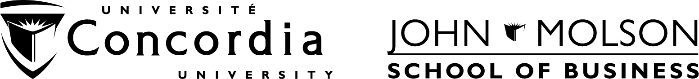
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UCOMMUNE: CREATING A BUSINESS MODEL FOR THE CO-WORKING SPACE INDUSTRY IN CHINA

Professors Xiangyang Ma, Yaorong Zhu, Yixin Xue, Yiting Han, and Tieshan Li wrote this case 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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In early 2020, the sudden outbreak of COVID-19⎯according to some, a black swan event⎯severely shocked economies around the world.[[1]](#endnote-1) As for China, its gross domestic product in the first quarter fell 6.8 per cent year on year.[[2]](#endnote-2) Meanwhile, the number of registered enterprises in numerous industries witnessed a precipitous decline in growth. As providers of office space solutions to enterprises, co-working space operators, including Ucommune, also faced unprecedented challenges. Daqing Mao, founder of Ucommune, wrote: “With the changes in the economic environment, Ucommune, a platform attributing the growth of its own value to empowering [the] value of enterprises, soon perceived the negative impact of the decline in economic activity caused by the economic condition.” Through online livestreaming on the evening of March 1, 2020, Mao discussed the topic of how to help small and medium-sized enterprises turn crises into opportunities against the background of the COVID-19 pandemic. In fact, that year happened to mark the fifth year since Mao had started his own business.

In March 2015, Mao resigned from the position of senior vice-president of Vanke Group, a leader in China’s real estate industry. Then, in April 2015, he announced the establishment of Ucommune. Under Mao’s leadership, Ucommune provided shared office spaces for enterprises and individuals as tenants. Moreover, it also offered comprehensive services—including advertising and branding services, human resources services, legal services, incubation and corporate venturing services, and various types of individual services—to fully empower enterprise and individual members. In addition, Ucommune initiated a series of practices that included establishing a service ecosystem, exploring smart office solutions, fostering a community, and developing e-commerce business.

Unremitting efforts enabled Ucommune to achieve rapid development. As of September 30, 2019, Ucommune had 197 co-working spaces in more than 40 cities, and had entered the Singapore and US markets. Its total management area was approximately 608,600 square metres, with the number of workstations reaching 72,700. In general, Ucommune had grown into China’s largest co-working space provider, and its brand had become the most recognized co-working space brand in China.[[3]](#endnote-3) Besides this, Ucommune was attempting to facilitate the establishment and improvement of the norms and standards of the co-working space industry and contribute to the industry’s development.

Mao had grand business ambitions for Ucommune. The company’s vision was “to serve millions of enterprises and represent a better life of future cities,” and its mission was “to cultivate a new working culture anchored in four pillars: ‘Sharing, Innovation, Responsibility and Success for all.’” Regarding Ucommune’s vision and mission, Mao explained, “All of this comes from the first day of our business: [an] office should be a nice thing, and people in the workspace should feel happy.” Since founding Ucommune in 2015, Mao had also been pondering the future of the co-working space industry in general. For Mao, the process of creating a business model for Ucommune meant an unknown journey into exploring the future of the industry. To achieve his great ambitions, Mao had to decide whether Ucommune should create its own business model and, if so, how.

THE CO-WORKING SPACE INDUSTRY

The basic meaning of co-working was that persons worked alongside each other in a shared place.[[4]](#endnote-4) Correspondingly, a co-working space referred to the work environment shared by different enterprises or individuals.[[5]](#endnote-5) A co-working space was quite different from a traditional office space in terms of office costs, support services, lease regulations, and office atmosphere (see Exhibit 1). In general, a co-working space had advantages such as reducing costs for enterprise tenants, promoting collaboration, stimulating innovation, and creating flexibility. However, there were also disadvantages to a co-working space, such as a weaker sense of exclusivity than a traditional office space.[[6]](#endnote-6) As for co-working space operators, they commonly leased properties from property owners, transformed and decorated the properties into co-working spaces with a modern and flexible layout, and then rented the workspaces to enterprises or freelancers. Besides this, there were also operators adopting franchising, co-operative management, and other operation patterns in order to provide co-working spaces.

