

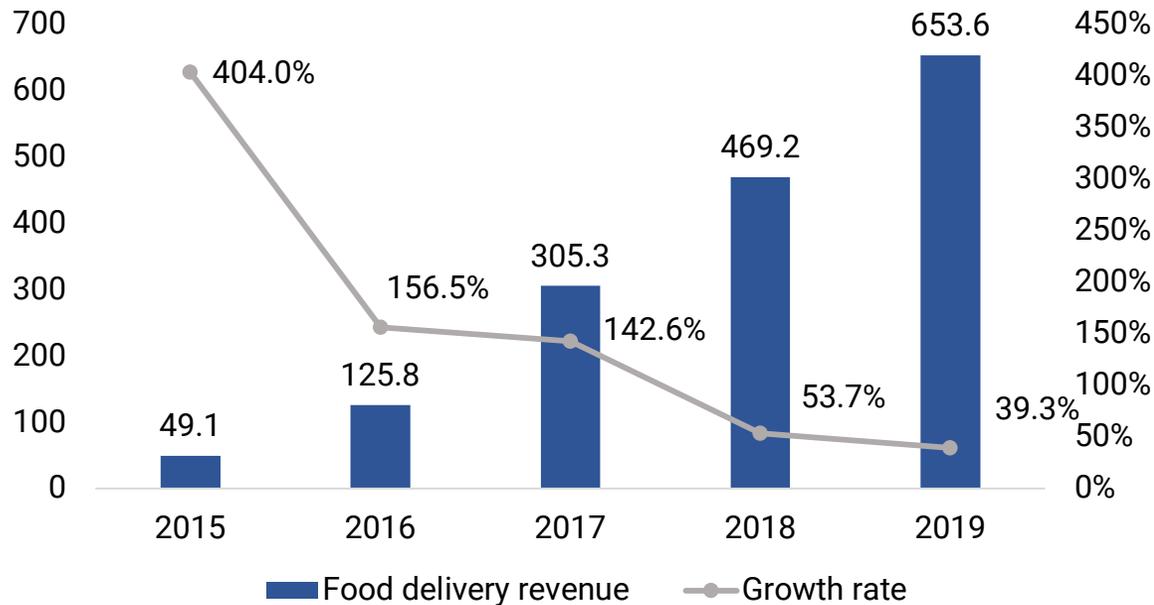
China's food delivery market dynamics



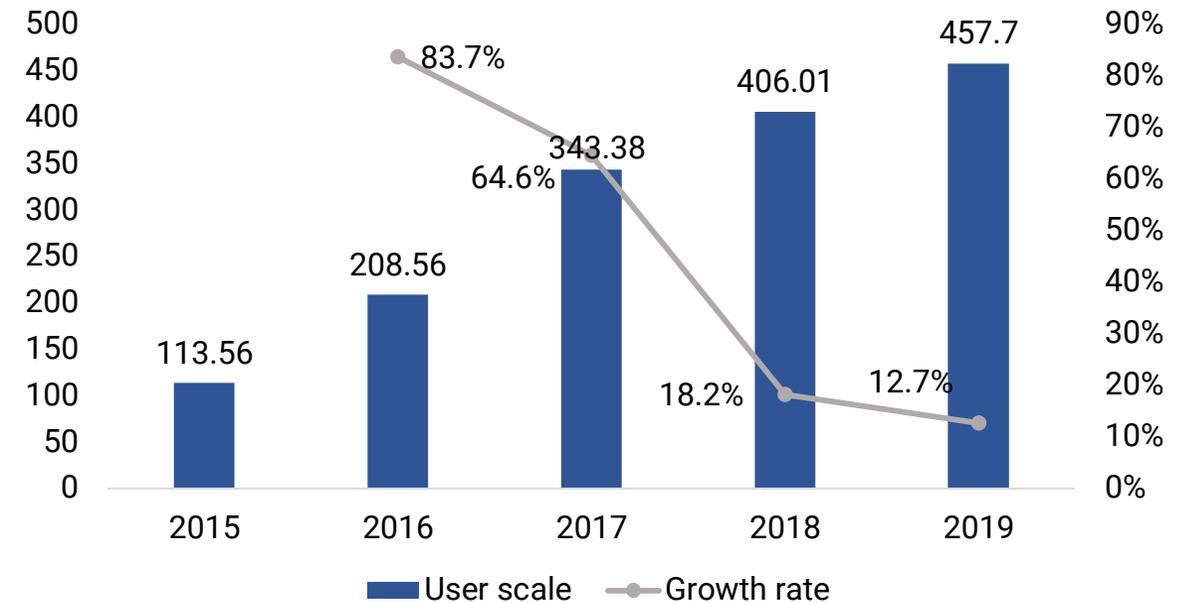
China's food delivery market maintains a strong growth

