

Mobility in China

Riding-hailing | Food delivery | Parcel delivery

August. 2020

HONG KONG | BEIJING | SHANGHAI

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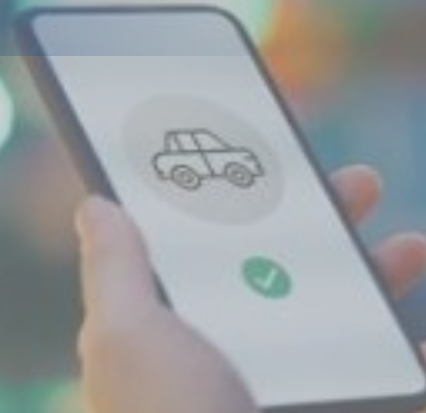


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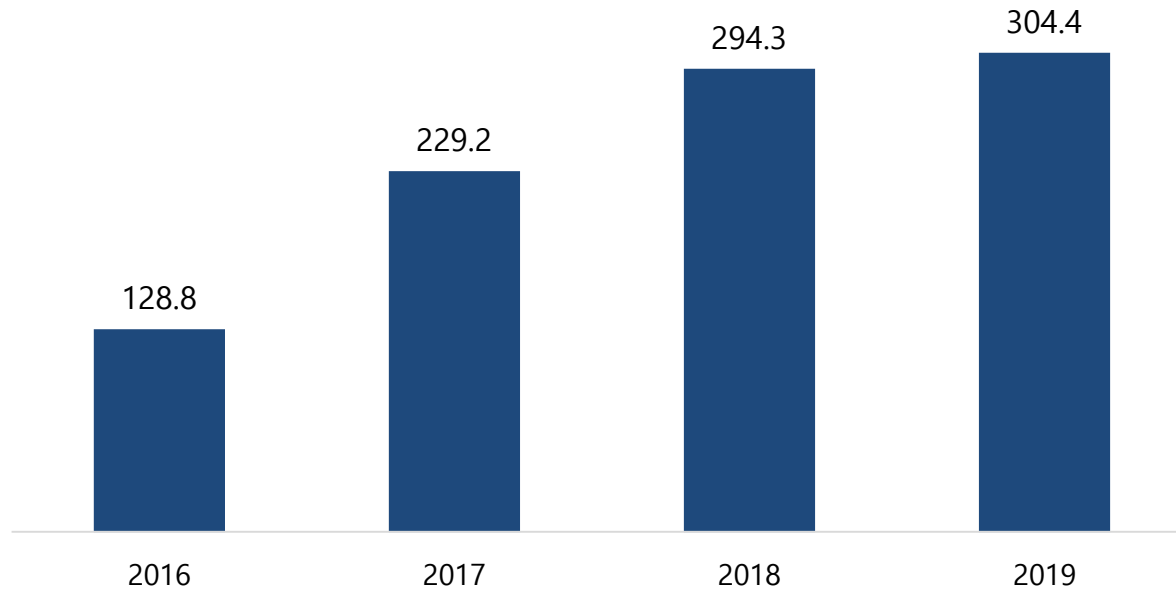
Ride-hailing market dynamics



China's ride-hailing market still has growth potential

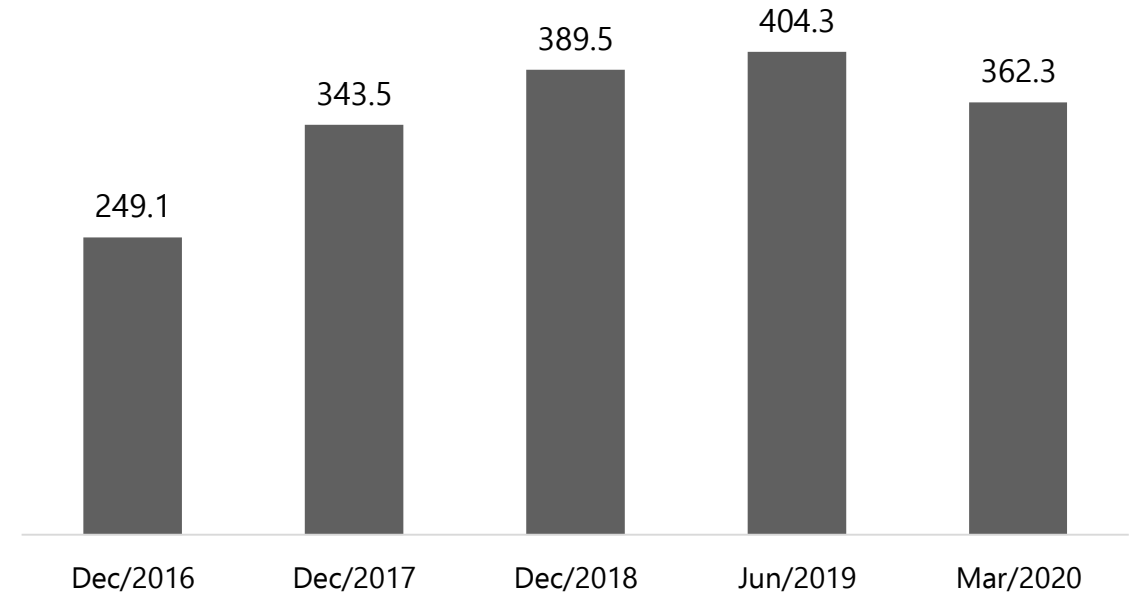
- Although COVID-19 dampened the demand, the market still has potential for growth as China recovers from the pandemic. Also, the main market of ride-hailing apps is currently still in tier-1 and 2 cities, there is still a lot of room for development in the third, fourth and lower tier cities.
- There are about 360 million registered users and 30 million registered drivers operating in the market. Both the driver and passenger sides have room for growth.

Market size of ride-hailing in China
(Billion RMB, 2016-2019)



Source: Ananlysys (易观大数据)

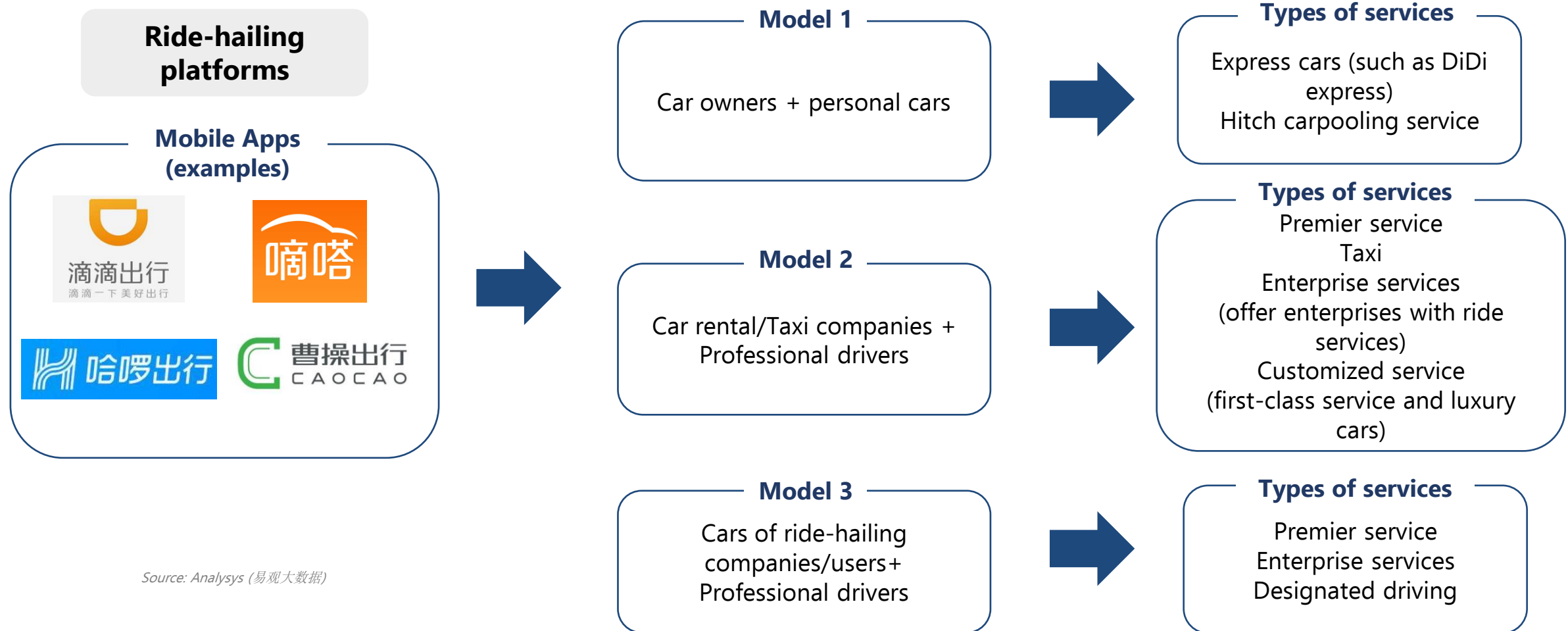
Number of ride-hailing users in China
(million)



Source: CNNIC

The ride-hailing ecosystem in China

The ride-hailing business model can be divided into C2C (consumer-to-consumer) and B2C (business-to-consumer). C2C is when private car owners offer services to consumers, in which case the ride-hailing companies only get an intermediary fee. B2C means ride-hailing companies provide services with its own drivers and cars (rented from other companies) or working with taxi companies.