The first official co-working space was started in 2005 by Brad Neuberg in San Francisco. After that, the co-working trend gradually went national and then global.[[7]](#endnote-7) The number of co-working spaces worldwide had increased steadily over the last few years, from 8,900 in 2015 to 18,700 in 2018.[[8]](#endnote-8) The co-working space market was expected to continue growing in the coming years. The number of people using co-working spaces worldwide was projected to be 1,933,331 in 2020 and 4,993,910 in 2024.[[9]](#endnote-9) China was predicted to become one of the largest co-working markets in the world.[[10]](#endnote-10)

China’s Co-working Space Industry

In recent years, the co-working space industry had witnessed vigorous development in China. The market size of China’s co-working space industry grew from ¥3.28 billion[[11]](#endnote-11) in 2015 to ¥17.41 billion in 2018, and was projected to grow further to ¥132.28 billion in 2023.[[12]](#endnote-12) Meanwhile, a number of local competitive companies emerged in the industry along with Ucommune, including Kr Space and Nashwork. Industrial international giants, such as WeWork, also entered the Chinese market.

A series of trends had spurred the growth of the co-working space industry and companies in China. China’s urbanization rate increased from 53.7 per cent in 2013 to 59.5 per cent in 2018, and was expected to reach 64.9 per cent in 2023.[[13]](#endnote-13) This rapid urbanization allowed a large influx of labour into cities, creating a huge demand for high-quality urban office space. In addition to this, the number of newly registered enterprises in China grew from 2.5 million in 2013 to 6.7 million in 2018.[[14]](#endnote-14) The increase in the number of enterprises further expanded the potential market demand for co-working spaces. From the perspective of Chinese office workers, their requirements for a high-quality office environment were constantly growing. According to a survey in December 2019 by iiMedia Research, 73.4 per cent of survey respondents believed that the degree of attention to the office environment had increased significantly among office workers, and 88.4 per cent of respondents believed that a good office environment could stimulate personal creativity.[[15]](#endnote-15) In addition, millennials had gradually become the main group of office workers and consumers. Compared with the previous generation, millennials focused more on social interaction, service, and experience in terms of office space requirements, which could not be well satisfied by leasing a traditional office space.[[16]](#endnote-16)

Due to the features of the industry, co-working space operators benefited from China’s current policy circumstances. The co-working space was considered as a type of important service platform for innovation and entrepreneurship.[[17]](#endnote-17) It also represented concepts such as the sharing economy. In China, the co-working space industry still belonged to emerging and innovative industries. In recent years, China had placed high importance on entrepreneurship and innovation, including innovation in industries, with the Chinese government implementing an innovation-driven development strategy and mass entrepreneurship and innovation campaign.[[18]](#endnote-18) In September 2015, the Chinese State Council issued Article 53, encouraging the growth of support platforms for innovation and entrepreneurship, including co-working spaces. In addition, the Chinese government stated its attitude of guiding the sharing economy to enable it to develop better and faster, and the concept of sharing became increasingly popular in society. Technological development had a profound impact on the changes in office patterns as well. With the development of artificial intelligence, big data, cloud computing, and other technologies, and with the emergence of the 5G (fifth generation) era, the office environment faced a trend toward an efficient and smart future. With the support of ever-changing technologies, co-working space operators could provide more abundant and efficient services, such as smart conferencing and intelligent access control, so as to meet the growing demand of enterprises for smart office solutions and to stimulate the creativity and initiative of enterprise employees.[[19]](#endnote-19)

THE ESTABLISHMENT OF UCOMMUNE

Ucommune was born in the wave of the development of China’s co-working space industry. Before founding Ucommune, Mao had worked in the real estate industry for about 22 years. During that time, he also observed changes in the industry, and gradually developed the motivation to start a business. China’s encouragement of entrepreneurship and innovation enabled Mao to further realize that it was an appropriate time for him to quit the real estate industry and start his own business. Eventually, he decided to enter the field of the co-working space and become an entrepreneur.

Under Mao’s leadership, Ucommune provided its members with flexible workspaces and adopted ways of investment, acquisition, and general co-operation to aggregate service resources in order to offer members diversified services. In addition, Ucommune launched an online platform and strove to realize the linkage between off-line space and an online platform. Ucommune also intended to foster a community; in a community, different enterprises and individuals could gather through the off-line workspace or online platform and further interact, share resources, and achieve co-operation.

