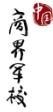




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Analysis of Meituan's In-Store Business

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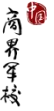


01 Analysis of Meituan's In-Store Business

Meituan — — Leader of “In-Store services”, provide diversified services



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Focus on the catering industry, a variety of business synergies

- Meituan owns apps such as **Meituan**, **Meituan Takeout**, and **Dianping**. Its service scope covers catering, takeout, hotel travel, movies, and shared bicycles. Its business has covered more than 2,800 cities, counties, and districts in China, and it has gradually become China's leading local service e-commerce platform.

美团 美团

大众点评

美团外卖
美团外卖 送啥都快

Meituan integrates a variety of service including hotels, **movies**, **tourism**, **transportation**, **supermarket**, etc.

Meituan-Dianping's in-app functions



- 1 Restaurant reviews**
Works like Yelp
- 2 Movie and show tickets**
Works like Fandango
- 3 Hotel booking**
Works like Booking.com
- 4 Food delivery**
Works like Grubhub
- 5 Ride hailing**
Works like Uber
- 6 Home rentals**
Works like Airbnb
- 7 Travel booking**
Works like Kayak
- 8 Supermarket**
Works like Walmart

Business model: Connecting local merchants and consumers, providing both parties with information and trading platforms, and receiving commission



The different businesses fully develop synergies around the theme of local life

It is estimated that Meituan's in-store business GTV may exceed 600 billion yuan in 2023 (a year-on-year increase of 85%)

In-Store Business — —High growth and high barriers

Meituan is still growing fast



In-store catering and take-out are the main sources of profit; Emerging businesses offer future growth potential.



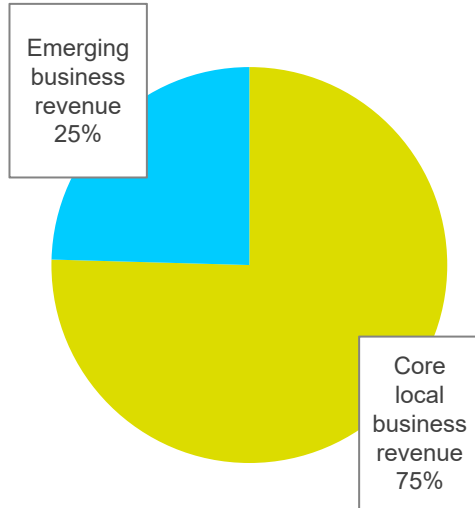
美团优选



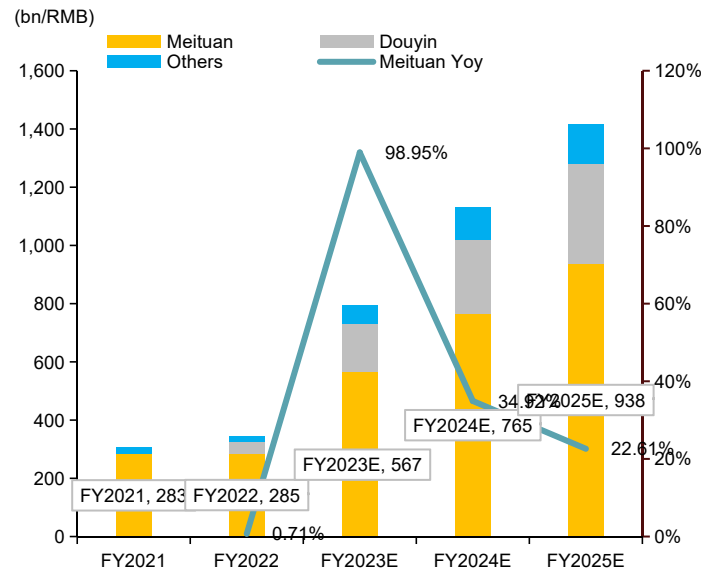
美团买菜
新鲜 送得快

- Meituan's businesses include in-store and delivery, store and hotel services, physical retail (such as Meituan optimization, Meituan shopping), travel services (such as Meituan taxi and shared bicycles), financial services and user platform management, which together constitute its diversified local life service platform. In-store catering and take-out are its core business.