- In 2019, China's food delivery market size was **653.6 billion yuan**, with an increase of 39.3% compared to 2018. At the same time, the penetration rate of the food delivery industry reached 14% in 2019, an increase of 3% compared to 2018.
- As of the end of 2019, there were about 460 million Chinese food delivery consumers, accounting for 50.7% of 900 million Internet users and 53.9% of country's urban permanent population (848.43 million according to National Bureau of Statistics).

Market size of China's O2O food delivery industry
(2015-2019, billion RMB)



The number of Chinese food delivery users
(2015-2019, million)

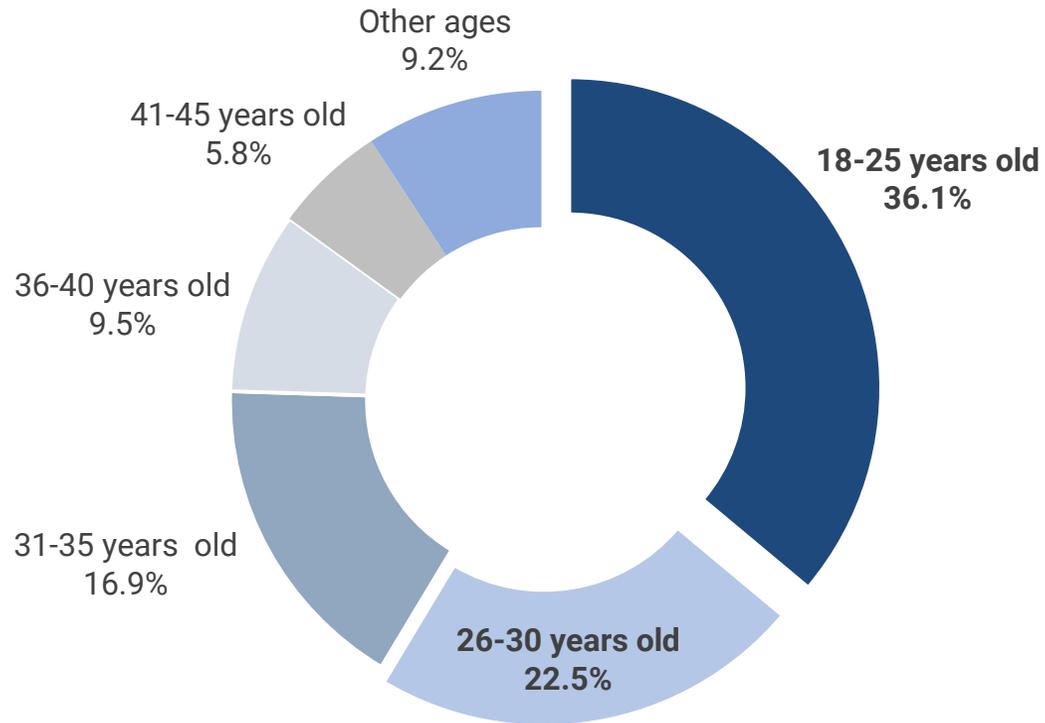


Source: iResearch

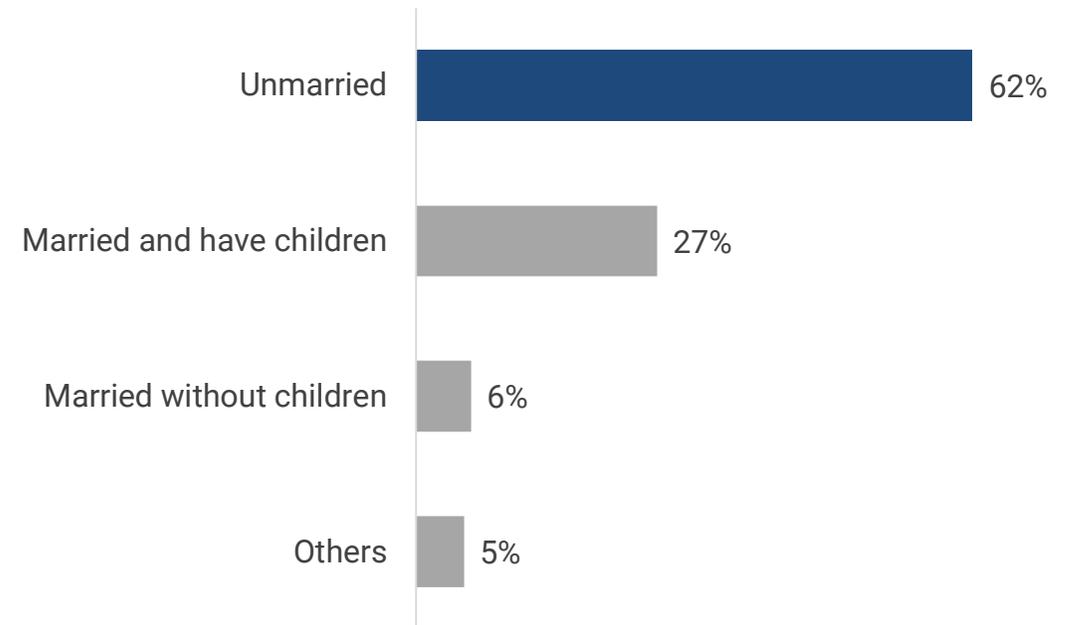
A rigid demand from unmarried post-90s generation (20-30 year olds)

- Consumers of the O2O food delivery service are overwhelmingly young, with 58.6% between ages 18 and 30 who spend most their day at work or studying.
- More than 60% of those consumers are unmarried and have less willingness to cook compare to married people.

Age distribution of Chinese O2O food delivery consumers
(online survey of Meituan, N=7,220, Feb. 2020)



The marital status of Chinese O2O food delivery consumers
(online survey of Meituan, N=7,220, Feb. 2020)

