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didi chuxing: transforming transportation in china[[1]](#endnote-1)

Guowei Zhu wrote this case under the supervision of Professor Ning Su solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On August 1, 2016, Didi Chuxing Technology Co., Ltd. (Didi Chuxing) announced a strategic agreement with U.S. ridesharing giant Uber Technologies Inc. (Uber). Didi Chuxing had acquired all of Uber’s assets in China, including the Uber China brand, business, and data, and it began to operate in Mainland China.[[2]](#endnote-2) Didi Chuxing, the Chinese student that had just debuted in 2012, had beaten the American teacher, Uber, in China. Didi Chuxing had previously entered Uber’s territory by investing in and co-operating with Lyft Inc. (Lyft), Uber’s main competitor in the United States. It had integrated Lyft’s products, and users could request rides in the United States using Didi Chuxing’s overseas service.[[3]](#endnote-3) Predictably, a new round of competition between Didi Chuxing and Uber was unfolding in global markets. Faced with different market environments and more intense competition, Cheng Wei, the chief executive officer of Didi Chuxing, had to design a road map for the future of the company.

History of Didi Chuxing

Wei, the founder of Didi Chuxing, graduated from the Department of Public Administration at Beijing University of Chemical Technology in 2004. The same year, he joined e-commerce company Alibaba (China) Network Technology Co. Ltd. (Alibaba) as a sales person, and was soon promoted to become the youngest regional manager of Alibaba at the time. At Alibaba, Wei’s responsibility for the sale of Internet products meant that he visited a large number of customers and accumulated solid sales capacity and experience.

In 2011, Wei acted as deputy general manager of Alibaba’s business-to-consumer (B2C) Alipay division, taking on the responsibility of connecting Alipay products and merchants. Wei transitioned from his role as head of sales to become a product manager, and his vision shifted from front-end sales to a focus on the full operation. Looking back to his eight years with Alibaba, Wei maintained that “the first six years’ work made me well grounded, and the next two years let me understand the products, which are all useful for me to start my own business, and grab the market.”[[4]](#endnote-4)

In June 2012, Wei left Alipay to found the Beijing Xiaoju Technology Co. Ltd. Cheng had about US$120,000[[5]](#endnote-5) to start his entrepreneurial project—a smart ride-hailing application called Didi Dache, which was a new, intelligent online ride-hailing system based on mobile technology. Because there were few partners with a good command of products and product development on the company’s initial team, Didi Dache had to outsource the development of the product to a technical development company for around $12,000. However, the developed product failed to meet the standards for implementation, and its launch time was delayed multiple times.[[6]](#endnote-6)

During the early stages of product development, the team started market promotions and decided to find drivers who were willing to use Didi Dache. Wei and some other members came up with many ways to promote the product, including visiting taxi companies; waiting at railway stations; and going to the places the drivers frequented, such as hotels, cafés, and the gas stations where drivers ate and refuelled. At the time, there were 189 taxi companies in Beijing; Cheng Wei and his team visited about 100 of them, but the result was not satisfactory.[[7]](#endnote-7)

Wei set an initial target for the company to co-operate with at least 1,000 drivers in two months. The reality, however, was that no taxi companies were willing to co-operate with Didi Dache in the first 40 days. In August 2012, Yinshan Taxi Company—a firm with 200 taxis in the Changping district in a suburb of Beijing—agreed to offer Didi Dache the chance to give a 15-minute introduction at the drivers’ regular meeting. There were 100 drivers, and only 20 of them had smart phones. Based on the efforts of the Didi Dache team, eight drivers finally installed the Didi Dache application (app) on their mobile phones.[[8]](#endnote-8)

The team found that the most effective way to promote the product to taxi drivers was to talk to those waiting for passengers at the railway station. At that time, taxi drivers as a group had a relatively low mobile Internet adoption rate. Therefore, the team invented a small plug-in they could use to help drivers install their app directly, using a computer. Didi Dache then used similar tactics at railway stations and airports.

On September 9, 2012, Didi Dache was formally launched. At first, taxi drivers would turn off the app because there were no orders and they considered the app to be a waste of mobile phone time. Although 500 drivers had installed the app, only 16 of them were online, and eight of these disappeared on the second day.[[9]](#endnote-9) The Didi Dache group faced a second challenge: finding passengers and orders to persuade drivers that Didi Dache could bring real benefits.