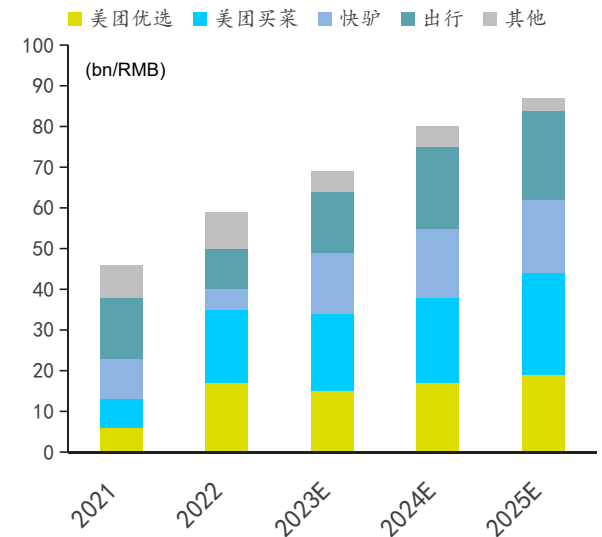
Localized life industry account for **75%** of Meituan's revenue



Localized life industry : Meituan leads the industry and is three times bigger than Douyin



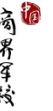
Emerging business: Even with net loss, revenue is still increasing to get a bigger share.



The different businesses fully develop synergies around the theme of local life

It is estimated that **Meituan's in-store business GTV may exceed 600 billion yuan in 2023** (a year-on-year increase of 85%)

Two-sided Market Pricing of Meituan

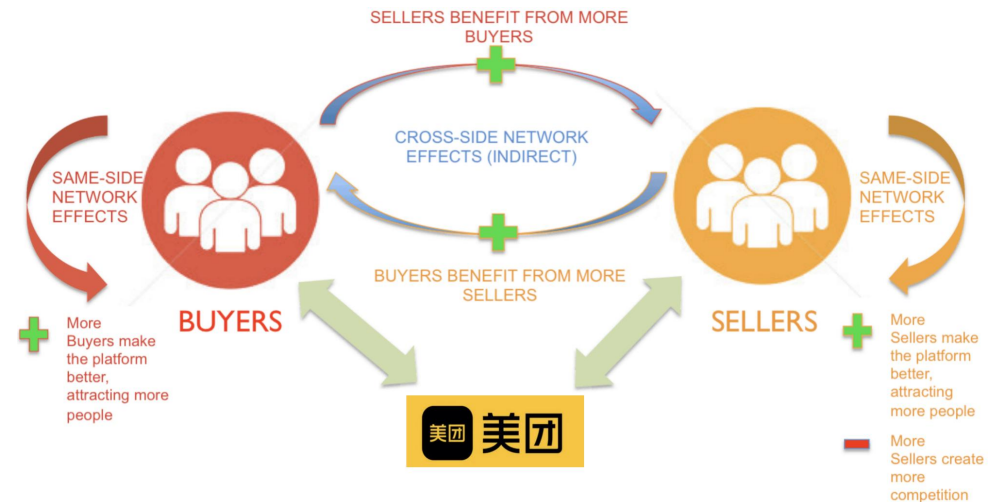


The **two-sided market pricing** theory in platform economics focuses more on interactions between users and network effects, and how platforms regulate and facilitate such interactions through pricing mechanisms. With the rapid development of Internet platform enterprises, it has become a hot issue in research and practice

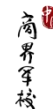
> **Bertrand model:** The Bertrand model is used to describe oligarchic competition in which two or more firms offer similar or identical products in the same market. In Bertrand competition, companies also choose price as a means of competition, and consumers will choose which company's products to buy according to the price. The conclusion is that firms will reach Nash equilibrium through price competition, and the final price will equal marginal cost, thus achieving zero profit.