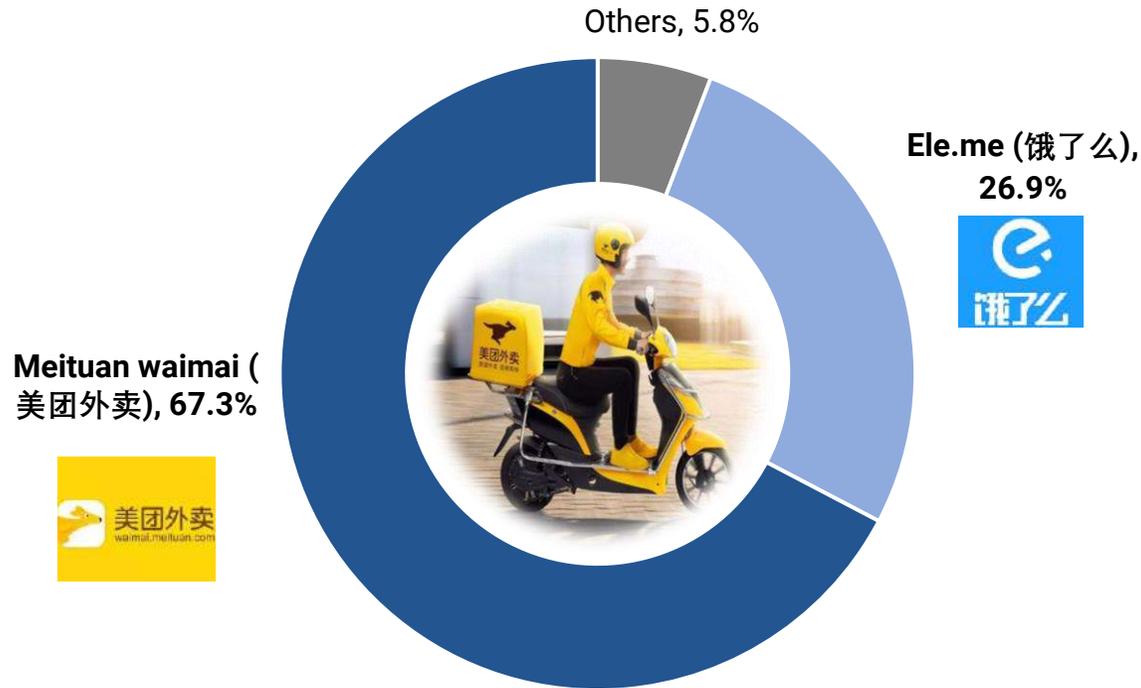


Source: Meituan (美团)

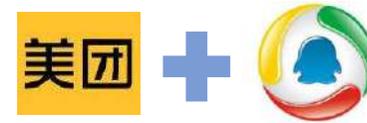
China's food delivery market is dominated by 2 brands

- The fight for supremacy in food delivery in China is happening between two biggest companies – Ele.me and Meituan Waimai. Together, they occupied more than 90% of the market in 2020 Q1.
- They are backed by China's duo of tech titans - Alibaba and Tencent. Thus, they have strong funds and technical support.

Market shares of China's O2O food delivery apps by revenue (2020Q1)



Meituan and Ele.me both backed by online giants



Being backed by internet giant Tencent, Meituan managed to build a diversified system, which links merchants from Meituan with users of QQ, WeChat and Dianping (restaurant rating platform like Yelp). So Meituan app can be more effective in having new users.

VS.



The mother company of Ele.me – Alibaba, integrated Ele.me with Koubei (also similar to Yelp) and Alipay (online payment platform). The partnership with Alibaba provides Ele.me with better understanding of eating habits of their customers.

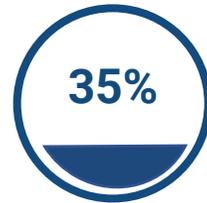
Source: Trustdata (a Chinese big data platform)

Lower tier cities showed more opportunities

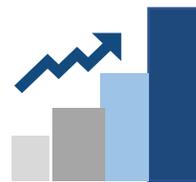
- First and second tier of cities occupied 65% of the O2O food delivery business in China, but there is no much room to grow.
- The O2O food delivery service maintains a rapid growth in tier-3, 4 and 5 cities in China along with the increasing popularity of mobile Internet and O2O food delivery platforms. Also, those platforms are trying to invest more on lower tier cities to exploit more potential users.



In 2019, only **35%** users of China's O2O food delivery apps came from Tier-3, 4 and 5 cities. There is a large room to develop.



Although tier-1 and 2 cities in China are the main markets for O2O food delivery apps, the growing speed of online food orders and new users in **lower tier cities** is significantly higher than large cities.

