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Internet

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Meituan's Ultimate Goal: "Everything Now" with Instant Retail

-- Meituan Series Report III

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- **Technology**
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Key Points

- Meituan's years of deep farming in local life services, particularly food services, gives it an absolute advantage in high frequency in-store dining and takeout segments, providing high-frequency traffic and stable cash flow for new businesses, as well as aiding the platform's third growth curve in "instant retail" .

- **Top brands with stable supply chains act faster in terms of supply intergration, omni-channel inventory, closer warehousing and O2O (online to offline) channels to better reach and serve consumers.** In the first phase of development, instant retail could mainly lend itself to high immediacy categories such as ready-to-eat food, alcoholic beverages, fresh food and medicine, or categories that are slow by conventional logistics such as light goods, fragile goods, etc. The O2O model also can help brands improve user experience, on top of giving them stronger controlling power and efficiency. Our sensitivity analysis indicates the instant retail market is expected to top 3 trillion yuan in 2025. If the development path of e-commerce mirrors, this segement will likely hit the second phase: a positive cycle of lower price → burgeoning traffic → larger brand input, after instant retail expansion scaling up same-city delivery while costing less thanks to staggered delivery of retail and takeout orders, eventually realizing "Everything Now".

- **Meituan's push for "instashopping" via on-demand DMW (distributed mini warehouse) infrastructure for urban instant retail aims to cover cities with more than 500,000 population over the next five years, targeting a positive cycle of traffic-demand-supply and "Everything Now" based on the platform's robust same-city delivery capacity.** Meituan offers guidance on product and site selection, pricing, and the "Baichuan system" to effectively improve inventory turnover efficiency. Meituan Instashopping helps small and medium-sized retailers digitalize, while revitalizes offline retail system for bands to directly reach end consumers, creating a closed loop of online and offline marketing. Meituan Select's elaborate operation, including its near-field retail system in lower-tier markets and low-cost last-mile delivery, make it poised to rise in the community group purchase sector. Meituan may become a large market share player in the near-field retail sector, which is estimated to see 70 billion yuan profit in 2025.

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01

Meituan History Review: Stay "Long-term and Patient"

Meituan's 'long-term and patient' mission requires it to focus on efficiency, instead of blind cash burning

Group buying business laying the foundation, strong sales system

(Gan Jiawei from Alibaba)

- **Talents output:** Not only to win the competition, but also train people at average level and below to above average level through the system. Grow together with employees and achieve mutual success.
- **"Simplify the complexity":** Large teams and heavy operations,simple instructions and clear strategies especially for those involving off-site management.
- **Appraisal process:** Emphasize more on process than on results, find the right way of becoming "sales champions" and then replicate.
- **Elaborate management:** Set multiple control nodes, such as the more than 1,000 gross profit control points set up to achieve a monthly break-even at the end of 2012.

Takeout business: building same-city delivery system

- Quickly city expansion, priority on blank market, no hard fighting in first-tier cities, "from rural to urban" subsidy more efficient
- **Insisting on self-built delivery team**, strong scheduling system accumulation, meeting users' "food" needs, ongoing construction of same-city delivery system

To-store hotel & travel - differentiated competition

- Cut into **the market of** "local accommodation" hotels in 2013, shifting from hotel group purchase to hotel reservation to ensure consumers' rights and interests.
- **No massive cash burning in** the hotel business by Meituan, but staying **patient and insist on doing the right thing.**

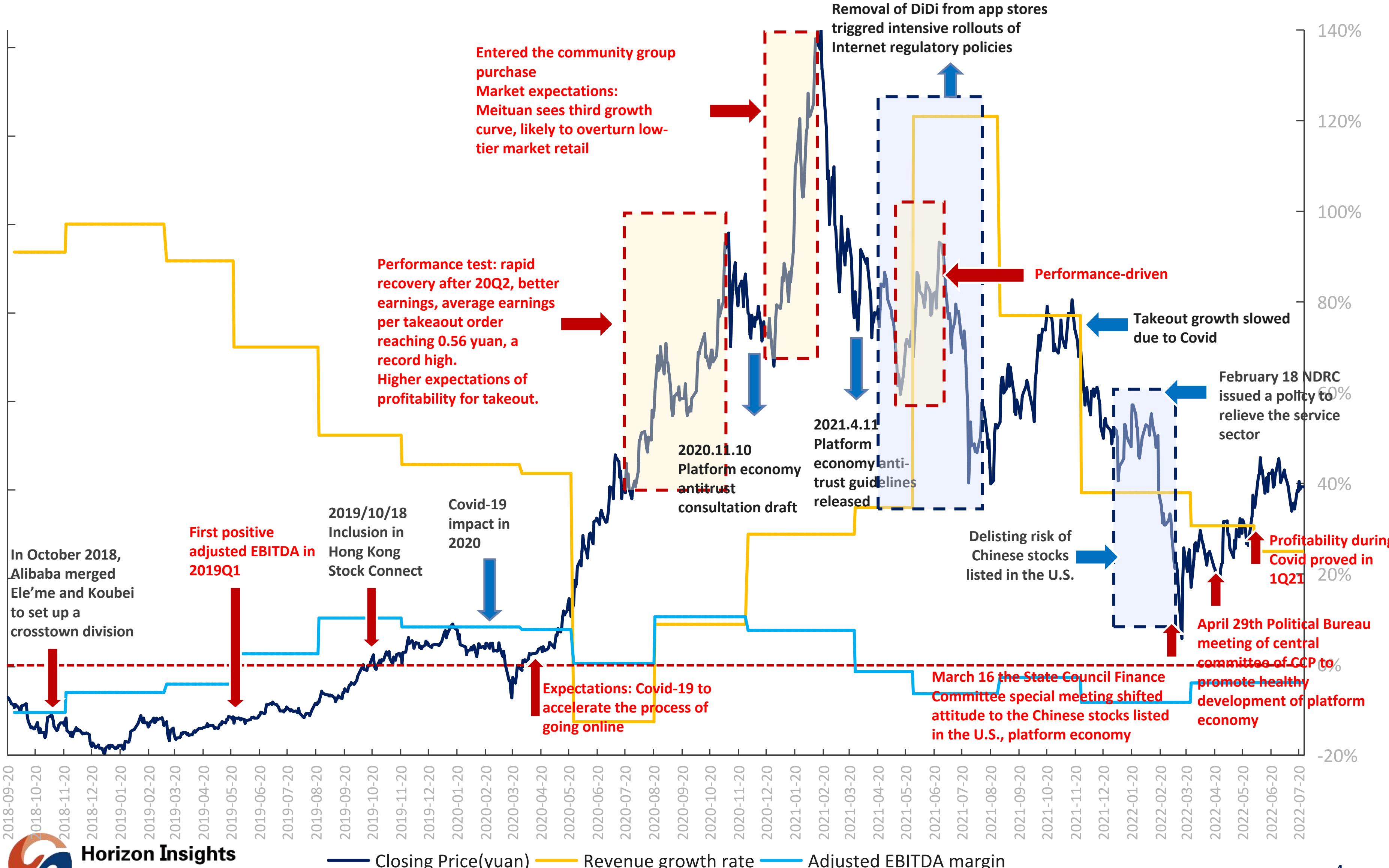
Maoyan Movie - A validation of the "light to heavy" methodology of Meituan's boundary expansion