Once established, Ucommune received strong support from investment institutions. In 2015, Ucommune completed angel and series-A rounds of financing, and large institutions including Sequoia Capital China, Gopher Asset Management, and ZhenFund participated in the investment. After preliminary preparations, Ucommune’s first co-working space project was successfully opened in Beijing in September of the same year. Ucommune had officially entered the co-working space industry, and it urgently needed to create a viable business model.

THE OFFICE SPACE BUSINESS

The Space Operation Model

The operation of an off-line office space was a significant and fundamental business for Ucommune. Overall, Ucommune had operated co-working spaces under two models: the self-operated model and the asset-light model. The self-operated model involved the entire or major parts of the process of leasing properties from landlords, remodelling properties into co-working spaces, and renting these co-working spaces to members. Ucommune typically needed to bear the high leasing and remodelling costs under the self-operated model. As for the asset-light model, Ucommune actually provided space design, build, and management services to develop and manage co-working spaces for landlords. The landlords bore most of the capital investment to build out and launch new spaces under this model. There were several specific space categories under the two models (see Exhibit 2).

As an innovative space business strategy developed by Ucommune in the industry, the asset-light model enabled Ucommune to eliminate some of the heavy capital investments, such as leasing costs, and to expand its space business in a cost-efficient manner. Ucommune also intended to further develop the space business under the asset-light model as one of its major growth drivers. Ucommune’s current members included not only entrepreneurial teams or enterprises, freelancers, and small and medium-sized enterprises but also large enterprises such as Walmart Inc., Nike Inc., and Bilibili.[[20]](#endnote-20) An expansion of the number and type of members was conducive to Ucommune’s development, but, at present, Ucommune also needed to be wary of depending on a limited number of large enterprise members to sustain the occupancy rate; Ucommune’s business would suffer if one of these large enterprises terminated its contract with Ucommune.

With the expansion of the space business, Ucommune also started the process of internationalization. Through the operation of overseas co-working spaces, Ucommune aimed to provide a platform for foreign enterprises to expand to the Chinese market; it was also attempting to build a bridge for helping high-quality domestic enterprises to expand overseas.

Smart Office Solutions

While expanding the scale of its space business, Ucommune emphasized the application of technology in space operation and office services and gradually explored construction of the smart office space (see Exhibit 3). Ucommune applied an intelligent access control system, cloud printing technology, and a smart conferencing system to better meet the various office requirements of enterprises and individuals. In terms of the back-end operation not visible to members, Ucommune also developed UDA, its proprietary co-working space operation system, and Udata, its data management system, aiming to continuously optimize resource management efficiency in spaces. Besides this, in 2019, Ucommune also released UcomOS, a cloud-based operating system based on the underlying technology of Chromium OS, which could store all user data in the cloud. Moreover, Ucommune planned to continue to develop and apply technology in the future. As Mao said, “All product releases, upgrades and strategies of Ucommune in the future would be based on the operability of the latest technology.”

U PLUS SERVICES

The Member System

While providing office spaces, facilities, and basic office services to members or customers, Ucommune also strove to develop its “non-space business” and offered members additional services beyond physical spaces, which were referred to by Ucommune as U Plus services. U Plus offered a wealth of service types: services for individuals such as fitness, health care, catering, and entertainment; general corporate services such as corporate secretary, human resources, information technology support, and legal services; incubation and corporate venturing services; advertising and branding services; and others.

Ucommune had established a member services and benefits system to provide a full range of services to empower enterprise and individual members. For enterprise members, Ucommune hoped to help them accelerate their development while maintaining their core competitiveness. Specifically, according to the requirements of the enterprises in the development process, Ucommune provided them with numerous benefits through marketing, human resources, and financial services. For individual members, Ucommune was concerned about their work happiness. Individual members were mainly employees of enterprise members and freelancers. Centring on the themes of personal improvement, consumption upgrading, and life convenience, Ucommune offered individual members services such as catering, entertainment, and career courses. In particular, Ucommune also launched a member loyalty program. According to the program, members could receive reward points by participating in various activities and then utilize the points to purchase value-added services and book conference rooms, or exchange the points for member gift packages.