Top ride-hailing companies diversify their businesses

Ride-hailing apps



DiDi Chuxing



Dida Chuxing



Hello Chuxing



Caocao Chuxing

Products and services

In addition to **ride-hailing**, DiDi also launched services like **bike-share, designated drivers, and car renting for road trips**. Thus, DiDi provides the most services among competitors and has an inclination to develop public welfare, bank cooperation, financial services and insurance products.

Dida focuses on **the taxi business and carpooling**. The brand also focuses on social networking. Its app has functions such as adding friends. Dida developed new business such as vehicle financial services.

Hello started from **shared bikes** in 2016 followed by e-bikes. In 2019, Hello entered the ride-hailing market.

Caocao uses **new energy cars** and low carbon travel to attract eco-friendly minded consumers. In addition to ride-hailing, Caocao also provides **intracity delivery and pick-up services**.

Pricing strategy

Starting price:

Below 3km, 12 RMB

Price more than 3km:

3km-20km 1.5RMB/km

Over 20km 1.2RMB/km

Starting price:

Below 3km, 11 RMB

Price more than 3km:

3km-30km 1.2RMB/km

Over 20km 1.0RMB/km

Starting price:

Below 3km 5.5 RMB

Price more than 3km: 2 RMB/km

Starting price:





Below 3km, 12 RMB

Price more than 3km: 2.6 RMB/km

Sources: Official websites and apps

DiDi is the largest brand in the market

- DiDi Chuxing has the largest market share, the largest user scale, and the highest coverage.
- Hello Chuxing's ride hailing services is limited to a few cities (Shanghai, Chengdu, Nanjing, etc.) so most of its users are actually bike-sharing consumers.

Company (apps)	Founded	Main business	Monthly active users (Million people, May 2020)	Market penetration
 DiDi DiDi Chuxing	2012.7	A variety of car-hailing services such as express car, premier, taxi.	54	400 cities
 嘀嗒出行 Dida Chuxing	2014.9	Taxi and carpooling	5.8	359 cities
 哈啰出行 Hello Chuxing	2019.2	Bike sharing and car-hailing services	17 <small>*Most are bike-sharing users</small>	300 cities
 曹操出行 Caocao Chuxing	2019.2	Car-hailing services for individuals and enterprises	2	50 cities

Sources: Qianfan Analysys (易观千帆), Qianzhan (前瞻研究院, a Chinese consulting firm)

- Dida mainly provides long-distance carpooling service for consumers, which means passengers traveling a short-distance generally choose DiDi instead of Dida.
- CaoCao is less well-known than DiDi and Dida since it entered the market a bit late. Drivers are more willing to register for widely recognized platforms so CaoCao has few registered drivers.

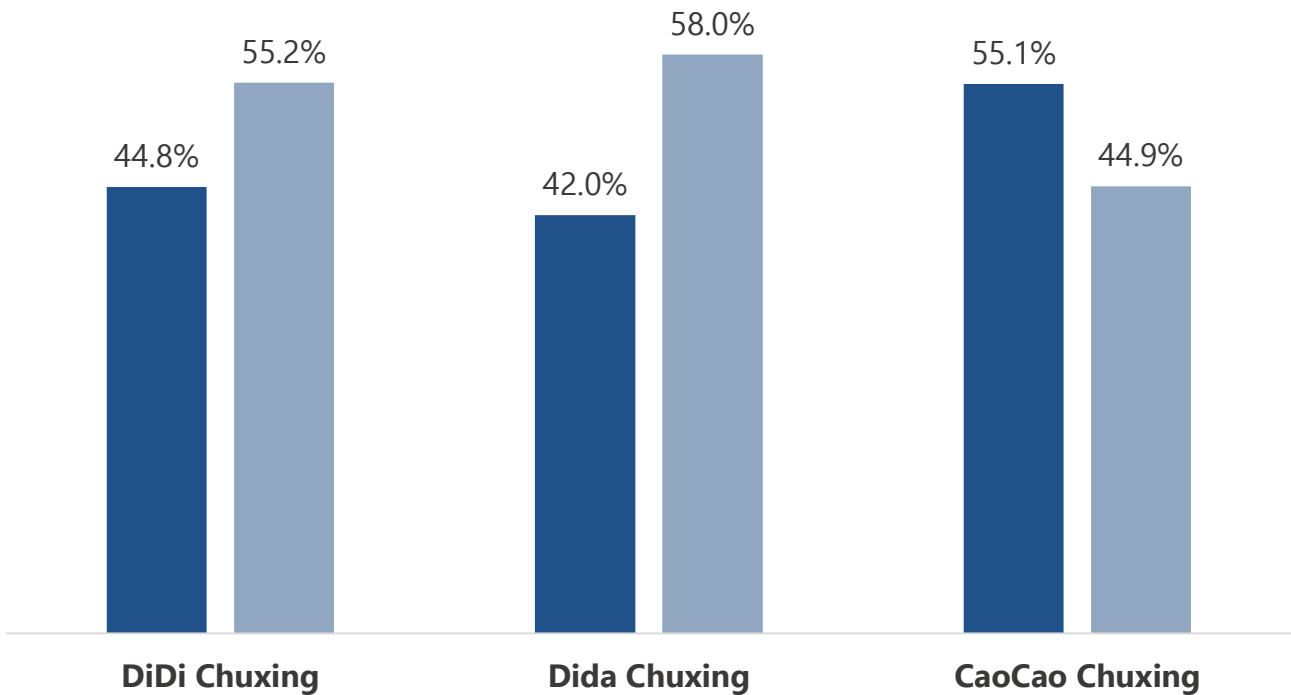
Demographics of passengers and drivers

21-40 year old people are the main users of ride-hailing apps, they usually use the service to go to work, shopping centers, cinemas, restaurants and exhibitions.

Ride-hailing passengers gender distribution

(2019)