- In January 2013, Meituan Film became independent as Maoyan Movie, the first **independent end-to-end closed-loop business**, a sign of successful vertical exploration.
- Maoyan is Meituan's first move that **really started to get involved in offline services, from group purchase to online seat selection, from "light" group purchase gradually to "heavy" business.**

The earlier group buying business of Meituan helped it build a winning and efficient sales system with strong execution, standardized processes, cautious new business expansion, high efficiency, small team feasibility trial and then large scale marketing.

- Make the **pursuit of efficiency** the core objective of the organization
- Use **technology** as the main tool to improve efficiency
- Make **problem solving** the only path to value creation
- Seeing **market competition** as a long-term process of organizational value growth

Meituan share price review



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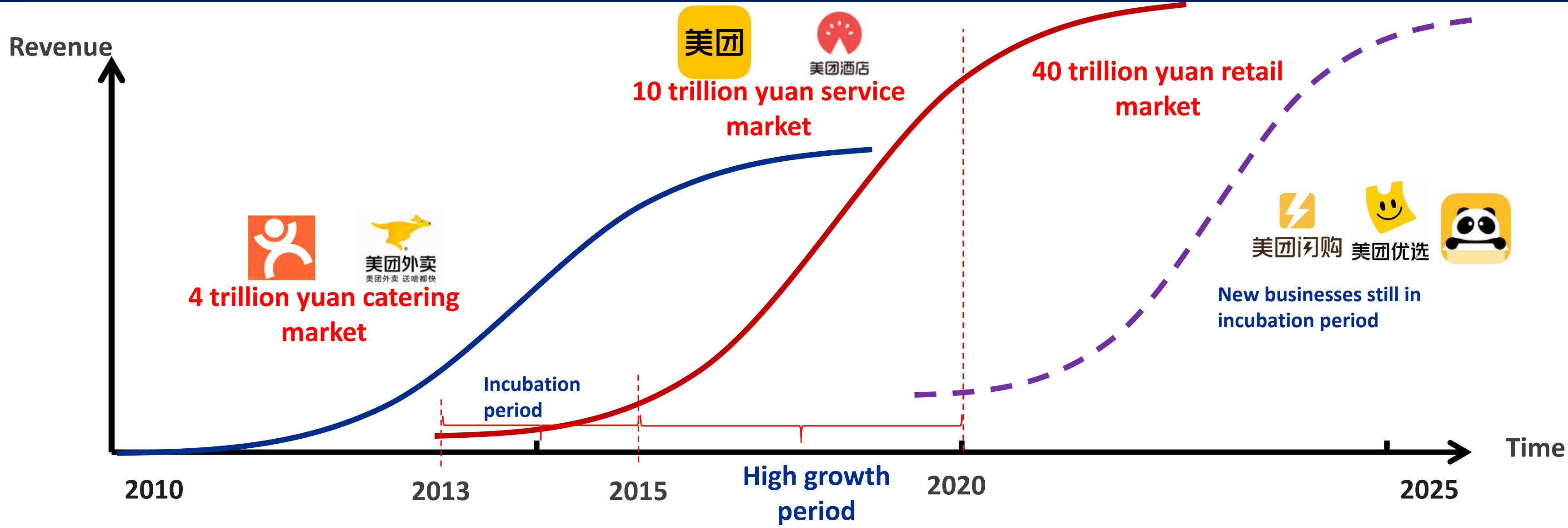
Source: ifind.

The dining business generates high-frequency traffic; Meituan has built intracity delivery system, paving the path for success in near-field retail