The Service Ecosystem

Ucommune put forward the idea of building a service ecosystem and then put this into practice, which gave Ucommune the capability to provide comprehensive services for members or customers. Specifically, it established contact with service agencies in various fields by means of investment, acquisition, and co-operation to build its service ecosystem. In the five years since its establishment, Ucommune had invested in dozens of excellent service companies—involving human resources, consulting, intellectual property, entertainment, sports, and other fields—and acquired six outstanding innovative companies in the service fields of Internet technology development, intelligent housing management, advertising media, and precision marketing. In addition, numerous companies had also collaborated with Ucommune and then become service agencies in Ucommune’s service ecosystem, including large enterprises such as Alibaba Cloud and China CITIC Bank International.

Through the establishment of the service ecosystem, Ucommune could provide a greater number of professional services for its members with the help of service agencies, and the service agencies correspondingly obtained a channel to sell their services to Ucommune’s members and customers. In addition, while enjoying service resources, some of Ucommune’s enterprise members could also play the role of service agencies themselves, providing specific services for other Ucommune members based on their own business characteristics. For Ucommune, the large number of members gathered on its platform meant it could require service agencies to provide preferential prices and high-quality services. Ucommune’s service ecosystem was currently relatively large.

FOSTERING COMMUNITY

Thinking of Community

During the development of Ucommune, Mao gradually thought strategically about fostering a community. In fact, Ucommune’s current logo was designed based on the concept of community. He explained,

The thinking of community must be understood when running Ucommune because the essence of what we do is a business about community. The community can evolve and allow different people to interact with each other, which cannot be achieved by a machine. Ucommune has been attaching great importance to the power of the community.

For Ucommune, the off-line office space and online app or platform where numerous members gathered and interacted at a high frequency signified the foundation or manifestation of its community.

Mao hoped the enterprises could find a feeling of home in Ucommune. In Ucommune’s off-line office space, people could communicate and interact with others and help each other.[[21]](#endnote-21) Ucommune hosted a variety of activities—such as reading activities, career development trainings, entrepreneur forums, holiday parties, and so forth—and set up organizations such as the Entrepreneurs’ Club. These measures effectively strengthened the direct contact and interaction between members, as well as between members and Ucommune’s business partners, such as the service agencies. For the planning of the off-line space, in addition to attempting to create smart office scenes to improve office efficiency and the office experience for members, Ucommune also promoted the design of settings suitable for social contact so as to promote spontaneous communication, sharing, and co-operation among members. Ucommune continued to foster the idea of creating an ideal work and lifestyle environment for customers.

Constructing an Online Platform

In addition to managing the off-line office space, Ucommune also started the construction of its online platform. As a key step in developing an online community, in 2016, Ucommune launched its official online app, U Bazaar, whose platform gathered numerous enterprise and individual members, as well as Ucommune’s business partners, such as service agencies and investment agencies. Members could utilize U Bazaar to post business requirements, marketing information, social information, and other content, and they could find partners and communicate, interact, and share resources with them through the online platform. U Bazaar also connected online and off-line members. Based on this, members who were not in the same location could interact closely, and different office spaces could establish deeper links among each other. Besides this, U Bazaar was completely open to the public. Even enterprises or individuals that had never rented Ucommune’s off-line office spaces could register as members for free and employ the power of the community to access more development opportunities.

U Bazaar also played other important roles. Through U Bazaar’s interface, members could easily access and purchase all of Ucommune’s service offerings, including services for individuals such as catering and health care, and general corporate services such as human resources and legal services. U Bazaar integrated many other functions, such as conference room and workstation booking, workstation log-in, and calendar management, which effectively met a number of office requirements for members in Ucommune’s workspaces.

Ucommune also attached great importance to the power of social media. It opened its official accounts on Weibo and WeChat, and conducted regular content delivery, publicity, and promotion. In August 2020, Ucommune initiated the topic of “Salute to Innovators” through Weibo and designed videos, articles, and other content, which aroused public attention.