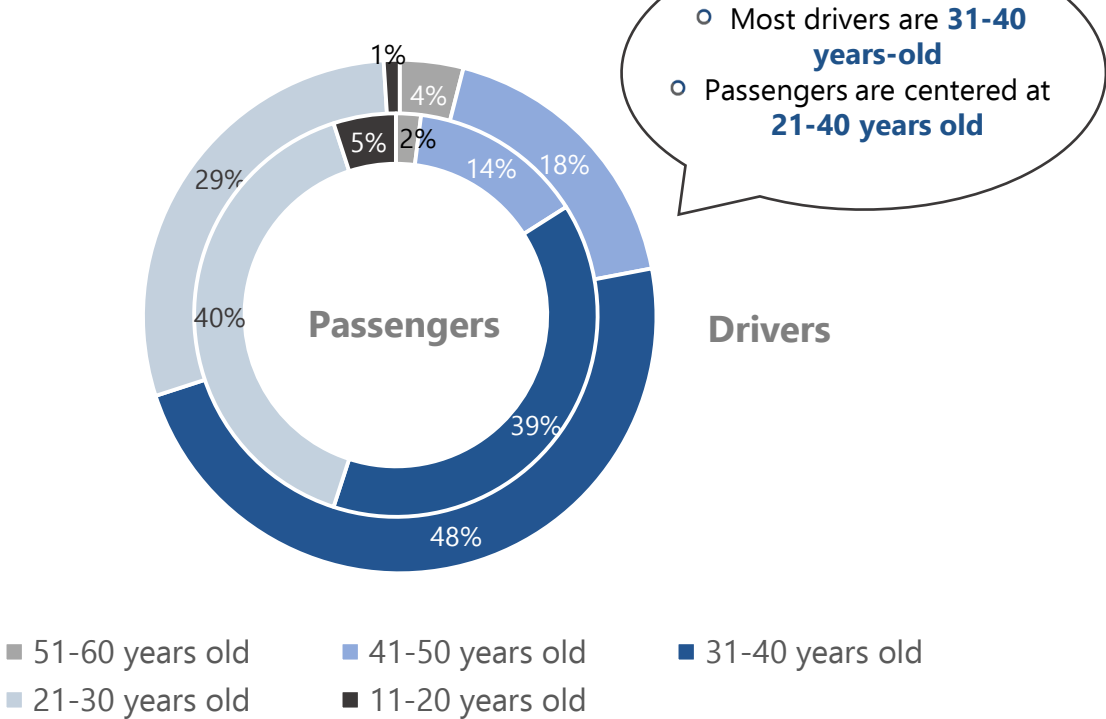
■ Female ■ Male



Source: meUserTracker

Ride-hailing passengers and drivers' age distribution

(2019)



Source: People data (a data platform built by the Chinese government), Dida Chuxing, CEPF

Ride-hailing peak times in China's large cities

The rush hours of ride-hailing services in China's big cities are fit local people's peak commuting times



Main challenges of the ride-hailing industry



Increasingly strict laws and regulations

The Chinese government believes ride-hailing is an important supplement to public transportation. Local governments launched regulations on vehicle license plates, wheelbase, safety and experience of drivers. Tier-1 cities have the most stringent requirements. Thus, ride-hailing companies have to face higher management costs.



High operating costs

Many ride-hailing companies attract consumers with low prices. But they are also largely invested in security because of government regulations, which leads to high operating costs. Therefore, ride-hailing brands face heavy financial pressures.



Fierce competition

Except well-known ride-hailing brands, such as DiDi and Dida, there are some companies from other industries also entered the market, like Meituan. In order to have more market share, ride-hailing brands had to build unique product and services in recent years. There are reasons to believe they may fight even harder for market share in the future.

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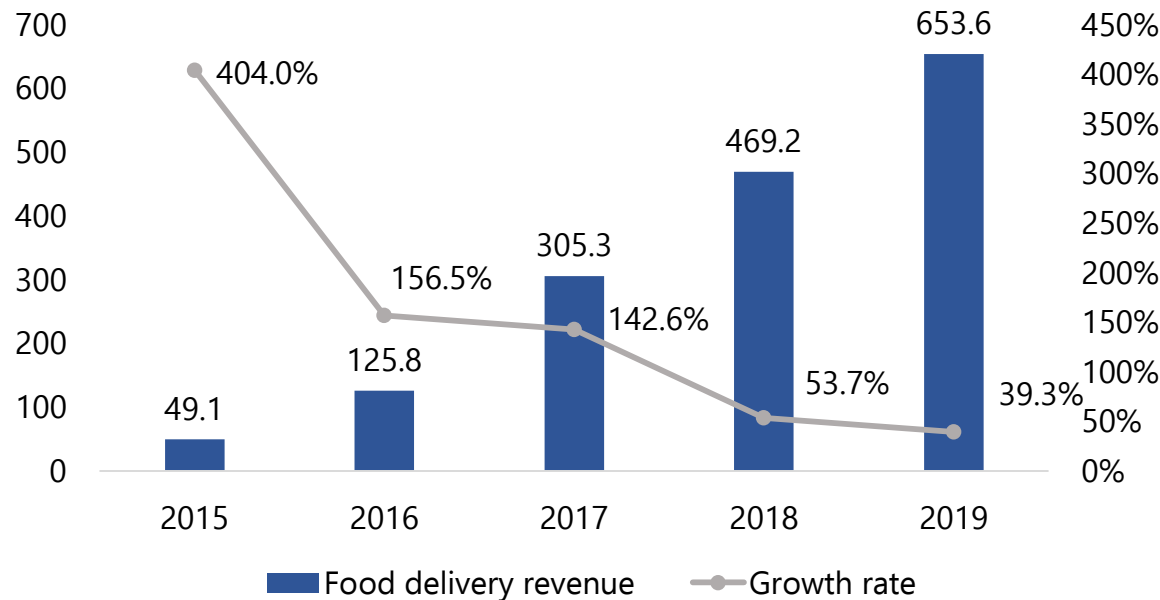
Food delivery market dynamics



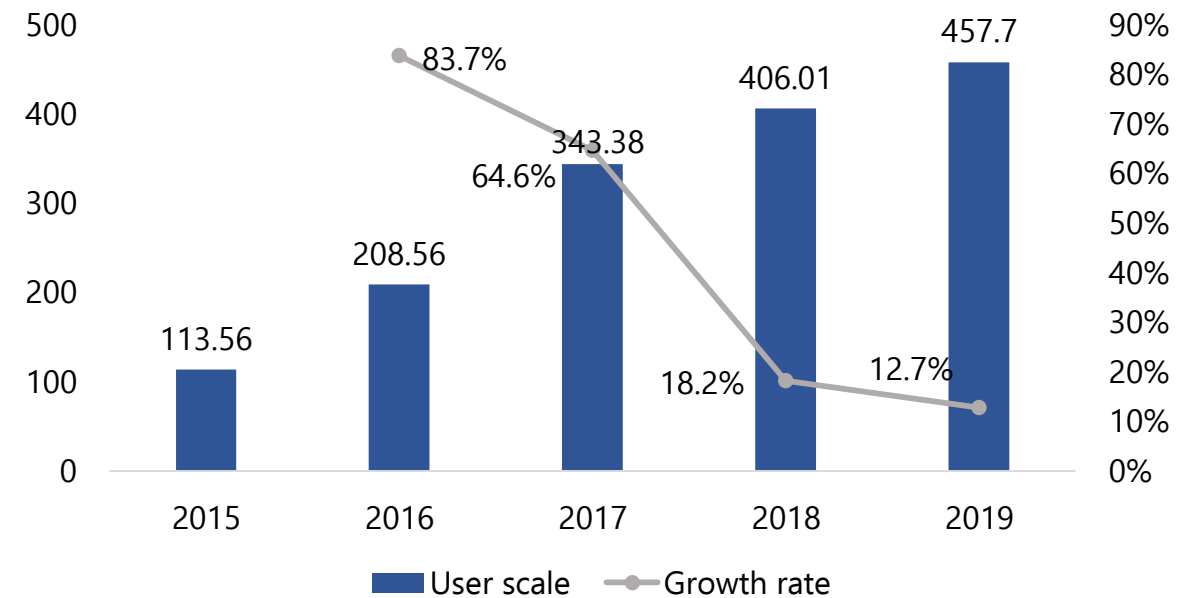
China's food delivery market maintains a strong growth

- 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)