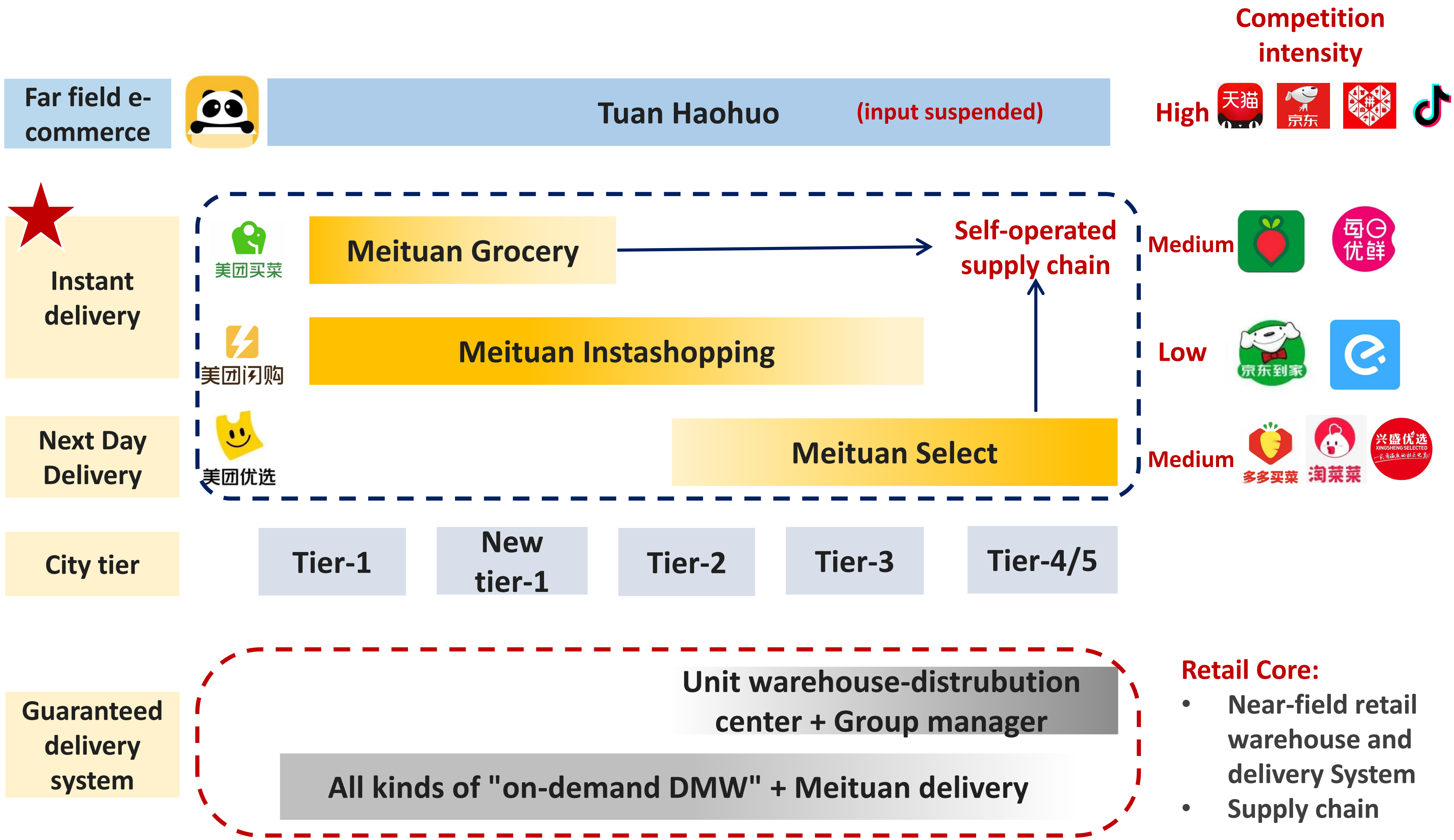


Traffic	As of 22Q1, Meituan has 690 million annual active transaction users; as of June 2022, Meituan APP has 350 million MAU, 90 million DAU, and 16min per capita single day usage time.	
Goods services	As of 22Q1, Meituan has 9 million active merchants per year and is steadily expanding in all sectors of local life.	Still under exploration
Guaranteed delivery system	Meituan has built a same-city delivery network in 2,800 counties and cities nationwide. In 2021, Meituan has more than 1 million daily active delivery drivers and 5.27 million delivery drivers earning on Meituan.	

02

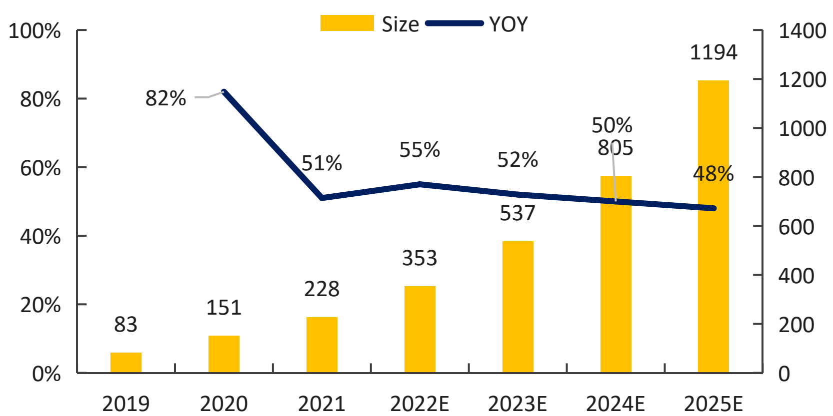
"Everything Now": Instant Retail to Be the Next Huge Potential

Meituan's ‘near-field retail’ differentiates itself to meet various needs via multiple models with its guaranteed delivery system

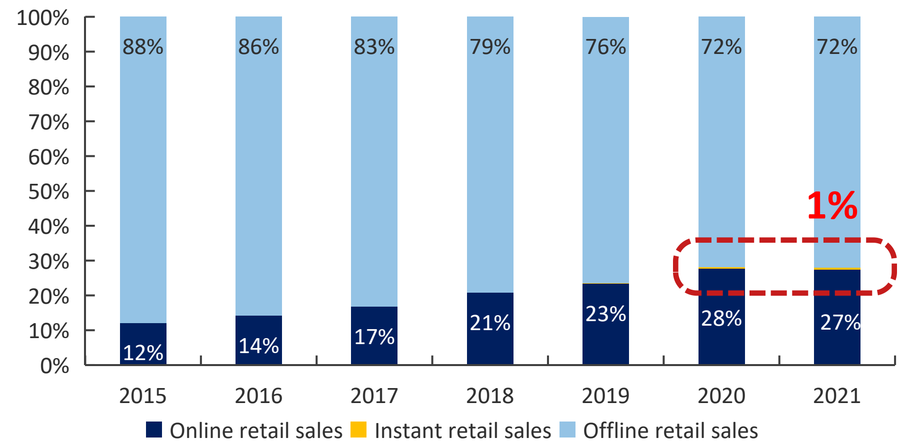


Instant retail, ballooning amid Covid, sees huge potential in the 12 trillion yuan community retail market, despite just 1% in merchandise retail now