Further Energizing the Community

Members generated a wealth of traffic and data in Ucommune’s community, which provided Ucommune with an opportunity to explore new businesses. Ucommune launched precision marketing and community e-commerce business initiatives, which were also regarded by Ucommune as services to further energize its community.[[22]](#endnote-22) The large membership of Ucommune’s community could be considered as an attractive advertising audience and thus a potential market for advertisers. Utilizing its technological capabilities, Ucommune could analyze the massive data generated by members to identify their requirements and preferences, thereby creating conditions to achieve its precision marketing purposes. In the process of further implementing marketing activities, Ucommune used U Bazaar not only to post relevant advertisements online but also to emphasize the marketing value of the office environment. Ucommune integrated screens and digital displays in workspaces, such as smart screens on desks and digital TVs in conference rooms, to deliver marketing content.[[23]](#endnote-23) In Ucommune’s view, different scenes generated different customer demands, and it used the scenes at a high frequency to attempt to connect the selling points of products or services with customer demands.[[24]](#endnote-24)

Based on the accumulation of traffic in the community, Ucommune co-operated with some sellers to start its community e-commerce business—U Product. Combining the characteristics of the online and off-line communities, Ucommune introduced functions such as group purchases and flash sales on its e-commerce platform. Mao had confidence in the development of Ucommune’s community e-commerce business and hoped it could achieve a gross merchandise volume of ¥100 million in 2020.

GOING FORWARD

Profitability Situation

For the past decade, the co-working space industry had experienced difficulty achieving profitability. Numerous co-working space operators relied heavily on rental revenue as a single revenue stream, and their profitability was not optimistic.[[25]](#endnote-25) As for Ucommune, many of its development strategies were also geared toward optimizing its profit model. In terms of revenue streams, the revenue item Ucommune referred to as workspace membership mainly referred to the rent it charged tenants. While “spatial revenue” was directly based on the space business, such as rental revenue, Ucommune also made every effort to explore revenue from its non-space business, including the development of its U Plus value-added services, in order to diversify revenue streams. In addition to this, Ucommune operated a capital business. In particular, to build a complete service ecosystem, it invested in and even incubated a number of service companies. As of the end of 2018, Ucommune’s total return on investment exceeded 200 per cent. The e-commerce business it had launched in 2019 also began to contribute a new source of revenue.

In addition to rent, Ucommune’s various service revenue streams rose dramatically—from ¥12,924,000 as of December 31, 2017, to ¥454,935,000 as of September 30, 2019, or from 7.7 per cent of the total revenue to 52.0 per cent of the total revenue. Among these revenue streams, marketing and branding services performed best, reaching ¥403,484,000 for the first nine months of 2019. However, the financial data also showed that Ucommune’s profitability had still failed to make a decisive breakthrough (see Exhibit 4). Ucommune attributed its loss mainly to the investments made to grow its business, such as the development of new office spaces and the acquisition of related companies. In addition, against the background of pursuing rapid growth in the past, as of September 30, 2019, the opening time of 62 per cent of Ucommune’s operating spaces had not exceeded 24 months, and it was difficult for these non-mature spaces to achieve a stable occupancy rate and cash flow.[[26]](#endnote-26) The rapid expansion in scale of spaces also put a certain pressure on Ucommune’s operating capacity. Ucommune continued to strive to achieve its future profit target.

Fierce Competition

Ucommune faced direct competition with several companies. In fact, in addition to the existing companies in the co-working space industry, many property companies, CapitaLand Group and SOHO China among them, also regarded the co-working space model as a new way of operating their existing properties and thus entered the co-working space field. However, with the rapid expansion in scale of office spaces of existing companies in the industry, as well as improvements to these companies’ service systems and the strengthening of their brand recognition, it was increasingly difficult for new corporates to enter the industry. Also, the failure of industry giant WeWork to go public had dampened investors’ confidence in the co-working space industry, thereby creating greater financing obstacles for new entrants. Besides this, industry consolidation was taking place, and industry concentration was gradually increasing, resulting in intensified competition among leading companies such as Kr Space, Ucommune, and WeWork.

In terms of relationships with upstream companies in the industrial value chain, Ucommune had an advantageous position. The scale of China’s existing property market was large, and the overall vacancy rate was relatively high.[[27]](#endnote-27) To gain revenue from an existing property, property owners were willing to hand over their property resources to competent companies in the co-working space industry, such as Ucommune, for utilization and operation by way of direct renting or co-operation. As for Ucommune, there were various types of initial property resources to choose from, such as traditional office buildings, idle enterprise-owned property, and appropriate factory buildings, which eliminated Ucommune’s dependence on a few specific owners for its business. In addition, the large number of customers on Ucommune’s platform and the strong brand recognition also attracted high-quality service agencies to co-operate with Ucommune. However, in the future, against the background of further expansion in target overseas markets, Ucommune would also no doubt undergo more tests from the global competitive environment.