Network Externality: In economics, a network effect (also called network externality or demand-side economies of scale) is the phenomenon by which the value or utility a user derives from a good or service depends on the number of users of compatible products.

(Price Structure) Non-Neutrality: The change of the price will affect the number of users on the other side to enter the platform, affect the charge to the other side users.



Two-sided Market Pricing of Meituan



Single-homing & Hotelling model:

- Hotelling transportation cost parameter: τ_S for sellers and τ_B for buyers.
- Platforms compete by designing membership fees:
 $(A_B^1, A_S^1), (A_B^2, A_S^2)$
- Buyer/Sellers' utility from joining platform i :
 $u_B^i = n_S^i b_B^i - A_B^i$
- Sellers' utility from joining platform i :
 $u_S^i = n_B^i b_S^i - A_S^i$

Use the expression of u_S^i and u_B^i , also the fact that $n_B^j = 1 - n_B^i$ and $n_S^j = 1 - n_S^i$, we obtain:

$$n_S^i(n_B^i) = \frac{1}{2} + \frac{[(2n_B^i - 1)b_S - (A_S^i - A_S^j)]}{2\tau_S} ; \quad n_B^i(n_S^i) = \frac{1}{2} + \frac{[(2n_S^i - 1)b_B - (A_B^i - A_B^j)]}{2\tau_B}$$

For given membership fees, an additional buyer attracts b_S/τ_S additional sellers.

Similarly, an additional seller attracts b_B/τ_B additional buyers.

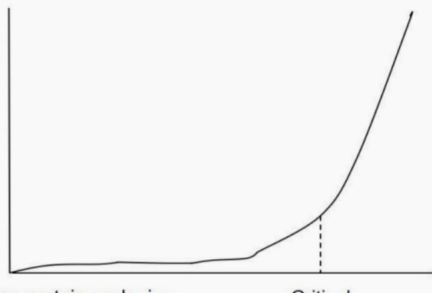
$$\max_{A_B^i, A_S^i} \Pi^i = (A_S^i - c_S) \left[\frac{1}{2} + \frac{b_S(A_B^j - A_B^i) + \tau_B(A_S^j - A_S^i)}{2(\tau_B\tau_S - b_Sb_B)} \right] + (A_B^i - c_B) \left[\frac{1}{2} + \frac{b_B(A_S^j - A_S^i) + \tau_S(A_B^j - A_B^i)}{2(\tau_B\tau_S - b_Sb_B)} \right]$$

$$A_S = \underbrace{c_S}_{\text{cost}} + \underbrace{\tau_S}_{\text{market power}} - \underbrace{\frac{b_B}{\tau_B}}_{\text{extra buyers}} \underbrace{(b_S + A_B - c_B)}_{\text{benefit from a buyer}}$$

In the two-sided market setting, the price is adjusted downward by the factor $\frac{b_B}{\tau_B}(b_S + A_B - c_B)$, the term $b_S + A_B - c_B$ represents the external benefit that platform i gets by attracting an additional buyer.

The price markup is higher for the party with less price elasticity, and lower for the party with more price elasticity.

Size of network



Critical mass

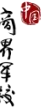
Time

After reaching a certain scale, i.e. **critical mass**, the value offered by the network becomes really high for one or more user classes.

Reputation system of Meituan's In-Store



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The largest merger in China's Internet history: Meituan and Dianping



After the merger, the valuation of Meituan was raised to \$20 billion!



Three main contents of reputation system:

**Rating + Ranking List +
Text & Photo Review**

Rankings on Dianping firmly occupy the minds of users



Why is the reputation system so important for Meituan?

- **Matching:**

- Due to users coming to Meituan with clear consumption needs, the reputation system helps to quickly complete consumption decisions.
- Generally, users can directly select the top merchants on the ranking list, making it easier for them to make choices.

- **Promote quality:**

- Reputation system can improve the quality of services provided by merchants.
- It can encourage “good” behavior and prevent “bad” behavior.

- **Sustain loyalty:**

- Once a merchant gains a particular reputation in one system, it is not easy to transfer or switch to another system.