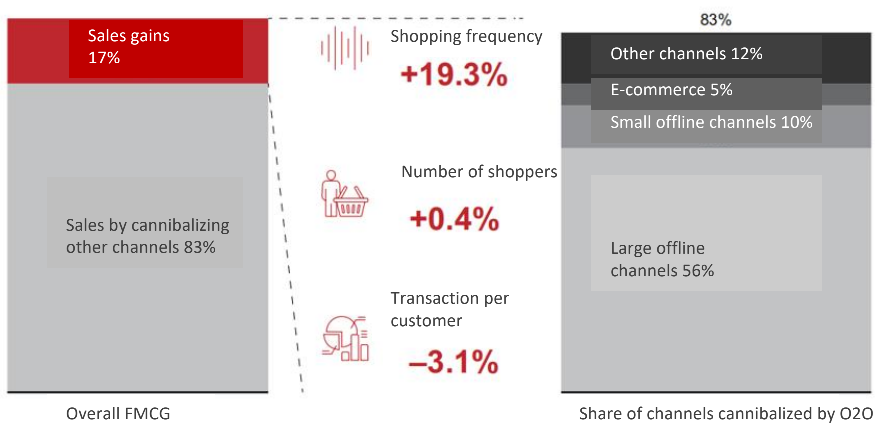
Instant Retail Market Size (billion yuan)[1]



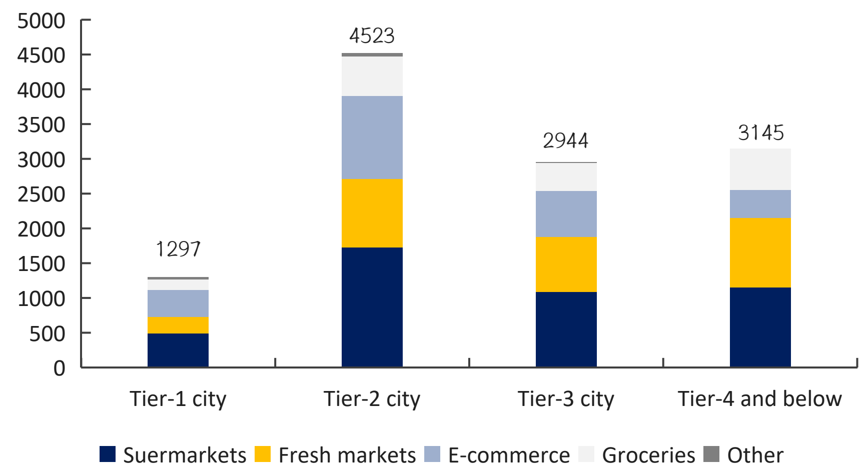
China Merchandise Retail Channel Distribution[2]



Instant Retail Growth Sources[3]



China's community retail market size in 2020 (billion yuan)[4]



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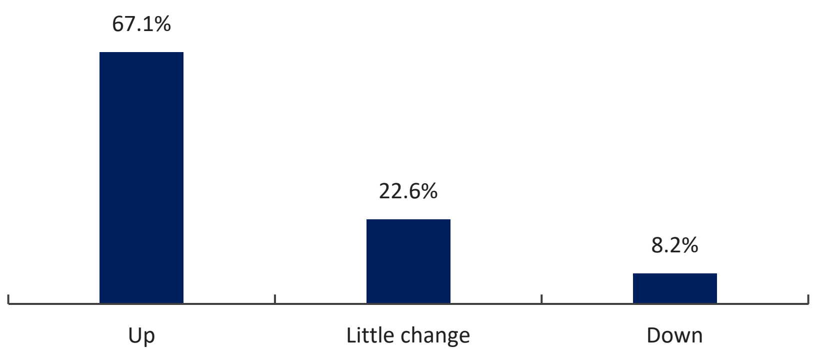
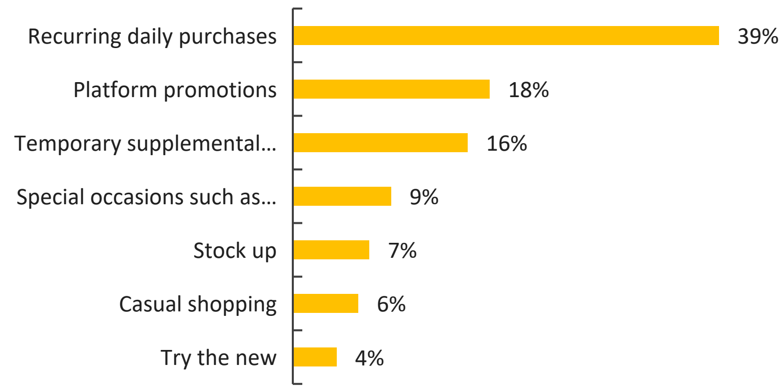
Source: 1 Logclub; 2 China’s National Bureau of Statistics; 3 Bain; 4 MissFresh prospectus.

The pandemic accelerates user habits of using instant retail; FMCG instant goods tops the shopping list

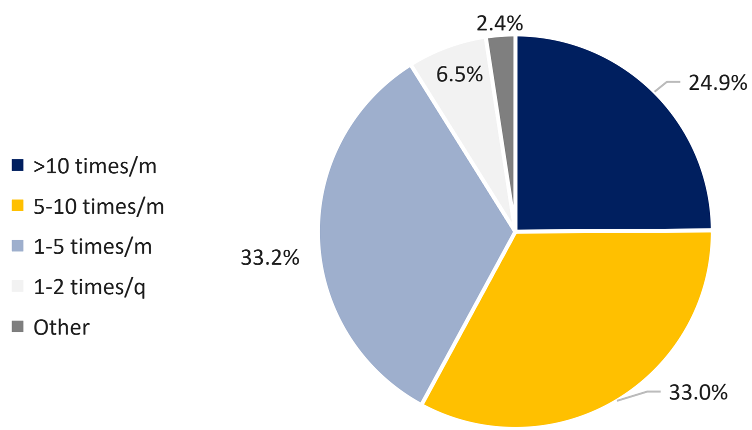
Changes in frequency of users using instant delivery platform services compared to pre-pandemic 2019[1]