Brunt of the COVID-19 Pandemic

The ravages of the COVID-19 pandemic posed a real threat to the development and even survival of a great number of companies. In April 2020, Mao wrote, “I must admit that Ucommune is going through the toughest time in five years.” Besides this, the pandemic had triggered changes in many aspects of business and society. For instance, a large number of enterprises had begun to adopt a remote office pattern.[[28]](#endnote-28) Ucommune needed to further consider how to respond to the new situations arising in the office space field as a result of the pandemic.

However, the arrival of the pandemic had not only caused severe market turbulence but also increased the attractiveness of the co-working space for enterprises. From Mao’s viewpoint, enterprises would be more concerned about office costs and about replacing fixed costs with flexible costs following the pandemic—especially in a state of economic downturn and economic fluctuation that could last for a long period, which could provide an excellent strategic opportunity for co-working space service providers.

Reflecting on Ucommune’s entrepreneurial course over the past five years, it was apparent that Mao had led the team to begin considering and then take practical action to address the proposition of how Ucommune would create its own business model. Since its establishment, Ucommune had developed rapidly, but it had also experienced difficulties. Five years after its establishment, for instance, the company was still not profitable. Despite the challenges, however, Ucommune had grown into a leading co-working space operator in China, with a certain global influence, and had implemented a series of meaningful and innovative initiatives in the co-working space industry. Facing a complex and changeable environment and the endless challenges that accompanied this, Ucommune was further exploring the future development direction of the industry. On the fifth anniversary of Ucommune’s founding, Mao described his thoughts on the development path of the company and the industry: “Finding the certainty, strengthening the company’s own value, and deepening the exploration of the industry may be the future of all the persons of Ucommune and the future of the development of this industry.”

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EXHIBIT 1: Comparison of leasing the co-working space and

THE traditional office space

| **Type of Workspace, and Aspect of Comparison** | **Co-Working Space** | **Traditional Office Space** |
| --- | --- | --- |
| Office Costs | Enterprises, as tenants, are required to bear the rent but are not required to pay for space decoration, furniture purchases, water, electricity, and Internet. | Enterprises, as tenants, must bear the costs of space decoration, furniture purchases, water, electricity, and Internet⎯in addition to rent. |
| Associated Services | In addition to office-related services, co-working space operators may provide some types of general corporate services and individual services. | Service items are fewer and simpler. |
| Lease Term | A flexible leased term, such as a one-month lease. | Relatively fixed lease term, generally requiring a lease of longer than one year. |
| Leased Area | There are generally no requirements for customers’ leased areas, and the co-working space operator can even agree with customers to lease only one workstation; enterprises, as tenants, can flexibly adjust the leased area according to their own scale changes. | There are generally clear requirements for customers’ leased area, which varies according to the difference in office building grades, and customers must pay a deposit. |
| Initial Property Type | Various types, such as office buildings, appropriate warehouses, and malls. | Office buildings. |
| Internal Layout | Many shared or common areas. | Few shared or common areas. |
| Relevant Activities | Enterprise tenants as well as individuals from different backgrounds and fields both participate in the activities. | Generally limited to activities within a single tenant enterprise. |
| Office Atmosphere | Open, collaborative, and dynamic, with community characteristics. | Private, quiet, and serious; there is basically no community atmosphere. |

Source: Created by the case authors with information from “2018 China’s Co-working Space Industry Monitoring Report” [in Chinese], iiMedia Research, August 6, 2018, accessed August 10, 2020, https://www.iimedia.cn/c400/62056.html; Ucommune Group Holdings Limited, *Form F-1: Registration Statement*, December 11, 2019, accessed May 14, 2020, https://www.sec.gov/Archives/edgar/data/1785841/000104746919006800/a2240122zf-1.htm; “The Difference between Co-working Office Buildings and Traditional Office Buildings” [in Chinese], Kuaibangong, June 7, 2019, accessed June 10, 2020, https://www.kbgok.com/news/1327.