To overcome these challenges, Didi Dache decided to offer each online driver $0.76 per week as a mobile traffic subsidy.[[10]](#endnote-10) Meanwhile, the team made door-to-door visits to offer taxi coupons to passengers, and they mobilized all drivers to help popularize the app. They also affixed stickers to the advertising box of each taxi backboard to help promote the app. It took them half a month to put up Didi Dache advertisements on tens of thousands of taxis in Beijing. To deal with the problem of no orders, Didi Dache employed someone to use the taxi software to meet order requirements: Wei paid a person $60.92 per day to take taxis around the third ring road in Beijing using Didi Dache.[[11]](#endnote-11)

On November 3, 2012, the first snow of the year fell in Beijing, and many people could not take taxis to get to and from work; some started trying Didi Dache. It was on that day that the daily orders of Didi Dache surpassed 1,000 for the first time. Passengers found that they could take taxis in the snowy night with no extra fee, and many of them shared their unexpected joy through microblogs. Didi Dache became known to more people overnight, and the app finally started to rise to popularity.[[12]](#endnote-12)

The development of Didi Dache attracted the attention of the capital market. In December 2012, Didi Dache obtained $3 million in series-A financing from GSR Ventures Management Co. Ltd., and in April 2013, it obtained $15 million in series-B financing from Tencent Holdings Limited (Tencent). In January 2014, Didi Dache obtained a total of $100 million in financing, including $60 million from CITIC Private Equity Funds Management Co. Ltd., another $30 million from Tencent, and $10 million from other agencies, making it the first ride-hailing software to obtain series-C financing.[[13]](#endnote-13)

As Didi Dache grew, rivals also started to emerge. The most formidable competitor was Kuaidi Dache, a company that operated on a similar model but had a different geographical focus in China. The company entered a fierce competition for market share across China and gave out subsidies to consumers. However, on the eve of Valentine’s Day, February 13, 2015, Didi Dache and Kuaidi Dache ended their two-year capital-burning subsidy war to engage in a strategic merger. On September 9, 2015, Didi Dache officially changed its name to Didi Chuxing and introduced new branding and a new logo.[[14]](#endnote-14) By the end of 2015, Didi Chuxing had more than 300 million users and 10 million drivers covering more than 400 cities. It had over 1.4 billion total orders, and its daily orders consistently exceeded 10 million.[[15]](#endnote-15)

On August 1, 2016, having engaged in a similar subsidy war with Uber, Didi Chuxing announced a strategic agreement with the U.S. technology giant—acquiring Uber to become the second-largest online trading platform and the world’s largest online taxi-booking platform.[[16]](#endnote-16)

What was the secret behind Didi Chuxing’s rise from a humble app to an Uber-defeating technology giant that re-shaped transportation both within and beyond China? To answer this question required an examination of the social and business context where Didi Chuxing merged.

Public Transportation in China

Urban Public Transportation

Over the past 20 years, China’s economy had undergone major transformations. Accelerating urbanization had brought about tremendous changes in the outlook of its cities. Along with the development of Chinese cities, the demand for personal travel in China was growing, and the number of motor vehicles had been increasing year by year.[[17]](#endnote-17) However, the capacity of public transportation networks and the conditions of roads lagged far behind the needs of the public. Increasing public travel demands could not be fully met, travel efficiency was relatively low, and the quality of service was slow to improve, all of which constituted sore points in the development of urban public transportation in China.

Urban public transportation was a market with fluctuating demand, which peaked during the commuting times in the morning and evening but went flat during working hours. Peak demand was three times higher than demand during the off-peak period. According to statistics, the annual average travel efficiency in China’s 10 key cities was only 50 per cent. Because of large populations and areas, it was difficult for the cities to meet peak travel demands, despite huge investments in construction by cities.[[18]](#endnote-18)

After years of development, a combined public transport network including buses, subways, light rail, and taxis had been formed in China. Compared with the subway, light rail, and buses, taxis were more expensive, but they could better meet people’s personal travel needs. With the development of the economy and the improvement of people’s living standards, more and more people chose to travel by taxi.