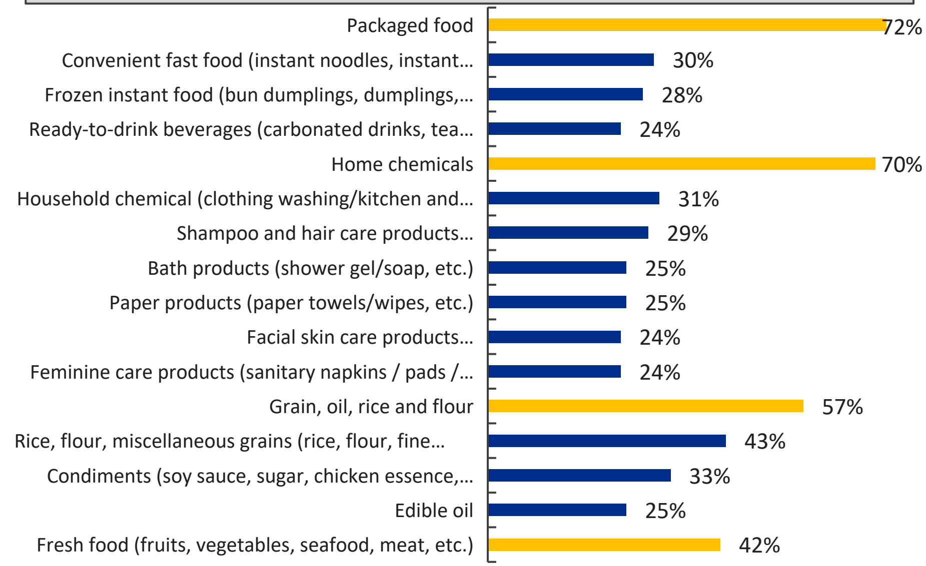
Scenarios of consumers' latest use of instant retail [2]



Frequency of using instant delivery services by consumers[1]



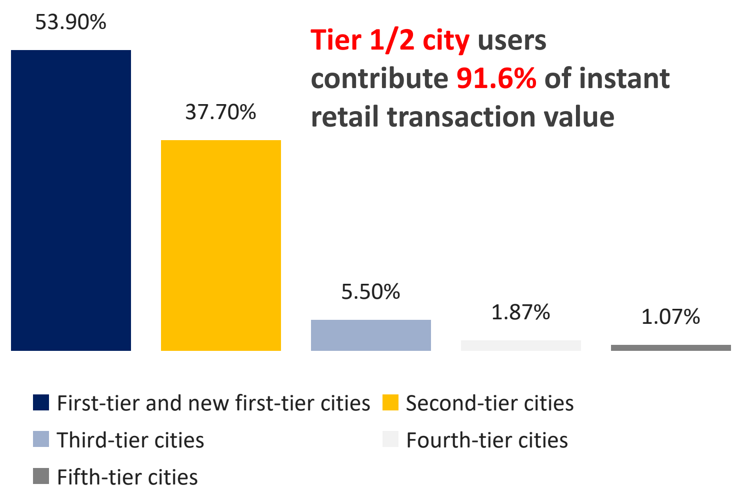
Categories purchased by users of instant retail[2]



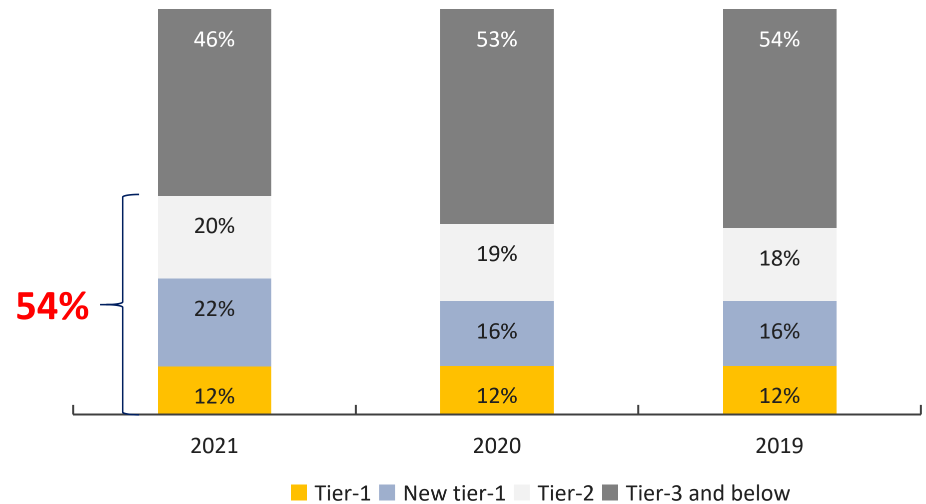
Source:[1] iResearch; N=2000,2021.5;[2] Ipsos; sample size retail-to-home users N=1907,2020.

Tier 1/2 cities contributed 54% to social retail and 91.6% to instant retail in 2021, with further penetration room for the latter

Instant Retail Contribution by city tier in 2021[1]



Distribution of social retail by city tier in China[2]



Core assumptions: Users in Tier 3 and below cities are price sensitive, with instant retail only accounting for 1% of social retail there, and the subsequent growth of this segment mainly originates from tier-1/2 cities.

Sensitivity analysis assumptions.
1) CAGR of social retail from 2021-2025: 5%-9%
2) Instant retail penetration in tier 1 and 2 cities in 2025: 5-15%

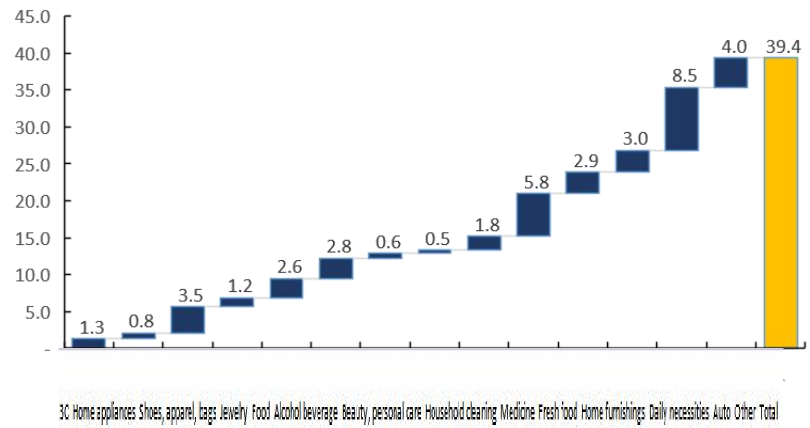
Based on sensitivity analysis of the above two variables: instant retail market size at 1.693-5.326 trillion yuan in 2025.