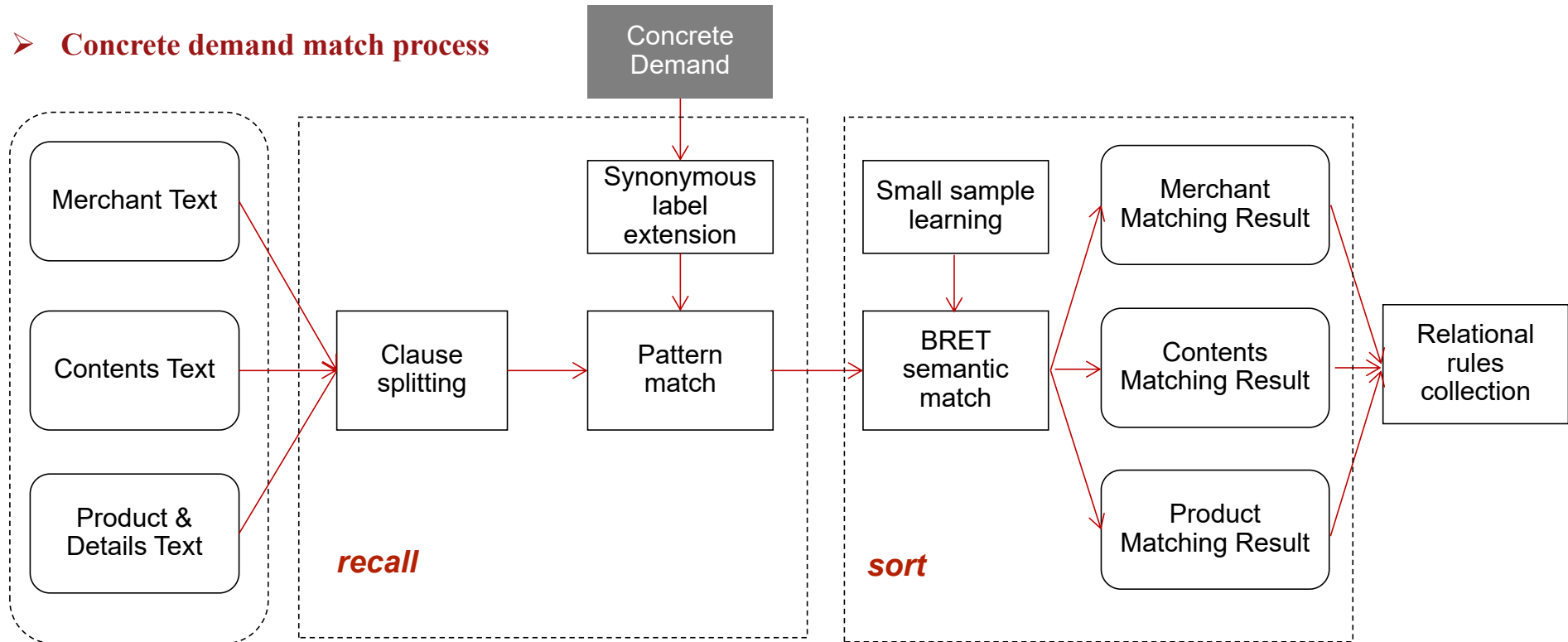


Risk: Some Meituan merchants with high ratings may be inauthentic.

Hybrid Method: Collaborative Filtering + Content-based Filtering

- In Meituan's in-store business, **collaborative filtering** can help identify users with similar consumption habits and recommend corresponding merchants or products based on the behavior of these similar users.
- **Content-based filtering** can make recommendations based on a restaurant's menu, price, location and other information, as well as user preferences such as taste, budget and geographic location.