The Taxi Industry

Taxis entered China in 1903. In the 1980s, after the reform and opening up of the economy, China’s taxi industry also entered a period of rapid development. At this time, there were about 1.09 million taxis in China’s major cities; the number of taxi drivers had reached 2.626 million, and the average income per taxi driver could reach $1,000 per month.[[19]](#endnote-19)

According to China’s road transportation regulations, individuals or companies wanting to establish road traffic businesses had to obtain approval from government authorities in order for their businesses to be legal. As a road traffic business, the taxi industry was strictly controlled by the government. The most prominent controls were reviews of the qualifications of the operating vehicles and operators, and controls over the number and prices of taxis.

Local governments in most cities controlled the number of taxis by issuing taxi licences via auctions. Many factors were taken into account when determining the number of taxis in a city; these included the economic development level of the city, the total population of the city, the number of taxi trips taken by residents, the average operating time of taxis, and the rate at which taxis remained empty or idle during off-peak hours.

An increase in the rate at which taxis were empty or idle would greatly increase the costs of drivers. As this empty rate remained high and was difficult to improve, many cities had either stopped issuing taxi operating permits or limited the number they issued in order to control the number of taxis. Based on the standard for a civilized city in China, a tourist city should have 50 taxis per 10,000 people. It was common for the number of taxis in first-tier cities to be below this standard, indicating that the number of taxis was seriously insufficient. The present growth in the market demand for taxis in China was about 3 per cent. As the number of taxis varied little, the number of taxis in many cities had obviously been unable to meet the market needs.[[20]](#endnote-20)

In China, the relevant government departments and the pricing departments jointly formulated standards for things such as initial taxi mileage, initial rates, round-trip mileage, and the unit price per distance travelled, making timely adjustments. In recent years, because of fluctuations in crude oil prices and a decreased enthusiasm for driving, local governments had held taxi price hearings to collect advice and raise prices. An oil subsidy policy had also been implemented to improve the efficiency of taxi operations and drivers’ rates during rush hours, and to alleviate the problem of decreasing incomes for drivers.

However, any increase in the price of taxis would also affect passengers’ willingness to use the vehicles, and to some extent, this would increase the empty rate and reduce drivers’ incomes. Therefore, price control in the taxi industry was a dynamic adjustment process. Prices could not be raised all the time but had to be regulated up and down, as appropriate.

Traditionally, there were three models for taking taxis. The first model was the taxi station model. There were taxi stops at railway stations, airports, and bus stations, and in some commercial centres, where passengers queued up. The second and most common model was the taxi-hailing model: passengers hailed taxis by waiting along the road until a driver passed by and gave them a ride. This model was relatively flexible, but passengers could spend a long time waiting. To alleviate the demand for taxis during specific time periods such as early morning or late night, a third model had appeared, which used calls through call centres or GPS to order taxis. The core concept of this model was that a passenger sent a request to the taxi command centre, which then transmitted the request to the drivers. If a driver was willing to give the passenger a ride, the platform would then pass that driver’s information to the passenger. Efficiency was very low in this model, and there could be long distances between passengers and drivers, who could not interact with each other. Sometimes the driver arrived at the appointed place only to find that the passenger had already left, and sometimes the driver gave up the appointment halfway.

Driver Behaviour

There were two main commercial models in China’s taxi industry: the entity-based company model and the affiliated company model. In the entity-based company model, taxi companies were the owners of licences. The taxi company bought taxis from car manufacturers and then subcontracted them to drivers at a fixed rental rate each month. In the affiliated company model, the owner of the licences was the taxi company, but the taxi drivers owned the cars. Drivers rented licences from taxi companies or other drivers and paid a fixed affiliation fee to the affiliated companies each month.

Taxi drivers needed to pay a fixed payment of about $53.30–$60.92 in management fees each day to the taxi company; they kept the rest of their earnings.[[21]](#endnote-21) Taxi drivers tended to operate at full loads and high efficiency, with each driver working 10–12 hours or more each day. Each car was generally operated by two drivers, with one of them in charge during the day and the other in charge during the night, so that the car was always in operation. Cash transactions were adopted in most cities. It was difficult for drivers to distinguish counterfeit money from real money or to give passengers change. Furthermore, a large number of cash transactions made the nighttime drivers particularly vulnerable to theft.

