbook on CCTV, and the central bank has also released an article entitled "Vigilant Shoe speculation Boom to prevent financial risks", pointing out that great security risk of speculation.
- In 2021, Li Ning's shoes that are originally priced at 1,500 was priced 48,000 in Dewu, leading to broad criticism.



Strengthen user education

- Sellers: illegal to speculate
- Buyers: do not blindly follow



Price supervision mechanism

- Bring in moderators
- Clear price limit and regulations



Encourage competition

- Recommend a cheaper seller
- Position auction based on price

Future potential competition

- Such platforms are **multi-homing** and **highly competitive**.
- Many potential competitors



Traditional large second-hand platforms



与专业鉴定机构合作

与专业鉴定机构合作，例如get。

服务费用

收费标准：验货宝贝类型
¥29.9 / 单 潮鞋且交易金额 < ¥500

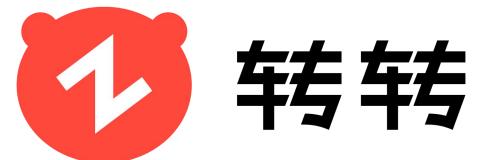
¥40 / 单 潮鞋且交易金额 > ¥500

¥29.9 / 单 手办/模型/公仔/玩具等
¥40 / 单 运动服装(男装)/男鞋

• 潮鞋和潮玩 ¥29.9 鉴定费情况下，快递默认发中通，如需发顺丰，可以主动联系验货中心补差价

• 如验货结果为“符合品牌工艺标准”，无论买家最终是否购买，验货费由买家承担；

• 如验货结果为“不符合品牌工艺标准”，验货费由卖家承担；



Second-hand digital platforms



商品 竞争 评价 推荐

综合排序 价格 分类 筛选

99 新

鞋底厚度4cm

实拍图 (6)

细节图 (1)

以上报告内容对你有帮助吗？

立即购买



Large e-commerce platforms' other possibilities

NIKE

综合 销量 价格 成色

关于京东备件库

商品品质

备件库商品全部通过专业人员定期检测，通过不同成色标准区分商品质量，成色数字越大代表商品质量越好。

9成新以上备件库商品区别于普通二手商品，是使用次数极低的准新品，尽可放心购买。

7成新和8成新商品因商品缺少包装附件或存在官方维修的情况，属于低使用次数的普通二手商品，适合自用。

— 检测定级 —

专业检测 智能定级

商品品质

备件库商品均来源于京东自营商品，为以下三种情况之一

9成新以上备件库商品7天无理由退货，功能完好，极低使用次数商品。

因外包装破损留存京东仓库未销售产品。

原商品因质量问题产生退货后由厂商换新或维修的商品。

— 全链路监管 —

大型仓储中心 智能物流机器人

商品品质

备件库商品全部通过专业人员定期检测，通过不同成色标准区分商品质量，成色数字越大代表商品质量越好。

9成新以上备件库商品区别于普通二手商品，是使用次数极低的准新品，尽可放心购买。

7成新和8成新商品因商品缺少包装附件或存在官方维修的情况，属于低使用次数的普通二手商品，适合自用。

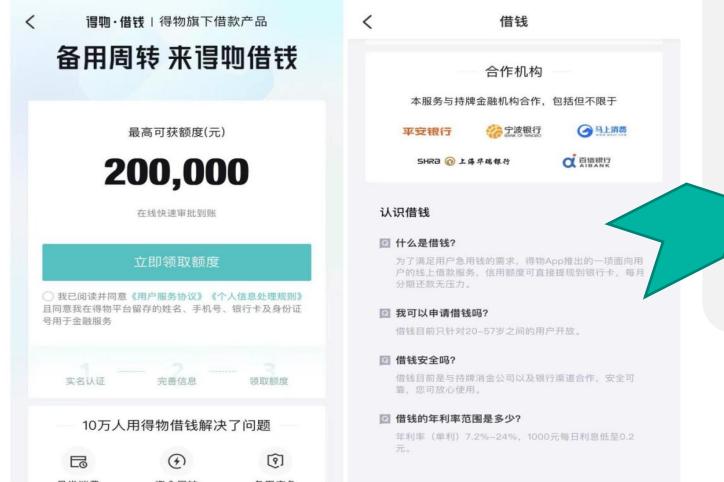
Future potential competition and response

Utilize **first mover** advantage to better understand young people

- Network effect: Stable traffic foundation
 - Deeply cultivate content communities, e.g. encourage users to share knowledge about sneakers, trading experience, and trendy culture, and utilize KOLs within the community.
-
- Recommendation system: Traffic conversion
 - Analyze **browsing** history, **purchasing** history and **search behavior** data.
 - **Guide** users to discover new sneaker brands and styles, even other product categories.
-
- Reputation system: Good experience
 - Provide **credit rating** and **certification** for sellers and buyers, **reward** and promote reputable sellers. e.g. optimize auction rules for recommended positions.

Future potential competition and response

Innovation & Differentiation



- Explore self operated services (dealer): Standardized services
 - Recycle high-quality second-hand products and resell them on the platform.
- Strengthen brand collaboration: Enhance platform competitiveness
 - attract more "youthful" brands to directly settle in through resource support, community traffic guidance, operational support, etc.
- Explore financial services: Enrich revenue channels
 - Explore services such as installment payments for sneakers, use first & pay later, and credit loans, to provide users with a more convenient and secure payment experience.



THANKS !

— Group 3 —

Fan You, Li Jiarun, Li Yueqing,
Shang Zhou, Wang Chenxin, Wu Jiaqi