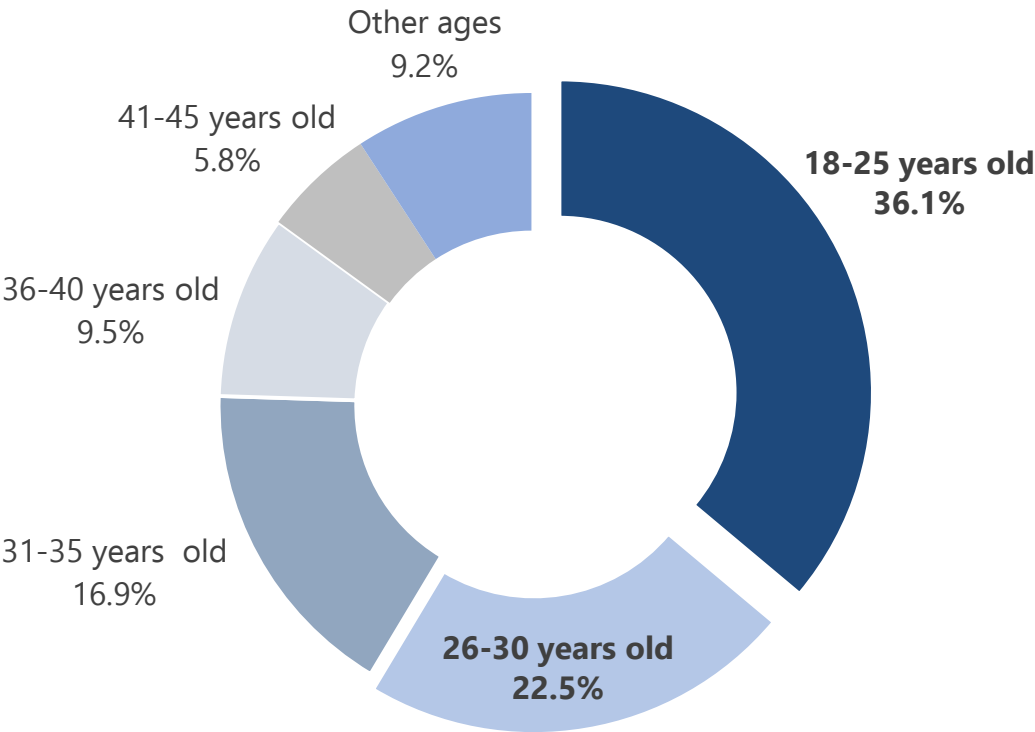


Source: iResearch

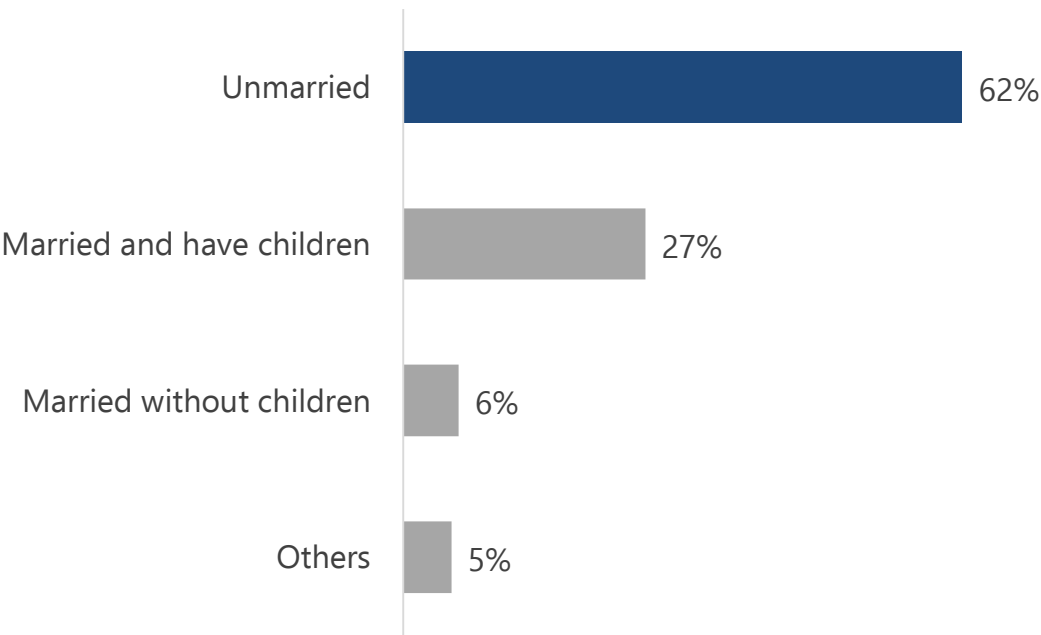
A rigid demand from unmarried post-90s generation (20-30 year olds)

- 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)

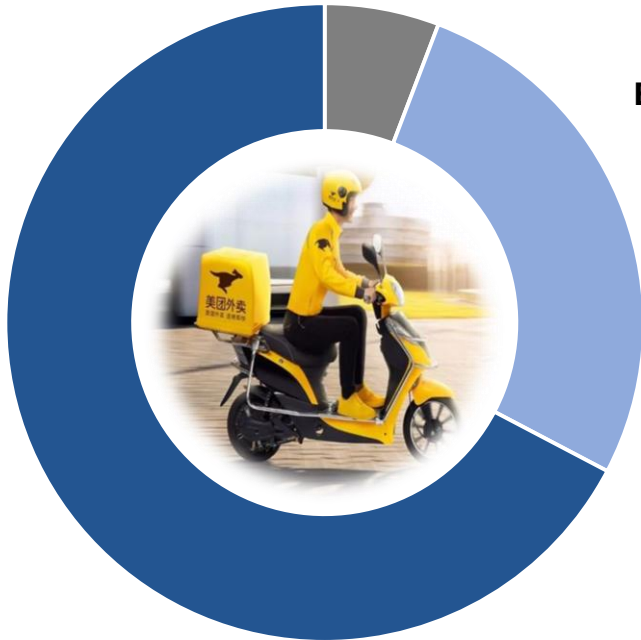
China's food delivery market is dominated by 2 brands

- 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)

Others, 5.8%

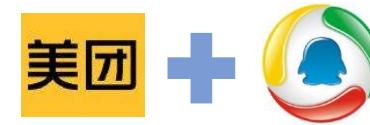
Meituan waimai
(美团外卖),
67.3%



Ele.me (饿了么),
26.9%



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

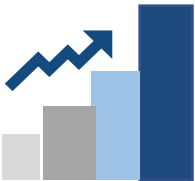
- First and second tier of cities occupied 65% of the O2O food delivery business in China, but there is no much room to grow.
- The O2O food delivery service maintains a rapid growth in tier-3, 4 and 5 cities in China along with the increasing popularity of mobile Internet and O2O food delivery platforms. 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.

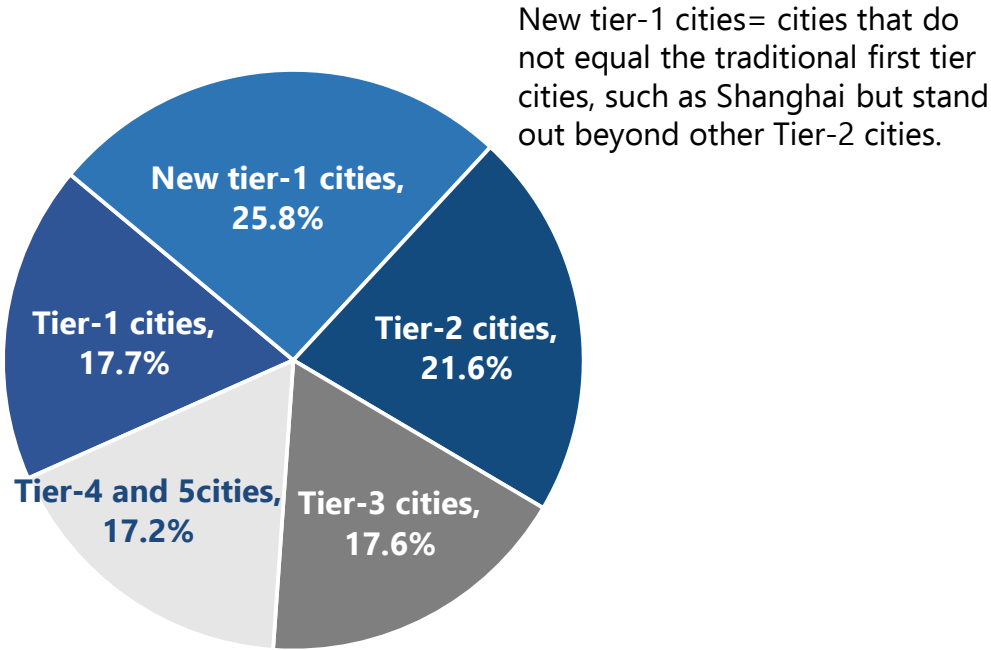


The growth rate of Meituan's food delivery sales in tier-3, 4 and 5 cities, in the fourth quarter of 2019.