Instant Retail Scale (100mn yuan)		Social retail compound growth				
		5%	6%	7%	8%	9%
Instant Retail Penetration in Tier-2 and above Cities	5%	16,930	17,584	18,257	18,950	19,661
	7%	22,716	23,594	24,497	25,426	26,380
	9%	28,502	29,603	30,736	31,902	33,100
	11%	34,288	35,613	36,976	38,378	39,819
	13%	40,074	41,622	43,216	44,854	46,538
	15%	45,860	47,632	49,455	51,330	53,258

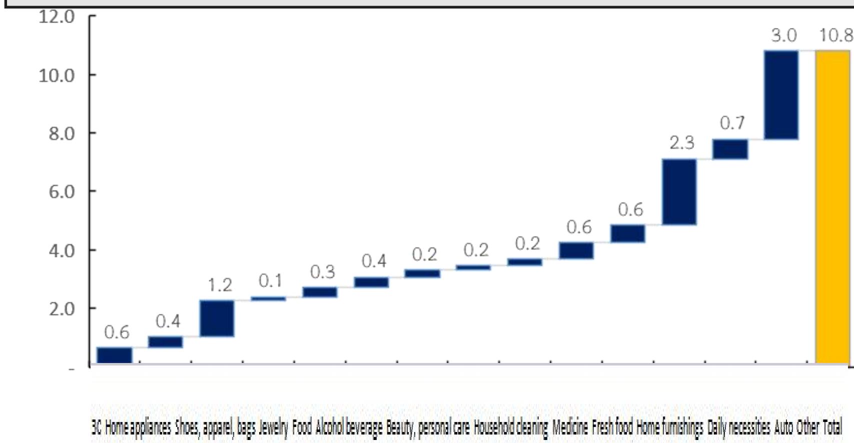
Source:[1] iResearch; N=2000, May 2021;[2] Ipsos; sample size retail-to-home users N=1907, 2020.

E-commerce online penetration: categories of high immediacy or strict logistics requirement remains low

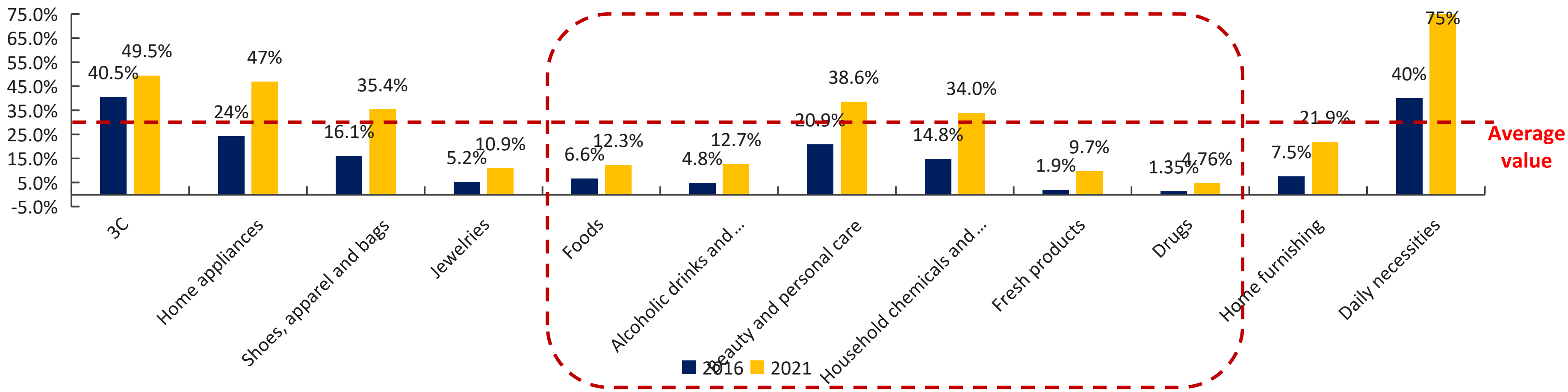
Omni-channel consumer goods retail sales breakdown in 2021 (trillion yuan)[1]



2021 online retail sales of consumer goods breakdwon (trillion yuan)[1]



Online penetration rate by category[1]



Low-penetration categories generally fall within community retail, with strong immediacy and low efficiency via e-commerce logistics

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Source:[1] Euromonitor; China’s National Bureau of Statistics; Horizon Insights estimates.

Room for improvement in retail business: cost reduction or experience enhancement

Every change in retail channels in China over past years has stemmed from traffic migration or higher traffic efficiency, including iterations within e-commerce (Tmall → Pinduoduo/live-stream e-commerce). Due to higher competition across retail channels and higher user requirement, better service experience is needed.

Street shop → **KA Hypermarkets** → **E-commerce** → **New Retail O2O**

- **Standardized and intensive procurement**
- **Stronger brand control over channels, lower distribution costs**

- **Gradually higher offline traffic costs and limited shelves, gradually higher brand/supplier operating costs**

- **More intensified online traffic competition, higher cost of brand operations gradually**
- **Transforming traditional offline retailing to improve efficiency and controllability**