➤ Concrete demand match process

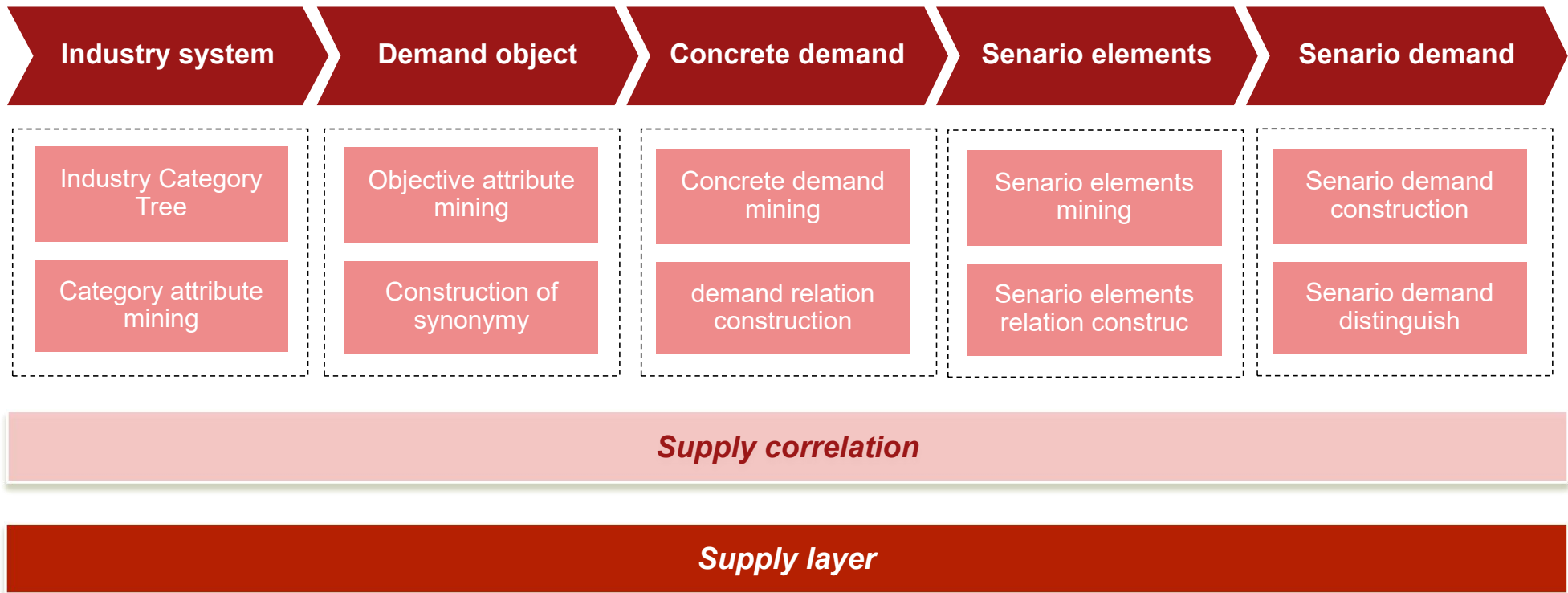


Recommender system of Meituan's In-Store



In-store integrated knowledge graph system

- In the integrated business of in-store, Meituan builds a **knowledge graph** to enhance the capability of the recommendation system, and captures the relationship between entities through the knowledge graph to improve the quality and accuracy of recommendations.





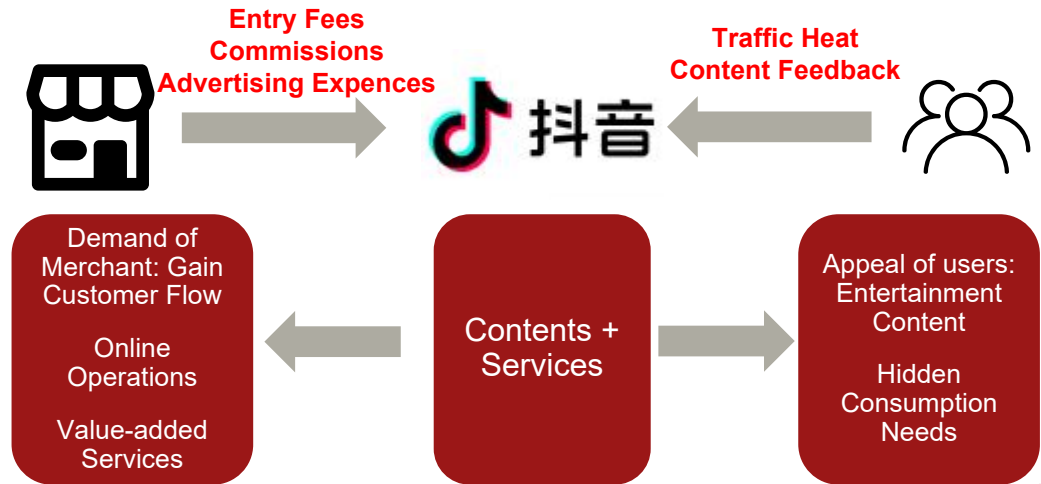
02 Platform Competition: Meituan vs Douyin