During rush hour, because of traffic jams, the fares earned were often less than the fixed management fees and fuel costs, meaning that drivers would lose money. Therefore, drivers were often not willing to operate on congested roads or in urban areas; instead, they chose to operate on the outskirts of the city, to change shifts, or to have meals during this time.

During peak hours, taxi drivers were in a dominant bargaining position because of the shortage of taxis. Drivers could choose certain passengers as their target passengers or even refuse to carry them. Taxi drivers paid attention to three important factors when they chose passengers: the distance, the source of passengers at their destination, and the traffic conditions at that time.

During off-peak periods, the demand for taxis dropped sharply. Many taxis ran empty on the streets, and drivers looked for customers on the street. Passengers who were hailing taxis on the streets could only be seen by taxi drivers within a few hundred metres; this was a game of chance, since there was a great deal of uncertainty about the time and place of the next passenger. In addition, the taxi drivers knew that the passenger needed to take a taxi, but they did not know the passenger’s destination, which might be out of the way. The only way to know was to drive close to ask, but if the taxi had to stop at a traffic light, for example, the passenger might have left already.

Generally, taxi drivers were more willing to take passengers over longer distances and to destinations such as airports, railway stations, and bus stations because these places had a lower chance of an empty return. In addition, taxi drivers were willing to go to hotels, tourist attractions, schools, office buildings, and hospitals to wait for passengers because these places tended to have passengers who were more likely to spend on taxis.

Drivers were reluctant to go to places with many red lights and traffic jams or to remote areas with few returning passengers. When it came to bad weather such as rain and snow, drivers were reluctant to risk the traffic jams, scrapes, or security risks, and the drivers’ driving rates were reduced.

Passenger Behaviour

The primary reasons most people chose to take taxis were convenience and speed. Taking taxis also helped them avoid the trouble of changing buses or waiting in bad weather. People also chose to take taxis when they came to a new city for the first time. Generally speaking, taxi consumers included people from all walks of life, but especially members of urban populations with higher incomes.

In big cities like Beijing and Shanghai, the average waiting time for hailing a taxi at the roadside was about 10–15 minutes, making the taxi challenge a frequent problem in daily life. According to many passengers, taxis were always full when they needed to take one during rush hour or in bad weather conditions. Sometimes a taxi would come, but the driver might refuse to take the passenger after inquiring about the destination. When they did not have to take taxis, passengers saw many empty taxis.

Drivers often raised the riding fee randomly, carpooled without permission, refused to take passengers, or took detours when passengers were using the taxi.[[22]](#endnote-22) In most cases, taking a taxi was an isolated event, so it was difficult for passengers to judge the professional quality of drivers. Because of the shortage of taxis, there were even some fake taxis—private cars or modified cars without legal operating qualifications—operating in some cities. These cars looked almost the same as taxis, making it difficult for passengers to distinguish them. It could also be unsafe for passengers to take taxis at night or in an unfamiliar city.

Late at night or early in the morning, it was challenging to take a taxi on the street during an emergency. When calling a taxi, passengers sometimes received promises from specific drivers, who might then fail to appear because they had come across another passenger who was hailing a taxi for a farther destination. In this case, it was almost no use complaining to the taxi company.

Didi Chuxing’s Business Model

Mobile Internet

The Internet had approximately 20 years of history in China, and the country had 564 million netizens at the end of December 2012, representing a 42.1-per-cent Internet penetration rate. In 2012, the total online shopping expenditures of Chinese consumers reached $212.4 billion. People had become increasingly accustomed to shopping and consuming over the Internet.[[23]](#endnote-23) Meanwhile, the growing adoption of the mobile Internet had fully exceeded that of the traditional Internet, and there was also rapid growth in the number of users of microblogs (which were similar to Twitter) and e-commerce applications. By the end of 2012, there were 450 million mobile phone users in China; 380 million of these users had smart phones. Mobile Internet was in a period of rapid development, and the age of mobile Internet users skewed toward the young.[[24]](#endnote-24)

The mobile app industry was also undergoing huge expansion, with hundreds of thousands of apps landing on major app platforms. Mobile phone apps went deep into people’s lives, allowing people to shop online, place orders, share videos, make mobile payments, and create online reviews with their mobile devices.