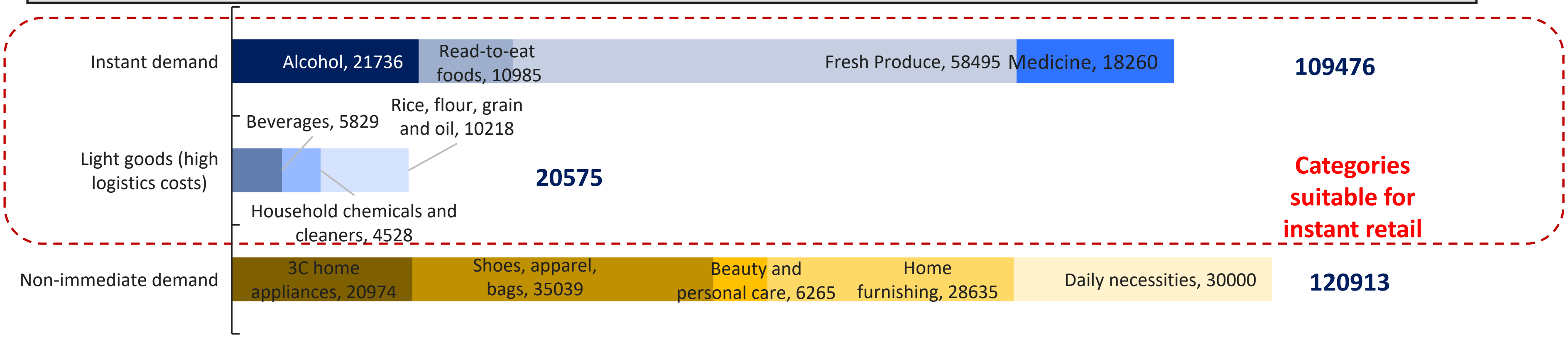
	Traffic efficiency		Supply Chain Efficiency		
	Cost Per Mille (CPM)* Click-through rate (CTR)	Conversion rate	Guaranteed delivery costs (warehousing, sorting, delivery)	Turnaround efficiency	Supply Chain Stability
B2C	Unlimited shelves (large traffic), fierce competition and high CPC	Medium	Mainline logistics + warehousing + express logistics	Low	The more distribution warehouses, the more stable
Instant retail (on-demand DMW)	Low, weak competition, strong reliance on searching	High	Mainline logistics + on-demand DMW storage + last 1km delivery	High	Strong, controllable by brands
Offline KA hypermarkets	Limited shelves (low traffic) Entry fees/stacking fees.	Low	Mainline logistics + KA gross margin	Low	Weak, uncontrollable by brands

User experience

Rich	Fast	Saving
★★★	★	★★★
★★	★★★	★
★	★★	★★

O2O can meet user needs for immediate demand categories and is more efficient in those with high warehousing and logistics costs

2021 consumer goods scale breakdown by category (100mn yuan)[1]



Sensitivity analysis assumptions.
1) 2025 penetration rate of categories suitable for O2O (immediate demand, light goods): 10%-26%
2) 2025 O2O penetration rate for non-immediate demand: 1%-6%.

Based on sensitivity analysis of the above two variables: instant retail market size at 1.42 - 4.11 Trillion yuan in 2025.

Instant Retail Scale (100mn yuan)		Penetration of categories suitable for O2O [1]				
		10%	14%	18%	22%	26%
Non-immediate demand O2O penetration	1.0%	14,214	19,416	24,618	29,820	35,022
	2.0%	15,423	20,625	25,827	31,029	36,232
	3.0%	16,632	21,835	27,037	32,239	37,441
	4.0%	17,842	23,044	28,246	33,448	38,650
	5.0%	19,051	24,253	29,455	34,657	39,859
	6.0%	20,260	25,462	30,664	35,866	41,068

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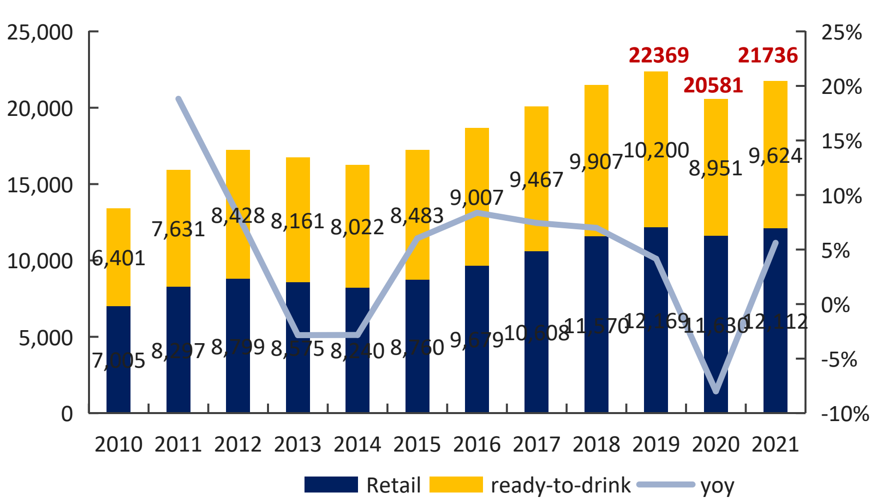
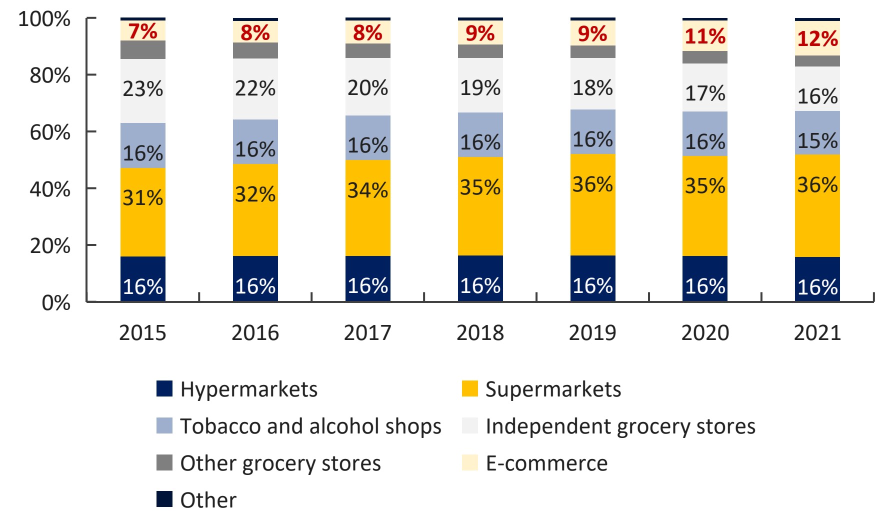
Source:[1] Euromonitor

O2O self-operated model is likely to reshape the 2 trillion alcohol market, which only penetrates 12% online market