EXHIBIT 2: Ucommune’S Office space operation model

| **Overall Model of Office Space Business** | **Specific Categories of Co-working Spaces** | **Detailed Characteristics of Co-working Space Categories** | **Revenue Pattern** |
| --- | --- | --- | --- |
| Self-Operated Model | U Space | Ucommune enters into long-term leases with landlords for spaces with an area generally over 200 square metres, designs and builds the spaces, and then directly leases the spaces and workstations to its members. | Deriving revenue principally from directly leasing spaces to members and charging membership fees. |
| U Studio | Ucommune leases scattered and small office spaces (with an area of generally less than 200 square metres) from landlords and then conducts moderate alterations and offers streamlined operation services to its members. | Generating revenue mainly by directly leasing spaces to members and charging membership fees. |
| U Design | Ucommune provides one-stop customized services—from location selection to daily operation—in conformity with the specifications of its members. | Deriving revenue principally from services that are provided practically for members in the forms of operation fees, advisory fees, and fees related to the design and build of the spaces. |
| Asset-Light Model | U Brand | Entrusted by landlords, Ucommune provides a full range of operation and management services for landlords’ spaces, including design, remodelling, customer acquisition, intelligent system, community activities, and value-added services for enterprise tenants, enabling landlords’ spaces to achieve the standard of Ucommune’s own spaces. | Deriving revenue from sources such as consultation fees related to branding, design, and build services; management fees for operation services; and incentive fees on the basis of the financial performance of the spaces under certain contracts. |
| U Partner | Ucommune enters into partnerships with landlords. Landlords generally provide Ucommune with the right to utilize their office spaces that have already met the criteria for being leased to customers; accordingly, Ucommune operates and manages these spaces under its Ucommune brand. | Generating revenue in conformity with the revenue-sharing mechanism under the agreement with landlords. |

Source: Created by the case authors based on company documents.

EXHIBIT 3: Technologies applied in Ucommune’S space operation and related service provision

| **Key Technology** | **Fundamental Positioning** | **Concrete Function** |
| --- | --- | --- |
| Intelligent Access Control System | The technological solution for access control management. | Based on the application of an intelligent access control system in office space operation, the members can unlock doors of different places through face recognition, instead of the traditional mode of using keys. Besides this, the intelligent access control system also contributes to the realization of the security of the space. In general, Ucommune is responsible for the security, stability, integration, and scalability of this system. |
| Cloud Printing | A convenient and efficient printing solution provided to members. | Ucommune provides cloud printing services for members. Through it, members can complete a printing task conveniently and quickly. According to back-end data analysis, Ucommune can also obtain specific information about printer usage frequency and consumables and then adjust the number and location distribution of printers in real time as well as perform maintenance work such as consumable compensation and machine repair. |
| Smart Conferencing System | A technological tool provided to members to manage conferences. | The system plays a role in the notification of participants, visitor reception, conference recording, conference sharing, conference summary, remote conference, conference privacy, and other aspects to ensure the smooth progress of the conference, save conference time, and improve conference efficiency. |
| UDA System | Ucommune’s proprietary co-working space operation system. | UDA can be regarded as a customized solution designed for Ucommune’s co-working space operation. UDA enables Ucommune to simultaneously monitor the operation and occupancy of workstations and conference rooms in hundreds of co-working spaces and provides real-time insights into the performance of Ucommune’s business. UDA is also integrated with the customer relationship management and financial reporting systems. |
| Udata System | Ucommune’s proprietary data management system for storing, cleaning, and processing data. | Udata enables Ucommune to better understand members’ demands and preferences based on data analysis, and supports Ucommune to further provide customized and satisfactory services for members. |
| UcomOS | Cloud-based operating system developed based on the underlying technology of Chromium OS. | All usage data of the system’s users is stored in the cloud and does not depend on the storage of the hardware itself. If the user logs in to the system with a computer, user preferences, applications, and data will be automatically synchronized, aiming to achieve a consistent office experience almost anywhere, any time after the user logs in. UcomOS can also be fully integrated with commonly used office systems and software. |

Source: Created by the case authors based on company documents.