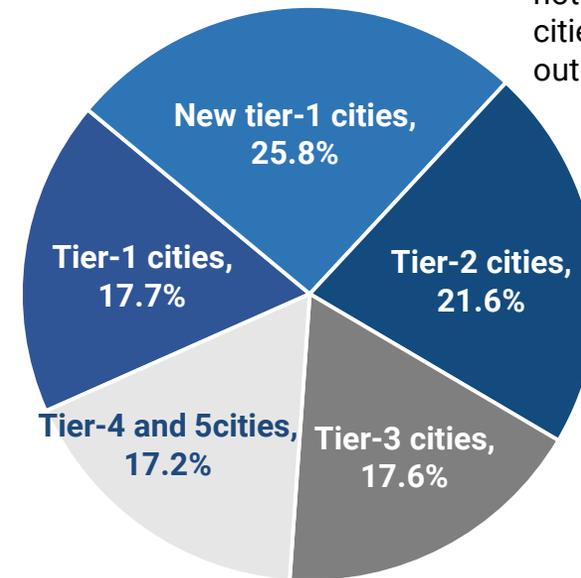


The growth rate of Meituan's food delivery sales in tier-3, 4 and 5 cities, in the fourth quarter of 2019.

45% YoY

Source: Meituan (美团)

Distribution of O2O food delivery orders by city tier (2019)



New tier-1 cities= cities that do not equal the traditional first tier cities, such as Shanghai but stand out beyond other Tier-2 cities.

Source: Meituan (美团)

Yum (百胜): Built multiple forms of food delivery platforms in China

Yum built its own food delivery apps while working with third-party platforms in China

- Yum built its own food delivery system in China in 2001, then its restaurants entered Meituan and Ele.me in 2015. In 2019 it's food delivery service covered around **1,300 cities** in China.
- According to the financial report, until the third quarter of 2019, Yum China's food delivery service sales accounted for **20%** of its total sales, which is the highest one in recent years.



What are the advantages of **Yum China** in the food delivery market?

- Yum China owns two major catering brands (KFC & Pizza Hut) with a large number of stores and consumers.
- Yum China adopts a hybrid food delivery strategy. For example, KFC obtains orders through third-party platforms, and then delivers meals by using its own riders.
- Yum China gets the best of both worlds, with visibility on 3rd party apps, but saves costs by using own logistics system.



Source: Yum annual report



Main challenges of the O2O food delivery industry

1

Increased competition

Due to the epidemic, most Chinese catering businesses had to launch food delivery services to cover losses. Meanwhile, Meituan and Ele.me try to expand their businesses, the living space of small and medium sized platforms is narrowing.

Increased competition

2

Consumers have more demands

The demand of Chinese consumers is diversified and individualizes. They tend to order food from different merchants every time, how to maintain customer loyalty is a challenge for them.

More demands from consumers

3

Operating costs in becoming higher

- ✓ Along with the fast development of O2O food delivery, the online operating costs of merchants are much higher than before.
- ✓ They need invest more to promote on food ordering platforms especially at the beginning when they entered those platforms.
- ✓ Besides, they have to face the increased commission from food delivery platforms.

Higher operating costs

Main Challenges

A close-up photograph of two hands stacking small, light-colored wooden blocks on a rustic wooden surface. The blocks are being arranged in a somewhat haphazard but structured manner, with one hand holding a block in place while the other adds to the stack. The background is a blurred wooden surface, suggesting a workshop or construction site. A semi-transparent blue box is overlaid on the left side of the image, containing the main title text.

Finding opportunities by experimenting in other markets

Meituan: When ride-hailing and food delivery overlap

In Feb. 2017, after it's official launch in Shanghai, Meituan Dache (美团打车), Meituan's ride-hailing app, ranked third in the App Store Free download list for one week. But, the company's plan was not implemented after a year-long period of stagnation.

Merged to Meituan APP from Meituan Dache APP



Challenges : Competition and regulations

- In order to seize the market quickly, Meituan launched a price war with DIDI through subsidies in Shanghai and Nanjing. But the war did not last long since Meituan cut its subsidies. To maintain its market share in Nanjing and Shanghai, Meituan lost 50 million dollars per month.
- Additionally, the transportation bureau intervened less than a day after its launch in Shanghai. They warned Meituan not to disturb social order with a price war.

- Since late April 2019, the Meituan App has already been transformed into an aggregation platform with many services.
- The new Meituan ride-hailing APP provides travel services through travel service providers
- Users can go directly to 'ride hailing' from the restaurant booking page, which allows them to call a car in real time or for reservation, with the address already plugged in.