Business Model of Douyin's Local Life Services



Connecting Goods with People, Driven by Content

- Douyin strategically focuses on prominent brands, leveraging its robust traffic scale and algorithmic distribution capabilities to attract users to **offline consumption** through methods such as interest-based recommendations and content seeding.
- **Primary Revenue Sources:** Entry Fees, Commissions, and Advertising/marketing Expenditures

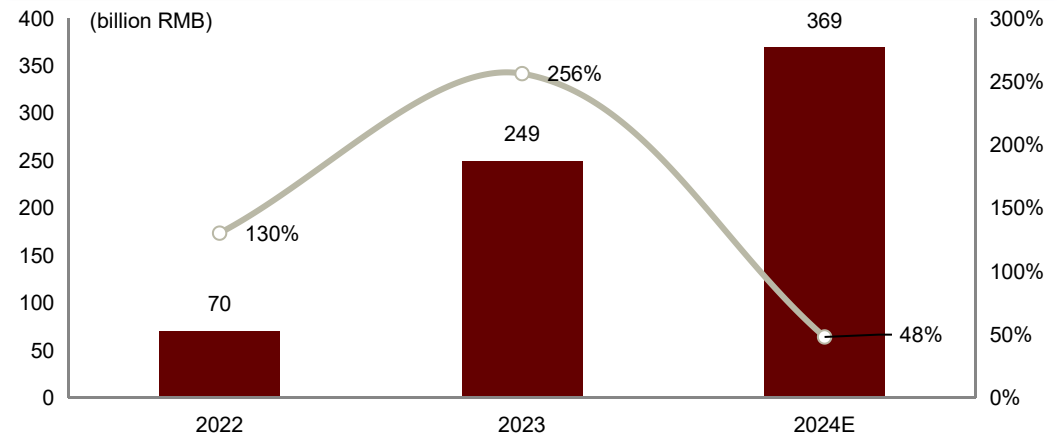


Continuous Expansion of the Local Life Services Business Scale

2023 Douyin Life Services Data Report



Total transaction volume (GTV) within the local life services



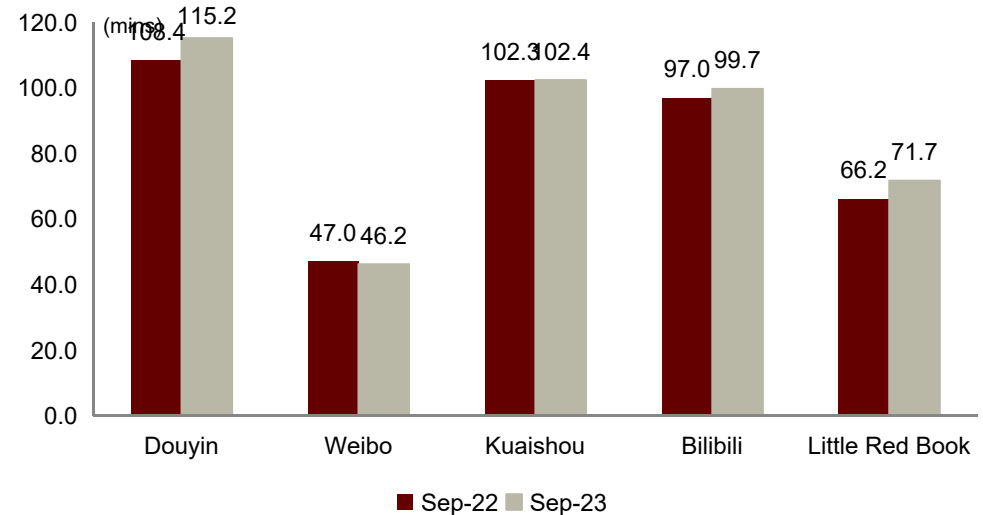
The Core Competitiveness of Douyin



Massive traffic scale and robust user engagement

- As of September 2023, data from QuestMobile illustrates Douyin's commanding position, boasting 743 million monthly active users and a notable year-on-year growth rate of 5.1%.
- Through innovative content creation and algorithmic recommendation mechanisms, Douyin effortlessly accumulates extensive user data, including **demographics, location, browsing duration, and content preferences**.

Per capita daily usage time of main media platforms