Didi Chuxing’s Platform

Didi Chuxing’s smart phone app aimed to provide a platform for drivers and passengers. Didi Chuxing did not hire taxi drivers directly. Instead, as an electronic dispatch service, the Didi Chuxing app helped drivers to find passengers in need of a taxi, and matched drivers to passengers who needed the service. Didi Chuxing’s ride-hailing app had two versions—the driver version and the passenger version—which taxi drivers and taxi passengers could download.[[25]](#endnote-25)

Passenger-Side App

Passengers downloaded and installed the passenger-side app and completed some basic information. They were required to turn on the GPS positioning function of their phones, register with their phone numbers, and link the app either to their bank cards or to social accounts with payment functions, such as WeChat, so as to enjoy the convenience of online payment.

When passengers needed to arrange a taxi, they could turn on the app, whose main interface was a map that showed the location of the passengers in real time and basic information about the taxi drivers nearby. Passengers could fill in their destination information and click “send” to submit their orders. Then, the software interface fed back basic information such as the number of taxis around and the expected waiting time.

If a taxi driver nearby was willing to take a passenger, the driver would confirm the order by “grabbing” it. When the order was assigned successfully to a driver, the passenger would receive the relevant information, such as the driver’s name, the licence plate number, the driver’s telephone number, their current location, and the estimated time of arrival.

After a few minutes, the driver arrived at the reservation place, and the passenger took the taxi. The app would send back real-time information about the passenger’s position and current travel route as well as the fare. After arriving at the destination, passengers could pay online using their mobile phones. Upon completion of payment, the passenger received a message confirming the successful payment and was expected to evaluate the service provided by the taxi driver—for example, the vehicle’s condition and the driver’s driving skill and attitude.[[26]](#endnote-26)

Driver-Side App

Drivers downloaded and installed the driver-side app, turned on the GPS function of their phones, and completed some basic information. The drivers first registered with their phone numbers and then linked their bank cards or online payment accounts, such as WeChat. Additionally, they were required to fill in some basic information online, such as their personal driving qualification information, relevant information about the taxi and the taxi company, and their licence plate number.

The main interface of the driver-side app was a map that showed the real-time location of the taxi. When passengers nearby sent an order, the taxi driver’s app would display reservation information about the passenger, such as their destination and acceptable waiting time. Then drivers would be asked by the app whether they wanted to “grab” or bid for the order or not. A driver who was willing to go to the appointed place could click the “grab order” interface. After the order had been successfully grabbed, the system would send the driver’s basic information to the passenger or passengers.

Once an order was accepted, the driver drove to the appointed place, often one or two kilometres away. After arriving at the appointed place and picking up the passengers, the driver clicked the “start the journey” option on the app and started the journey. The app performed dynamic travel tracking and calculated the associated costs. Upon arrival at the destination, the driver confirmed the end of the trip and received information on the completion of the order, such as the driving distance, driving time, and income. The system reminded the passengers to complete the payment, and when the passenger had completed the payment, the driver received confirmation. The Didi Chuxing company transferred the income to the driver’s account every week.[[27]](#endnote-27)

Digital Infrastructure

To dispatch the right order to the right drivers, Didi Chuxing took many factors into consideration in its matching algorithm, including the distance between drivers and passengers, the driving direction, the driver’s driving history, the value of the order, congestion along the route, the level of difficulty in receiving orders at the destination, and many sub-feature dimensions for each factor.

On the Didi Chuxing platform, each trip was recorded, contributing to the company’s accumulated data. The data provided rich insights into diverse users. More than 50 terabytes of new data were added to the Didi Chuxing platform every day—billions of entries per day. During rush hour, the count reached 2 million per minute. Based on such a large amount of data, Didi Chuxing used data mining and artificial intelligence to achieve accurate prediction ability, intelligent deployment ability, and dynamic pricing ability, thereby increasing efficiency, reducing costs, and achieving optimal capacity scheduling.[[28]](#endnote-28)

To effectively avoid problems that might be caused by drivers’ selections, Didi Chuxing launched its Dimi scheduling system, which relied on big data to analyze and incentivize users’ behaviour to schedule taxis. When drivers were grabbing orders, their Dimi scores would increase or decrease according to the difficulty of the orders. Those drivers grabbing good or desirable orders would have decreased Dimi scores, while those who took the less desirable orders would have increased Dimi scores. It was much easier for drivers to grab orders if they had more Dimi points. Through this crediting system, Didi Chuxing could optimize traffic in certain scenarios, and this was one of the advantages of the digital platform.[[29]](#endnote-29)