ABOUT

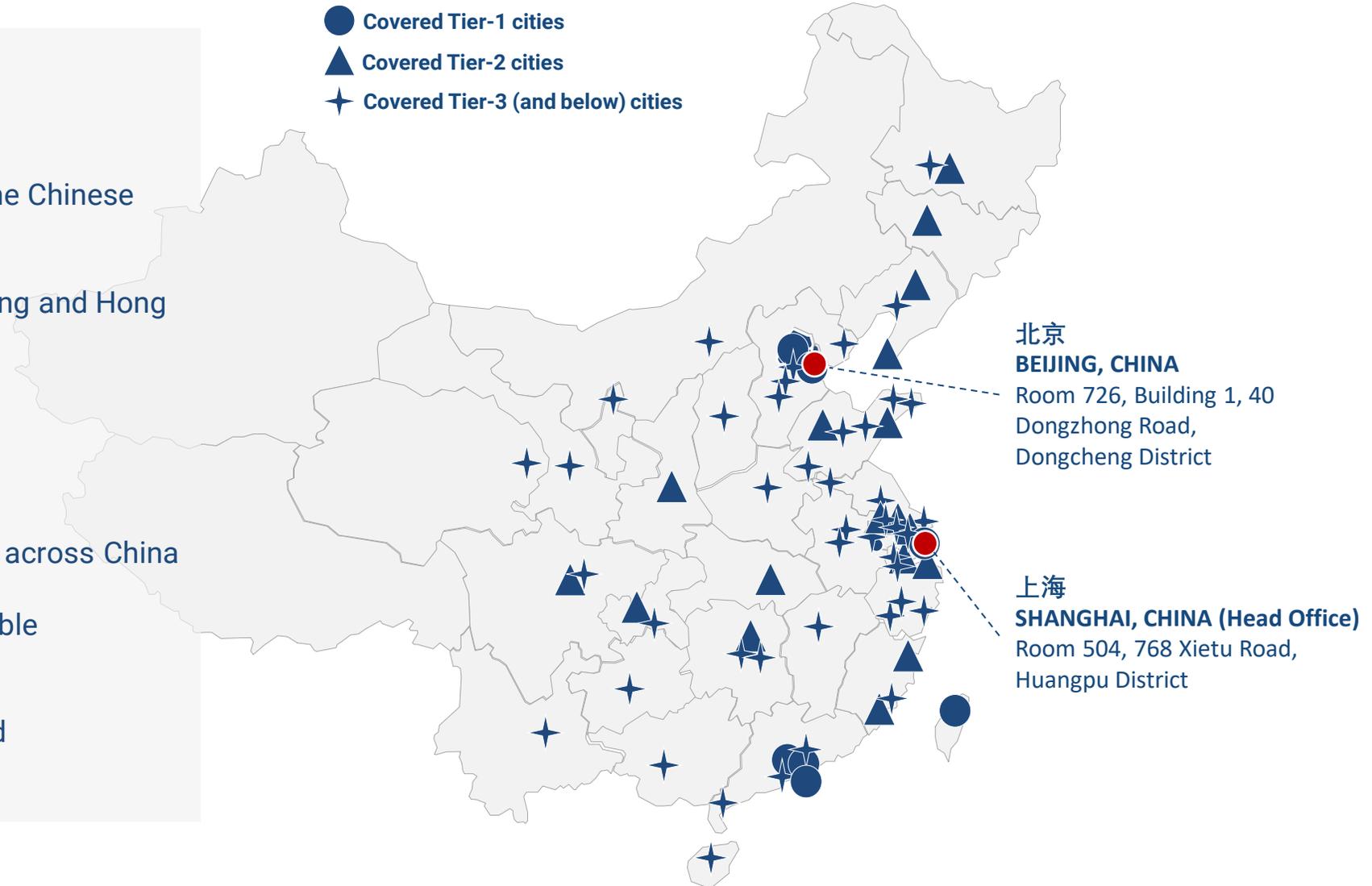


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