Utilizing content as a medium, Local Life Services exhibit intuitive appeal

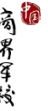
- The presentation format of local life services, utilizing content as a carrier, possesses a straightforward appeal.
- Formats such as **short videos and live streaming** offer users a three-dimensional, immersive presentation, providing a direct channel for users to understand products and services.



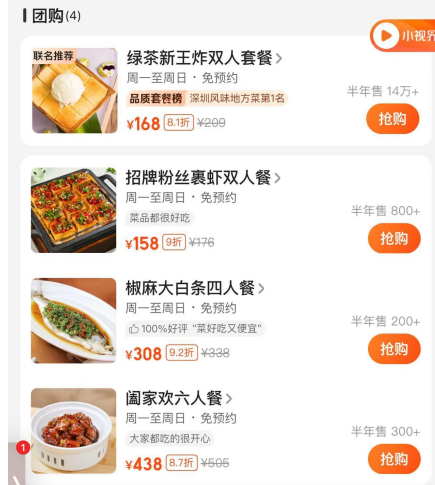
The Core Competitiveness of Meituan



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Meituan's core is a business closed loop of transaction + comment.



Comments: Create platform value and generate user stickiness.



Group purchase: master the flow of transactions and make profits.



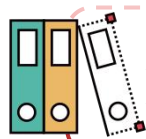
In-Store Business

Three-tier moat of Meituan's arrival business

Bilateral network effect

Mobile review system

Takeaway business collaboration



Acquire Comments, use tool websites to attract traffic.



The review system, which seems to despise assets, has become the most important barrier of the service industry information platform.

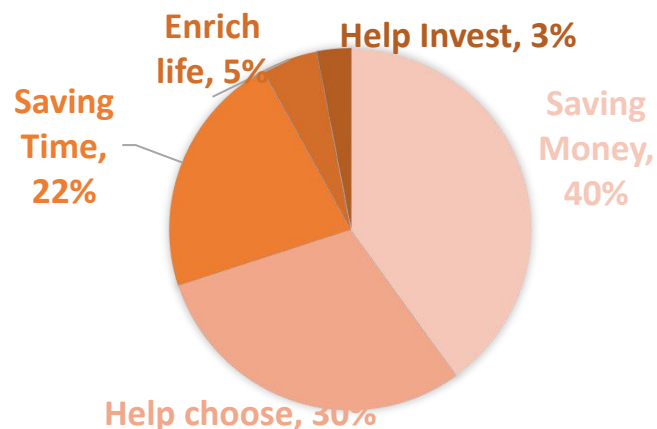


Takeaway is high-frequency consumption, cultivate consumers' habits of APP.