45% YoY

Source: Meituan (美团)

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



Source: Meituan (美团)

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

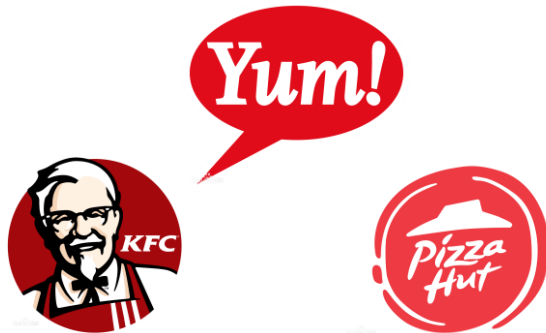
Yum built its own food delivery apps while working with third-party platforms in China

- Yum built its own food delivery system in China in 2001, then its restaurants entered Meituan and Ele.me in 2015. In 2019 its 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?

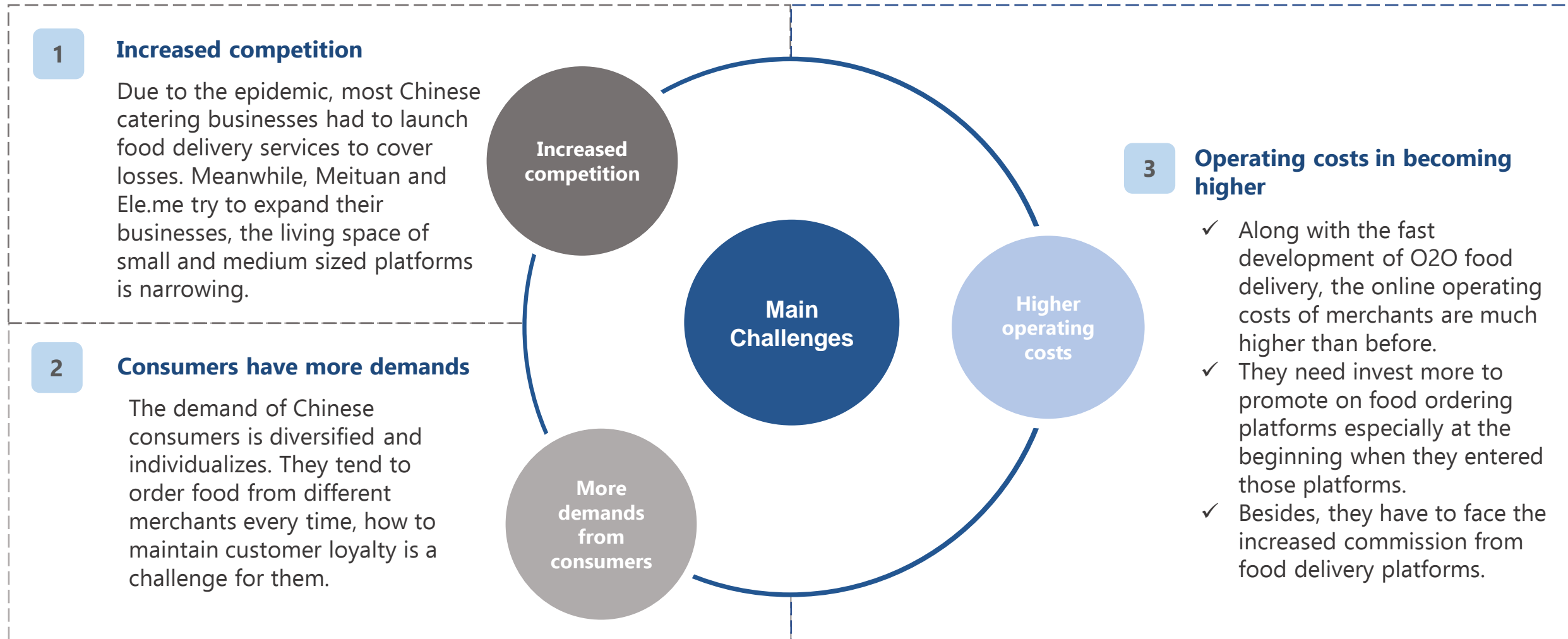
- Yum China owns two major catering brands (KFC & Pizza Hut) with a large number of stores and consumers.
- Yum China adopts a hybrid food delivery strategy. For example, KFC obtains orders through third-party platforms, and then delivers meals by using its own riders.
- Yum China gets the best of both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



3

Parcel delivery market dynamics

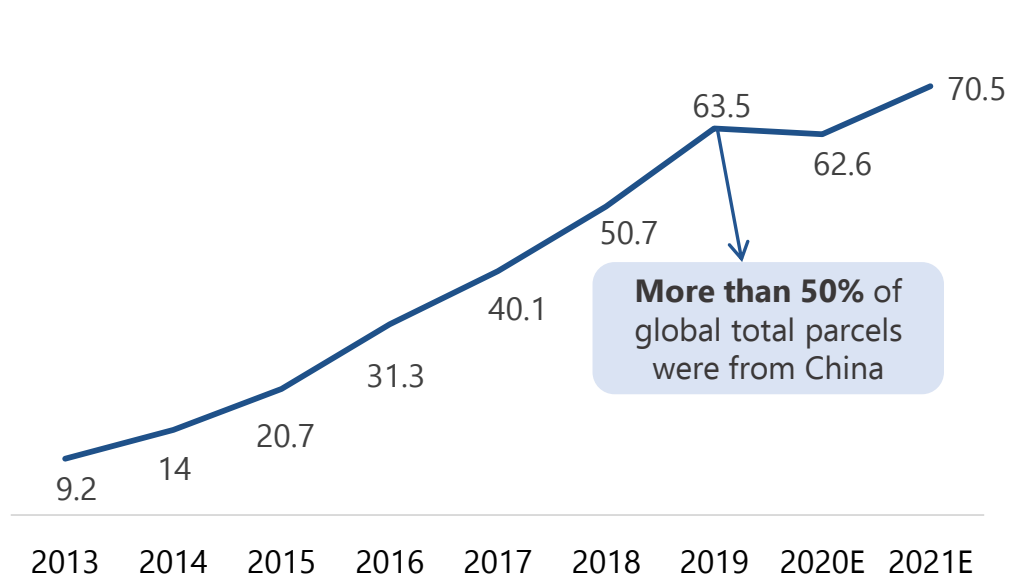


The largest parcel delivery market in the world, in terms of volume

- The parcel delivery market in China exploded with online retail. With a low price and high speed, there were more than 60 billion parcels in circulation in 2019 with 25% growth YoY, which was more than 50% of global total parcels delivered in the same year.
- The growth speed of China's parcel delivery business is expected to decrease in 2020 due to the COVID-19 outbreak and online retail growth's slow down. However, it still has potential to grow as online retail reaches further into China's rural areas.

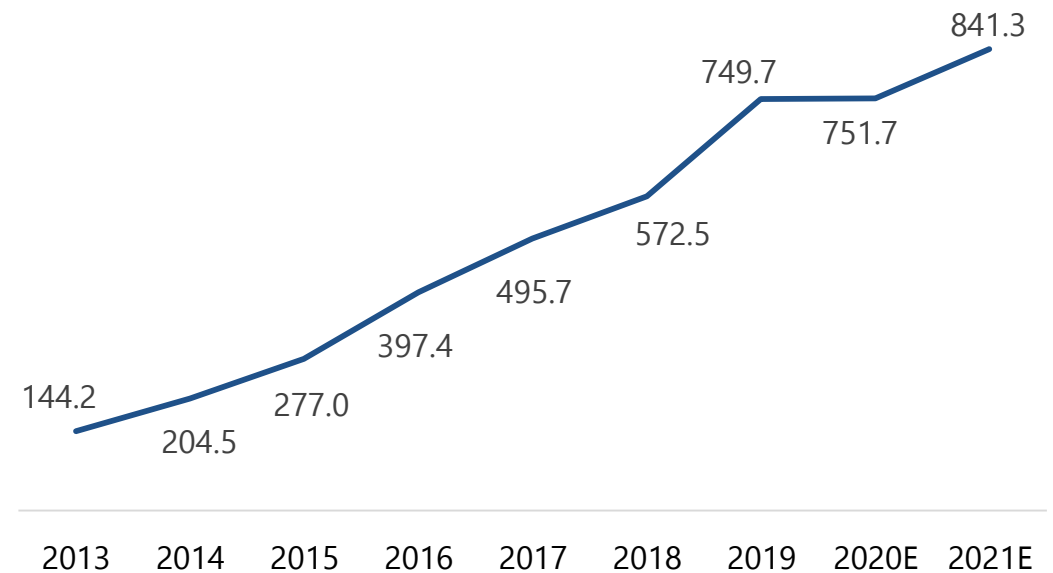
Annual number of parcels delivered in China