Subsidy War

During the two months before and after the Spring Festival in 2014, Didi Chuxing and its old rival Kuaidi entered into a fierce money-burning war by offering subsidies to drivers and passengers in order to increase their market share. By the end of May 17, 2014, the total subsidies offered to drivers and passengers by Didi Chuxing and Kuaidi was $365.52 million—$213.22 million from Didi Chuxing and $152.3 million from Kuaidi. Users of online ride-hailing software jumped from 22 million to 100 million, and the average daily orders increased from 350,000 to over 5 million.[[30]](#endnote-30)

The subsidy war not only expanded people’s awareness of taxi software, but also cultivated new taxi-hailing habits. On January 10, 2014, Didi Chuxing had only 350,000 average daily orders in 32 cities; by February 24, it had 3.16 million average daily orders in 120 cities, and by March 28, the average daily orders had reached 5.2183 million in 178 cities. This could definitely be described as viral Internet speed. By September 9, 2014, Didi Dache had been online for two years; it covered about 300 cities and had more than 1 million drivers, 100 million passengers, and more than 5 million orders per day.[[31]](#endnote-31)

Policy Constraints and Reforms

Didi Chuxing continued to develop rapidly. In August 2014, it launched Didi Private Car, which targeted middle- and high-income business travellers. In May 2015, it launched Didi Express, and then in June 2015, it launched Didi Hitch followed by Didi Designated Driving. On July 16, 2015, trial operations of Didi Bus took place in Beijing and Shenzhen. In October 2015, Didi Test Drive was formally launched.[[32]](#endnote-32)

The Didi Chuxing taxi and private car services had been endorsed by the Chinese Ministry of Transport. However, Didi Express Car and Didi Hitch, because of their low price and rich supply, had a significant effect on the incomes of traditional taxi businesses and taxi drivers. This service therefore encountered resistance from some drivers. The addition of private cars to the Didi Chuxing system raised questions about Didi Chuxing’s legitimacy among government agencies. In July 2015, Didi Chuxing was interviewed by eight government departments in Beijing, and was accused of providing illegal passenger services, evading taxes, and sending spam using short message service (SMS). Didi Chuxing, along with other private car services such as Renmin Uber, was defined as an “unlicensed car service” by the Traffic Management Department.[[33]](#endnote-33)

Faced with this questioning, Didi Chuxing responded by actively communicating with the government to seek policy support. In recent years, issues such as passengers facing difficulty in hailing taxis, taxi drivers refusing to take some passengers, and taxi drivers’ strikes had occurred in some Chinese cities, making the problems associated with the long-term capacity shortage in the taxi industry increasingly prominent. At the same time, the new travel model brought by the Internet also had a profound influence on the traditional taxi industry. At a time of disruptive changes in the market, the question of how to reform the traditional taxi industry and how to regulate this emerging industry attracted much public attention.

On October 8, 2015, China’s first private car qualification licence—an “online ride-hailing platform qualification license”—was awarded to Didi Kuaidi by the Shanghai Traffic Committee, making the private car legal for the first time in Shanghai. Two days later, on October 10, the Department of Transportation released draft documents titled “Guiding Opinions on Deepening the Reform to Further Promote the Healthy Development of the Taxi Industry” and “Interim Management Regulations for the Operation and Service of the Online Ride-Hailing Industry”[[34]](#endnote-34) to solicit public opinions over a period of one month. On July 28, 2016, the Department of Transportation formally released the “Interim Management Regulations for the Operation and Service of the Online Ride-Hailing Industry” (the Interim Regulations). With these regulations, China became one of the first countries in the world to formally recognize the legality of Internet-based private car services.[[35]](#endnote-35)

After the release of the Interim Regulations, Wei, the founder, chairman, and chief executive officer of Didi Chuxing, made the following comment on WeChat:

Another milestone! Thanks to all the drivers and users for your efforts and support in the past four years. Thanks for your unremitting efforts to turn impossible into possible. Four years have passed, our habits changed a lot, taking taxis is no longer difficult, and our society is making progress in change. These are the biggest joy of Didi [Chuxing]. I believe that China will surely lead the sharing economy of the world in the future![[36]](#endnote-36)

The Future of Didi Chuxing

Didi Chuxing aimed to build a one-stop travel platform. Through deep exploration and application of big data, Didi Chuxing connected various vehicles through its intelligent scheduling system to improve platform efficiency and reduce costs, so as to offer an efficient and convenient transportation service.