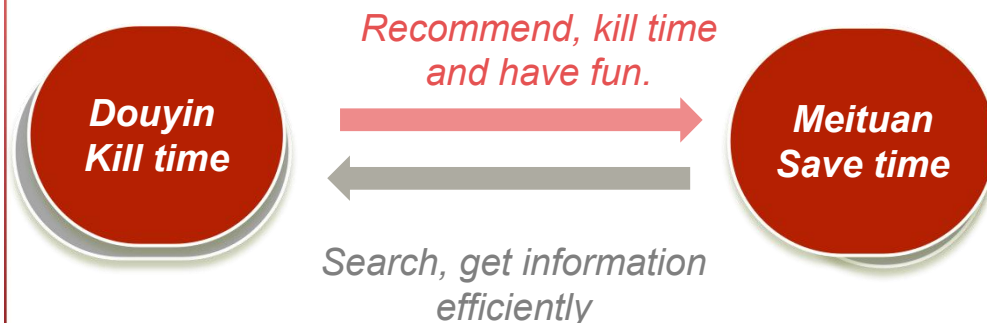
Douyin can't beat Meituan at present



*The value of the service platform to consumers is **not limited to saving money**, and the local living and business space in Tik Tok is limited.*



Kill time or Save time ?
Tik Tok is not efficient

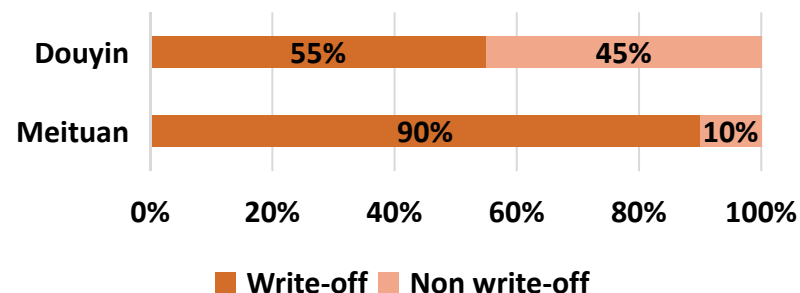


Douyin cost more for merchants

- The advantage of short video is that it can stimulate potential demand by providing consumption scenes, but it is not as efficient as graphics and text in information transmission.
- From the merchant's point of view, the initial production and maintenance cost of short video is significantly higher than that of graphics and text.

Meituan has a higher purchase rate.

- In 2022, the write-off rate of Douyin purchase coupons is about 50%-60%, while the write-off rate of Meituan is about 90% in the same period.





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03 Conclusion and Outlook

Meituan's In-Store Business

- **Platform Pricing**
 - *Different pricing is given to different types of consumers*
- **Reputation System**
 - *Provide weak social functions*
 - *Improve the quality of service*
 - *Maintain user loyalty*



- **Recommender System**
 - *Collaborative Filtering*
 - *Content-based Filtering*
 - *Knowledge Graph*

Meituan vs Douyin

Core Competitiveness

Meituan

- ✓ **Comments**
- ✓ **Transaction**

Douyin

- ✓ **Traffic**
- ✓ **User Engagement**



Douyin can't beat Meituan at present

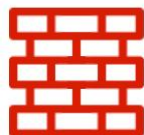
- **Service Platform: Offering More Choices**
- **Douyin Merchants: Higher Maintenance Costs**
- **Short Video vs. Graphics & Text**
- **Meituan: Higher purchase rate**

Meituan's business growth potential



Untapped Potential in Local Life Services for Lower-Tier Markets

- group buying: 40%
- food delivery services: 15.6%



Abundant categories + low sales costs + high conversion rates = strong business barriers



Service Industry Platform vs. E-commerce Platform

→ more stable long-term landscape



Competitive Advantages in the Service Industry

- Merchant count
- logistics strength

Meituan's Future Strategic Development

Combat Competition on Different Fronts

- food delivery, in-store services, travel bookings
- *other areas of local life services*: healthcare, education, and sports

Explore International Markets

- China Hong Kong
- *new overseas markets*: the United States and Saudi Arabia ...

"Retail + Technology" Strategy Upgrade

- service e-commerce
- ↓
- physical e-commerce penetration

Organization Structure Adjustment

- home services group
- in-store services group
- Meituan platform
- basic research and development



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Thank you !