(Billion, 2013-2021E)



The Chinese parcel-delivery market revenue

(Billion RMB, 2013-2021E)



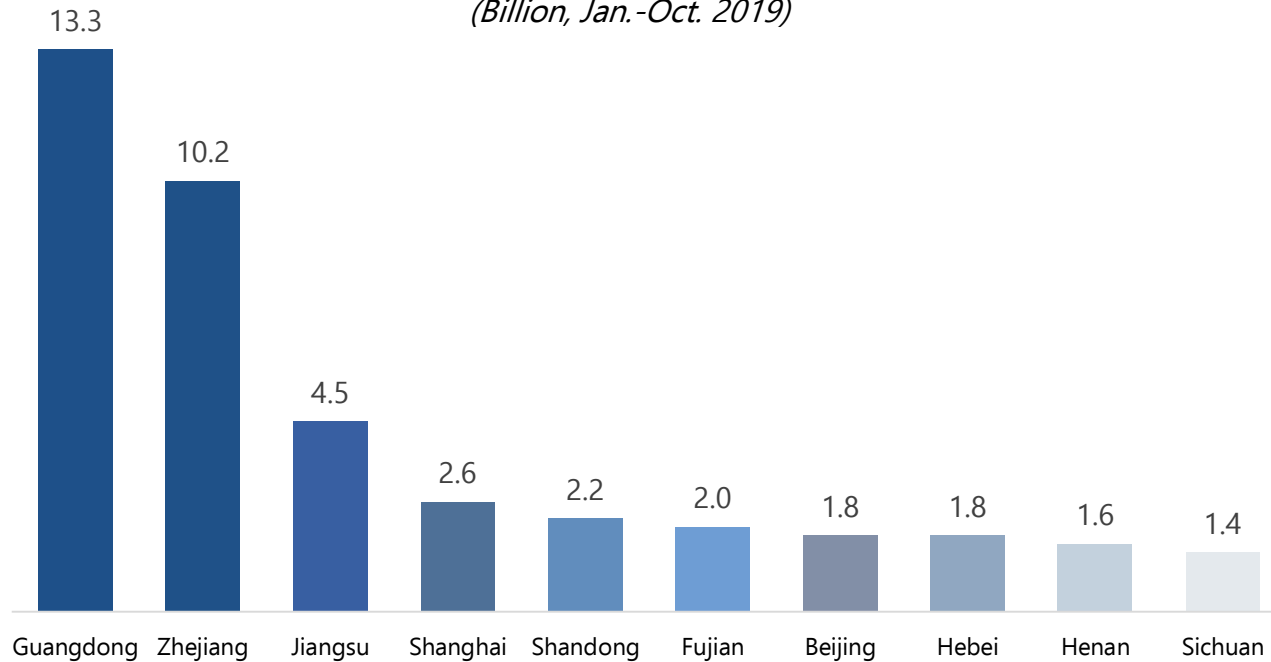
Source: The Chinese State Post Bureau

Parcel delivery demand is concentrated in China's eastern regions

- The parcel delivery business in China is highly correlated to the development of the regional economy. Hence, the number of parcel-delivery orders on the east coast are much higher than other regions. Shanghai had less deliveries than Zhejiang and Jiangsu but much more revenue, since the average unit price in Shanghai (39.8 RMB/parcel) was the highest in China, at 5.7 times the average unit price of Zhejiang province.
- However, middle and western provinces in China have larger market potential for the parcel delivery business in the long run as they continue to experience economic growth.

Number of parcel-delivery orders in China by province (top 10)

(Billion, Jan.-Oct. 2019)



China's parcel-delivery revenue by province (top 10)

Provinces	Revenue in Jan.-Oct. 2019 (Billion RMB)
Guangdong	148.1
Shanghai	102
Zhejiang	70.8
Jiangsu	48.8
Beijing	27.1
Shandong	22.8
Fujian	20.3
Hebei	19
Sichuan	16.2
Henan	14.7

Source: Qianzhan (前瞻研究院, a Chinese consulting firm)

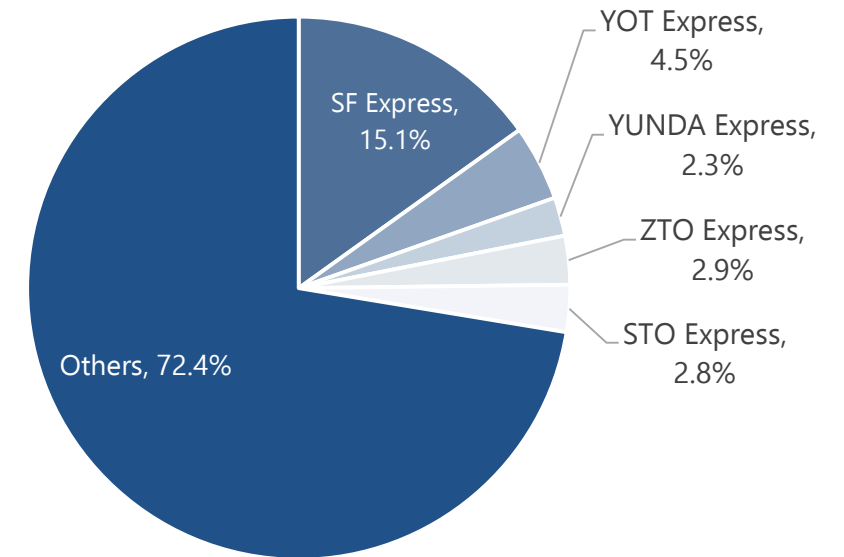
Low market concentration

- In terms of revenue, SF Express undoubtedly occupies the leading position in the Chinese parcel delivery industry. However, China has more than 50 parcel delivery companies in the market, hence the market concentration is still low.
- China's major parcel delivery companies usually have a large number of delivery orders, but their low unit price leads to low revenue. For example, SF only costs 3.6 USD to deliver a 1 KG package in 1 day from Shanghai to Beijing, but UPS takes around 80 USD to delivery the same package in 1 day from New York to Chicago (a similar distance as Shanghai to Beijing).

The major express delivery enterprises in China by revenue
(2018-2019)

Top parcel-delivery companies	Revenue in 2018 (Billion RMB)	Revenue in 2019 Q1 (Billion RMB)
SF Express	90.9	24
STO Express	17	4.5
YOT Express	27.5	6.4
YUNDA Express	13.8	6.7
ZTO Express	17.6	4.6

Market share of China's express delivery industry by revenue
(2018)

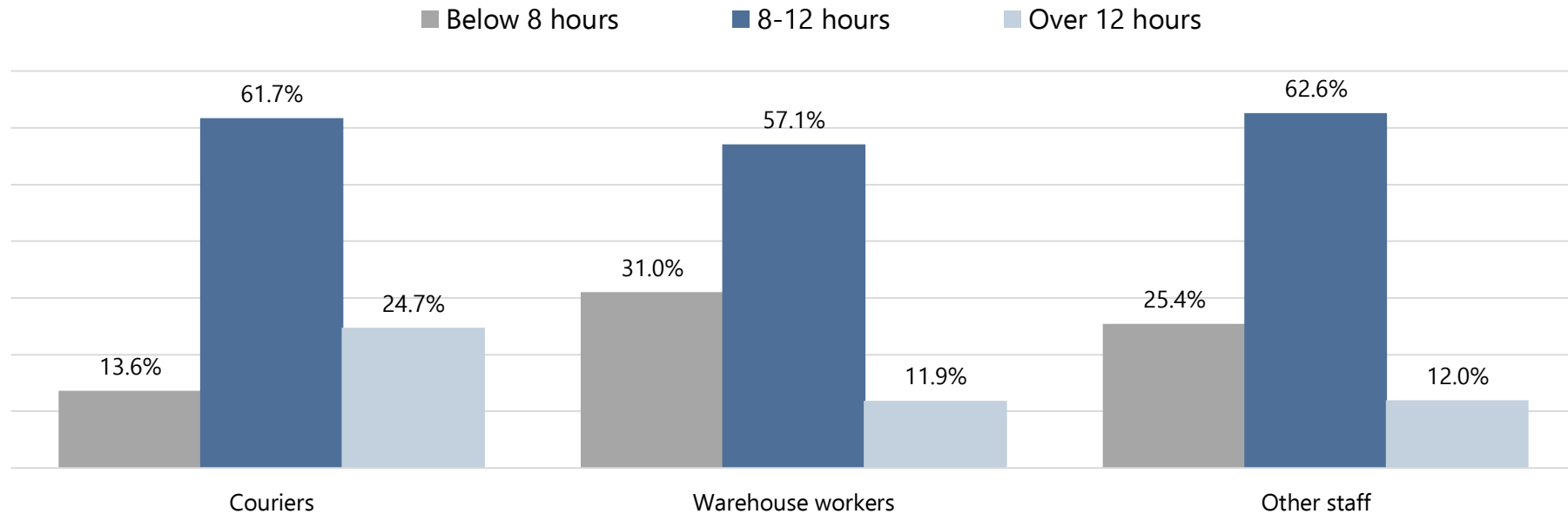


Source: Qianzhan (前瞻研究院, a Chinese consulting firm)