The acquisition of Uber China was a new starting point for Didi Chuxing’s development, and this acquisition could also shape the development of the transportation industry worldwide. Didi Chuxing faced questions about its future development: How could it expand its products and services to the international market? Could Didi Chuxing achieve the same impressive market record abroad? How could Didi Chuxing continue to innovate? What was a truly sustainable business model for an online ride-hailing firm? How could it maintain its current leading position in the market?

This case was arranged by national natural science foundation of China (Project no.71871089).

Exhibit 1: Scale of Chinese Mobile Phone Users and Proportion of Internet Users



Source: China Internet Network Information Center, China Statistical Report on Internet Development [in Chinese], July 23, 2015, accessed July 4, 2017, http://cnnic.cn/hlwfzyj/hlwxzbg/hlwtjbg/201701/P020170123364672657408.pdf.

exhibit 2: Sales Volume and Growth of Smart phones in China, 2011–2015



Source: “Analysis of the Status Quo of China’s Smart Phone Market in 2017 and Industry Development Trend [in Chinese],” Beijing Zhongjing Xianluo Investment Consulting Center, March 22, 2017, accessed July 23, 2017, www.chinaidr.com/news/2017-03/111486.html.

exhibit 3: The Number of Private Cars in China and Their Development Trend



Source: The Number of Private Cars in China and Their Development Trend [in Chinese], Transport Authority of Chinese Ministry of Public Security, September 23, 2016, accessed April 20, 2017, www.sohu.com/a/114912527\_495912.

exhibit 4: Basic Situation of Taxi Operations in Major Cities of China

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **City** | **Vehicles**  **（10,000s）** | **Population**  **(10,000s)** | **Car Ownership per 10,000 People** | **Management Fee (US$/month)** | **Flag-Fall Price** |
| Beijing | 6.6000 | 2,114.80 | 31.20 | Single shift: US$788.15;  Double shift: US$1,261.04 | ¥13 for 3 km,  freight rate: ¥2.3/km |
| Shanghai | 5.0600 | 2,425.68 | 20.86 | US$1,248.85 | ¥14 for 3 km,  freight rate: ¥2.4/km |
| Guangzhou | 2.1800 | 1,308.05 | 16.67 | About US$807.19–$837.65 | ¥10 for 2.5 km,  freight rate: ¥2.6/km |
| Chengdu | 1.7684 | 1,442.80 | 12.26 | About US$1,370.70–$1,599.15 | ¥8 for 2km,  freight rate: ¥1.9/km |
| Shenzhen | 1.6000 | 1,077.89 | 14.84 | Inside the special zone: US$1,299.12;  Outside the special zone: US$1,788.46 | ¥10 for 2 km,  freight rate: ¥2.4/km |
| Wuhan | 1.5000 | 1,033.80 | 14.51 | US$1,066.10 | ¥10 for 3 km  freight rate: ¥1.8/km |
| Nanjing | 1.2432 | 821.61 | 15.13 | US$1,066.10–$1,370.70 | ¥9 for 3 km,  freight rate: ¥2.4 per km |
| Xi’an | 1.2315 | 846.78 | 14.54 | US$1,340.24 | ¥10 for 3 km,  freight rate: ¥2/km |
| Zhengzhou | 1.0608 | 919.10 | 11.54 | About US$685.35–$913.80 | ¥8 for 2 km,  freight rate: ¥1.5/km |
| Hangzhou | 1.0003 | 884.40 | 11.31 | About US$1,066.10–$1,370.70 | ¥11 for 3 km,  freight rate: ¥2.5/km |
| Jinan | 0.8543 | 694.96 | 12.29 | US$642.40 | ¥9 for 3 km,  freight rate: ¥1.6/km |
| Taiyuan | 0.8292 | 429.89 | 19.29 | US$609.20–$913.80 | ¥8 for 3 km,  freight rate: ¥1.6/km |
| Changsha | 0.7780 | 731.15 | 10.64 | US$807.19–$833.34 | ¥8 for 2 km,  freight rate: ¥2/km |
| Kunming | 0.7692 | 726.30 | 10.59 | US$913.80 | ¥8 for 2 km,  freight rate: ¥1.8 per km |
| Dongguan | 0.7691 | 831.66 | 9.25 | US$964.06 | ¥7 for 3 kilometres,  freight rate: ¥2.4/km |
| Lanzhou | 0.7152 | 362.09 | 19.75 | US$600.82 | ¥10 for 3 km,  freight rate: ¥1.4/km |
| Nanning | 0.6720 | 729.66 | 9.21 | US$822.42–$913.80 | ¥9 for 2 km,  freight rate: ¥2/km |
| Shijiazhuang | 0.6710 | 462.00 | 14.52 | US$685.35 | ¥8 for 3 km,  freight rate: ¥1.6/km |
| Fuzhou | 0.6345 | 734.00 | 8.64 | US$1,066.10–$1,218.40 | ¥10 for 3 km,  freight rate: ¥2/km |
| Nanchang | 0.5453 | 524.02 | 10.41 | US$1,050.87 | ¥8 for 2 km,  freight rate:¥2.1/km |