EXHIBIT 4: UCOMMUNE’s Combined and Consolidated Statements of Operation (Summary)

|  | **Year Ending December 31** | | | **Nine Months Ending September 30** | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2018** | | **2018** | **2019** | |
| *In thousands,*  *except for percentages, shares, and per-share data* | **CNY** | **CNY** | **USD** | **CNY** | **CNY** | **USD** |
| Net revenue |  |  |  |  |  |  |
| Workspace membership | 154,470 | 394,356 | 55,172 | 263,588 | 419,634 | 58,709 |
| Marketing and branding services | … | 24,617 | 3,444 | 855 | 403,484 | 56,449 |
| Other services | 12,924 | 29,535 | 4,132 | 17,730 | 51,451 | 7,198 |
| **Total net revenue** | 167,394 | 448,508 | 62,748 | 282,173 | 874,569 | 122,356 |
| **Cost of revenue (excluding impairment loss)** |  |  |  |  |  |  |
| Workspace membership | (308,689) | (624,844) | (87,419) | (435,287) | (596,269) | (83,421) |
| Marketing and branding services | … | (22,481) | (3,145) | (508) | (364,442) | (50,987) |
| Other services | (1,733) | (16,284) | (2,278) | (8,290) | (47,722) | (6,676) |
| **Total cost of revenue (excluding impairment loss)** | (310,422) | (663,609) | (92,842) | (444,085) | (1,008,433) | (141,084) |
| Impairment loss on long-lived assets | (148,692) | (111,203) | (15,558) | (22,882) | (86,500) | (12,102) |
| Pre-opening expenses | (24,059) | (20,165) | (2,821) | (14,013) | (23,069) | (3,227) |
| Sales and marketing expenses | (24,693) | (44,783) | (6,265) | (22,139) | (48,344) | (6,764) |
| General and administrative expenses | (93,153) | (118,798) | (16,620) | (63,273) | (128,836) | (18,025) |
| Remeasurement gain of previously held equity interests in connection with step acquisitions | … | 27,543 | 3,853 | 27,543 | 386 | 54 |
| Change in fair value of liabilities to be settled in shares | 33,755 | 25,607 | 3,583 | (31,958) | (141,164) | (19,750) |
| **Loss from operations** | (399,870) | (456,900) | (63,922) | (288,634) | (561,391) | (78,542) |
| Interest income | 15,329 | 21,574 | 3,018 | 17,707 | 4,901 | 686 |
| Interest expense | (78) | (9,902) | (1,385) | (6,722) | (7,960) | (1,114) |
| Subsidy income | 18,159 | 31,783 | 4,447 | 14,869 | 20,521 | 2,871 |

EXHIBIT 4: CONTINUED

|  | **Year Ending December 31** | | | **Nine Months Ending September 30** | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2018** | | **2018** | **2019** | |
| *In thousands,*  *except for percentages, shares, and per-share data* | **CNY** | **CNY** | **USD** | **CNY** | **CNY** | **USD** |
| Impairment loss on long-term investments | (8,000) | (18,990) | (2,657) | (1,000) | (2,000) | (280) |
| Gain on disposal of long-term investments | 100 | 2,030 | 284 | … | … | … |
| Other income (expense), net | 3,101 | (11,715) | (1,639) | (4,727) | (20,469) | (2,864) |
| Loss before income tax and loss from equity method investments | (371,259) | (442,120) | (61,854) | (268,507) | (566,398) | (79,243) |
| Provision for income tax | (61) | (2,087) | (292) | (1,173) | (4,780) | (669) |
| Loss from equity method investments | (1,556) | (948) | (133) | (1,193) | (1,600) | (224) |
| **Net loss** | (372,876) | (445,155) | (62,279) | (270,873) | (572,778) | (80,136) |
| Less: net loss attributable to non-controlling interests | (17,123) | (15,563) | (2,177) | (11,142) | (18,763) | (2,625) |
| Net loss attributable to Ucommune Group Holdings Limited | (355,753) | (429,592) | (60,102) | (259,731) | (554,015) | (77,511) |
| Net loss per share attributable to ordinary shareholders of Ucommune Group Holdings Limited | (3.92) | (4.74) | (0.66) | (2.87) | (5.80) | (0.81) |
| Weighted average shares used in calculating net loss per share | 90,646,360 | 90,646,360 | 90,646,360 | 90,646,360 | 95,580,178 | 95,580,178 |

Note: CNY = ¥ = Chinese yuan renminbi; US$1 = ¥7.1477 on September 30, 2019.

Source: Ucommune Group Holdings Limited, *Form F-1: Registration Statement*, December 11, 2019, accessed May 14, 2020, https://www.sec.gov/Archives/edgar/data/1785841/000104746919006800/a2240122zf-1.htm.

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