The parcel delivery industry needs more workers

- On an average day in 2019, A Chinese courier would have delivered around 120 parcels. More than 60% of the delivery people work more than 8 hours a day. However, based on the growth of China's parcel delivery business, the market will still need 1.5 million extra workers to meet the daily demand. Therefore, the industry is creating more jobs.
- But, the labor costs of parcel delivery are getting higher and higher along with the rising couriers' salary. At the same time, the aging population is reducing potential pool of parcel delivery workers. Thus, it's essential for companies to have more efficient delivery methods.

The proportion of daily working hours of parcel delivery workers in China
(2019)



Source: chyxx (中国产业信息网)

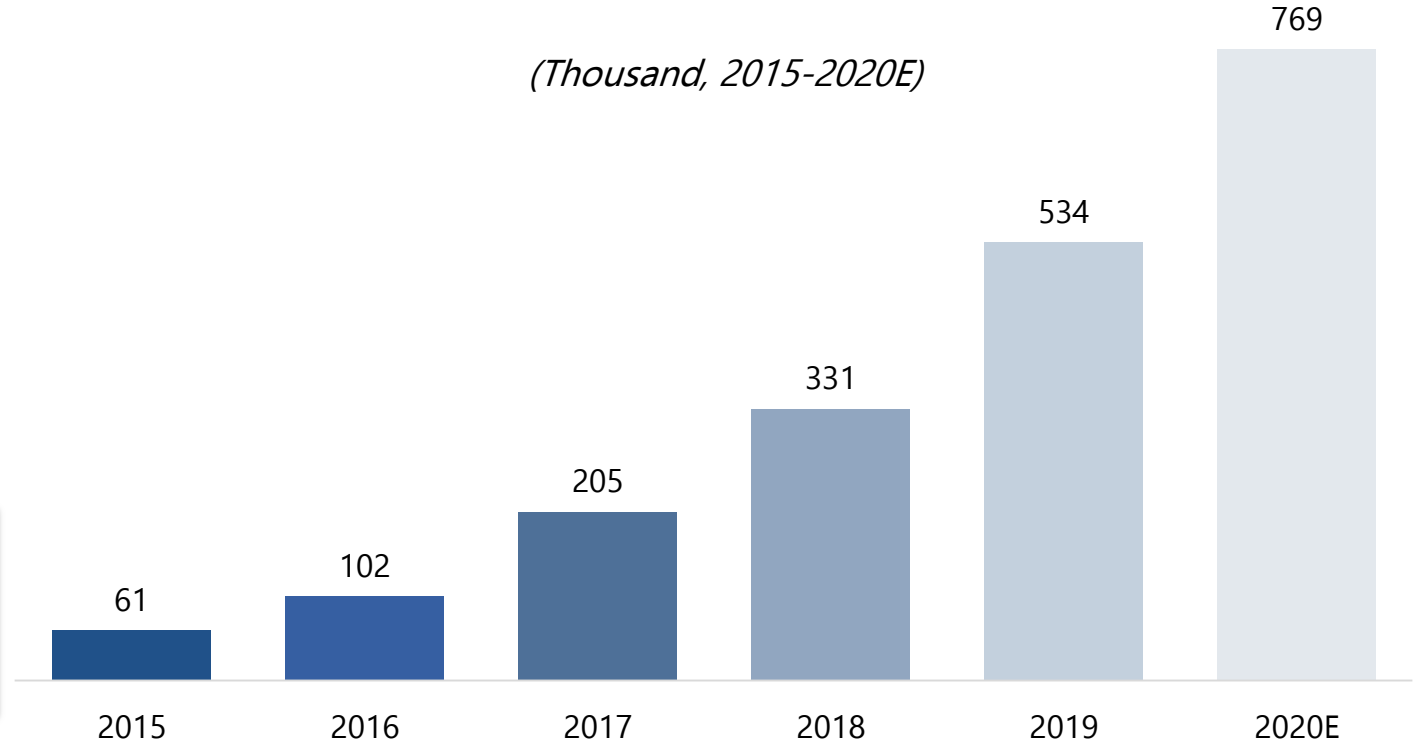
Self-service mailboxes are popping up all over the country

- In 2019, the number of self-service mailboxes (智能快递柜) in China's large cities has reached 406,000 with the YOY of nearly 50%. However, self-service mailboxes are mainly used in eastern cities, there is a large space to develop.
- The high maintenance and operating costs of self-service mailboxes impede their further expansion in China.



The number of smart mailbox units in China

(Thousand, 2015-2020E)



Source: chyxx (中国产业信息网)

FlashEx (闪送): A new business model in the express delivery market

Background:

Founded in 2014, FlashEx is the largest intra-city delivery service provider in China, with services available in **222 cities**. The company can deliver small parcels and files across cities. It has more than **90 thousand couriers** and **100 million users**.

Service:



Food delivery
(Cakes, fresh food, fruit, etc.)



Business document delivery
(Documents, contracts, profiles, etc.)



Emergency delivery
(Smartphones, laptops, clothes, etc.)



Other products delivery
(Flowers, keys, etc.)

Pricing:

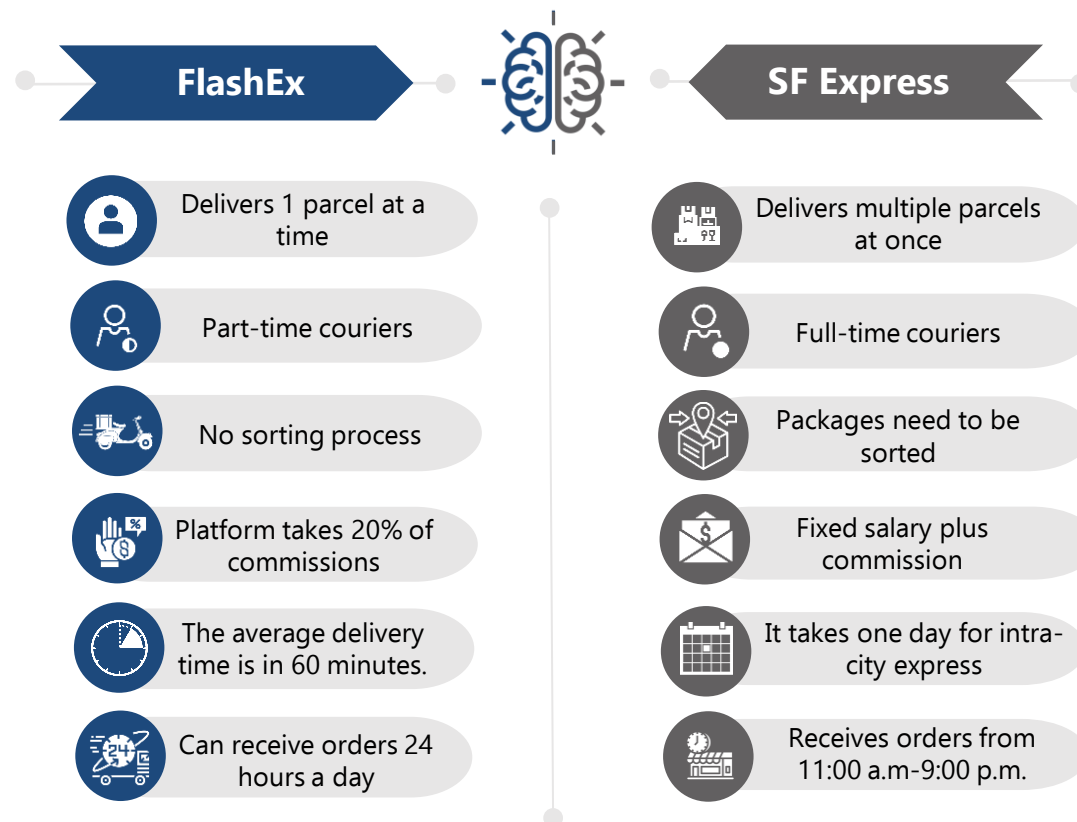
	FlashEx
Starting price	RMB 16
Parcel weight	Under 5kg
Extra charges (when a parcel is heavier than 5kg)	RMB 10/5km RMB 2/kg

Target consumers:

People who demand a quick and safe delivery in the same day within the city.