Note: ¥ = RMB = Chinese yuan renminbi; US$1.00 = ¥6.5660 as of January 10, 2014; km = kilometre

Source: Compiled by the case authors, based on case facts..

exhibit 5: Subsidy War—DIDI CHUXING and KUAIDi

**Date**

**Investment**

**Incentive for Drivers**

**Incentive for Passengers**

DIDI DACHE

KUAIDI

**Date**

**Investment**

**Incentive for Drivers**

**Incentive for Passengers**

**2014**

January 10

February 17

February 18

March 5

March 23

May 17

July 9

Around August 10

1.4 billion

**2014**

January 20

February 17

February 18

March 4

March 5

March 22

May 17

July 9

Around August 10

¥10 reward to drivers

¥50 reward to new drivers for their first order

Subsidy to drivers falls to ¥2 per order

Subsidy to drivers falls to zero

¥10 reward to passengers

¥10–¥15 cash back to passengers

¥12–¥20 cash back to passengers

¥6–¥15 reward to passengers

¥3–¥5 cash back to passengers

Subsidy to passengers falls to zero

1 billion

¥10 reward to drivers

¥5–¥10 cash back to drivers

Reward to drivers remains the same

Subsidy to drivers falls to ¥2 per order

Subsidy to drivers falls to zero

¥10 cash back to passengers

¥11 cash back to passengers

¥13 cash back to passengers

¥10 cash back per order to passengers

¥5 reward to passengers

¥3–¥5 cash back to passengers

Subsidy to passengers falls to zero

Note: ¥ = RMB = Chinese yuan renminbi; US$1.00 = ¥6.5660 as of January 10, 2014.

Source: “Didi Stopped its Subsidy War and Was Accused of Burning 2.4 Billion with Still No Profit Model [in Chinese],” China News, August 12, 2014, accessed May 10, 2015, http://finance.chinanews.com/it/2014/08-12/6482121.shtml.

exhibit 6: Didi Chuxing Businesses and ConnectionS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date to Market** | **Business** | **Positioning** | **Target Population** | **Business Case** |
| Sept. 2012 | Taxi | Improves taxi efficiency | General public | Private cars, to make up for the shortcomings of taxis in terms of quality of service |
| Aug. 2014 | Private Car | Improves taxi quality | Middle- and high-income business people |
| May 2015 | Express Car | Economical and practical | General public | Forms a quantity supplement to the former two businesses and is more economical |
| June 2015 | Hitch | Social and ecological | People who travel with others | Adds social attributes |
| July 2015 | Designated Driving | Provides professional drivers | Drinkers and long-distance travellers | Expands vehicle sites |
| July 2015 | Bus | Provides large-capacity bus | Office workers | Applies big data |
| Oct. 2015 | Test Drive | Convenient test driving | Passengers who plan to buy a car |

Source: Collected by the case writer from “More Options [in Chinese],” Didi Chuxing, accessed July 13, 2018, www.didiglobal.com/#/.

Endnotes

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