Business model:

FlashEx only plays the role of issuing orders to couriers, then receives a commission. It is like DiDi express car services, but for goods delivery.



The further development of FlashEx is blocked

Since FlashEx's business model is so different from traditional express delivery companies, it faces a new series of obstacles.

“Express is delivering letters, parcels, printed matter and other objects to specific individuals or units according to the name and address on the package, including the process of receiving, sending, sorting, transport, delivery and other links.”

--“Postal Law of the people's Republic of China”



Insufficient related laws in China

FlashEx does not satisfy the standard of express in legal definition, therefore, it's hard for its consumers to make formal complaints and ask for claims when the goods are damaged.



More competitors enter the market

Due to the fast growth of the intra-city delivery market, many new competitors entered the market. A price war is inevitable.



Low brand awareness in tier 3, 4, and 5 cities

People in tier 3, 4 and 5 cities feel the shipping fee of FlashEx is expensive when they only deliver things a few blocks. Therefore, the brand is unpopular in those cities.



Goods' safety is uncertain

FlashEx's couriers are part-time employees without professional training. Additionally, there are no regulations on how to deliver goods. It's easy to damage high-value goods or fresh food when the delivery conditions are not held to a standard.

Main challenges of the parcel delivery industry



4

Finding opportunities by experimenting in other markets









DiDi has experimented in the freight market

Background:

DiDi Huoyun (滴滴货运) is an on-demand cargo delivery service launched by DiDi Chuxing in June, 2020. On the first day of operation, the platform got **10,000 orders in Hangzhou and Chengdu**. So far, more than **20,000 drivers** have signed up for the service.

High price with generous subsidies:

	 Small minibus	 Large minibus	 Truck
	5 RMB/km Over 8km: 3RMB/km	8 RMB/km Over 8km: 4 RMB/km	9 RMB/km Over 8km: 4 RMB/km
	17 RMB/km Over 5km: 3RMB/km	19.6 RMB/km Over 5km: 4 RMB/km	19.6 RMB/km Over 5km: 4 RMB/km
	6 RMB/km Over 5km: 3 RMB/km	9 RMB/km Over 5km: 4 RMB/km	9.6 RMB/km Over 5km: 4 RMB/km

Source: iResearch

Since DiDi Huoyun works as an intermediary between consumers and drivers, it offered an **abundant amount of subsidies** to attract drivers. For example, they can get 50 RMB subsidy on the first order, and 60 RMB on the second. DiDi also provided **vouchers** to all its consumers, offsetting most of the freight service cost. Hence, DiDi Huoyun gains market share through price war despite having higher prices.

Differentiation of business model :

1. DiDi Huoyun **distributes orders** to drivers, while both Huolala and Kuaigou require drivers to **grab orders** in their Apps.
2. Huolala and Kuaigou require drivers to **pay member fees** while DiDi doesn't.

Development prospect:



Opportunity & Strength

Intra city freight transport is expected to maintain a **growth rate of 5% - 7%** in the next 3-5 years. Because of the positive forecasts of the freight transport market, DiDi decided to enter the market and utilize its wide consumer base and brand name to gain market share.



Threat & Weakness

- Competitors have years of experience in the market, which allows them to accumulate users and build a strong brand awareness.
- The safety perception of DiDi Huoyun is uncertain, especially after two incidents in 2019. Thus DiDi has to figure out how to guarantee users' privacy and safety.

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

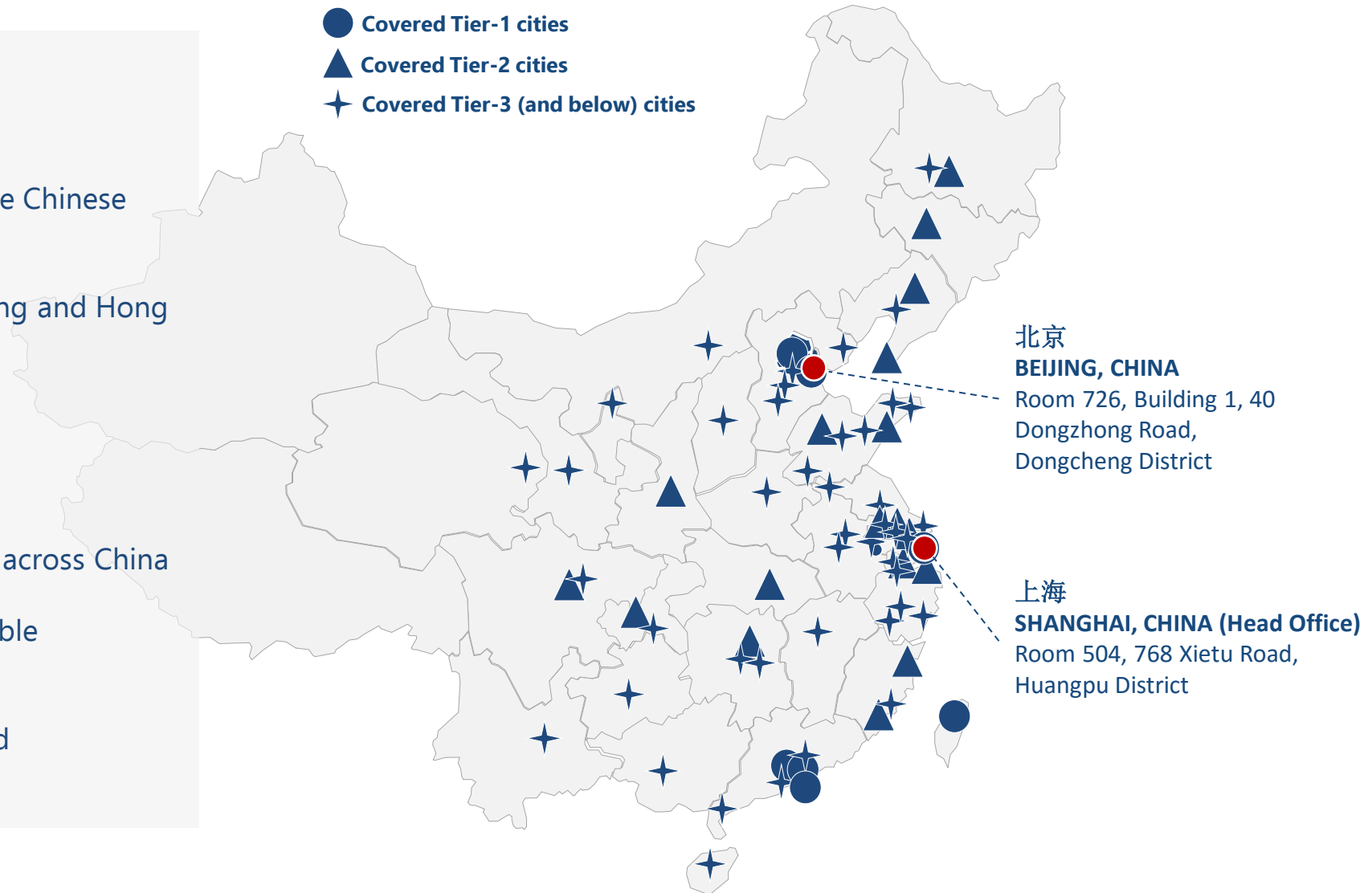


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