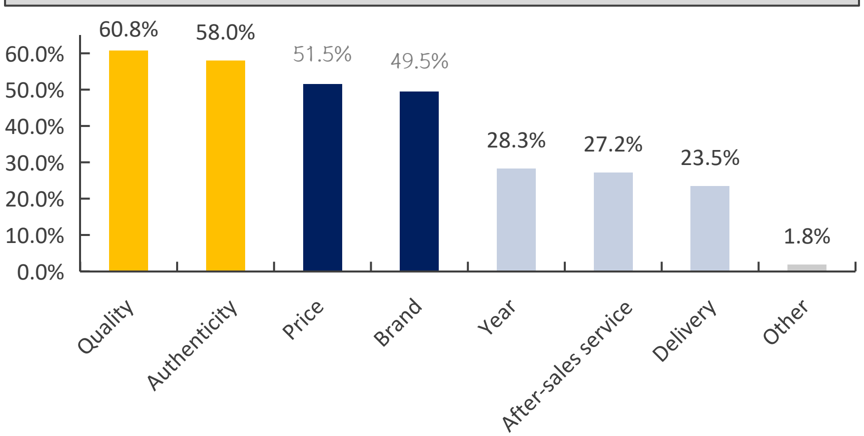
Alcohol market size (100mn yuan)[1]



Alcohol retail channel distribution[1]



Survey on main concerns of Chinese netizens purchasing alcohol products in 2020[2]



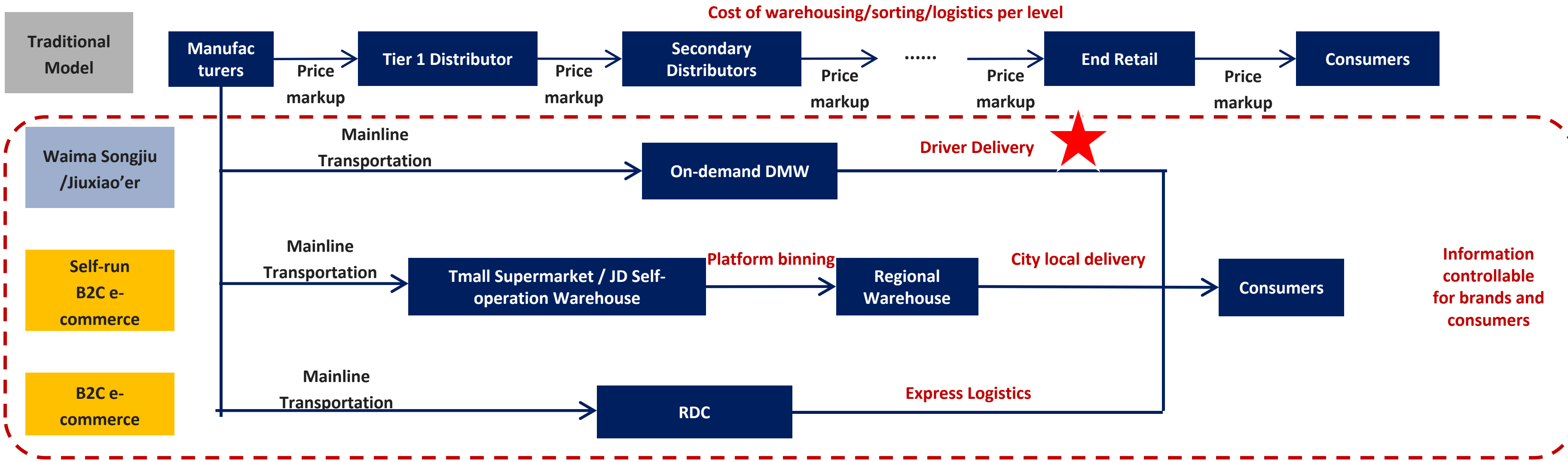
The reasons behind the low e-commerce penetration for alcoholic beverages

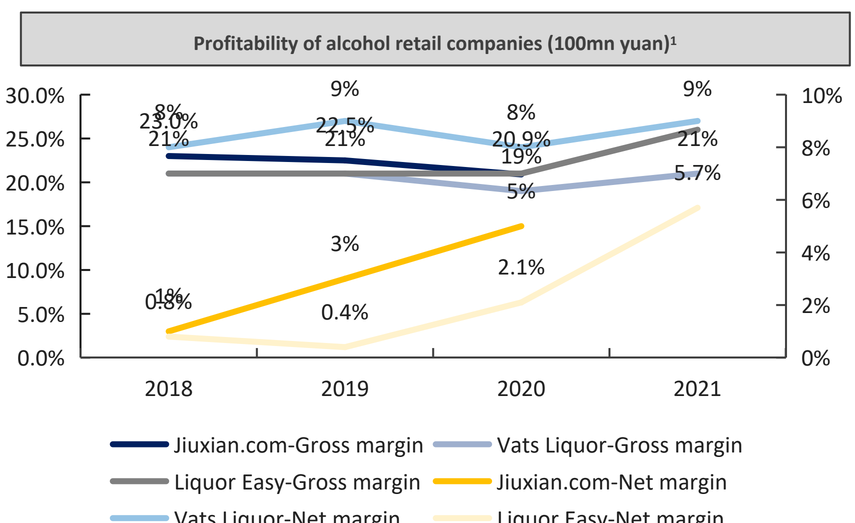
- High requirements for authentic products; traditional channels' multi-layer distribution leaving bugs for counterfeit goods
- Low-priced alcohol beverages such as beer, fruit wine and low-priced liquor require high logistics costs as bottled products are fragile
- Nearly half of the sales come from the ready-to-drink market, i.e., the catering consumption places, which is impulsive and social, relying on the multiple-level distributors of distilleries to connect major service industries

Alcohol e-commerce sales are concentrated in self-run platforms, such as JD, Tmall supermarkets and vertical alcohol e-commerce platforms. The supply chain end directly contact with distillers, reducing intermediate markups and assuring authentic products.

Source:[1] Euromonitor;[2] iiMedia Research, 2020

Given high per customer transaction, low operating costs, easier direct-to-consumer access, Meituan Instashopping targets alcohol products via O2O





- On-demand DMW model, low rent cost, Meituan providing traffic source
- Guaranteed delivery services provided by Meituan Delivery, high per alcohol customer transaction and low guaranteed delivery cost rates
- 15-minute delivery to meet time limit

Benchmarking

In 2022, the firm plans to cover 600 cities and regions nationwide and achieve a target GMV of 3 billion yuan for the year.

"Internet platform + physical stores + 25 minutes delivery both online and offline"
Logistics self-built, traffic from O2O platform

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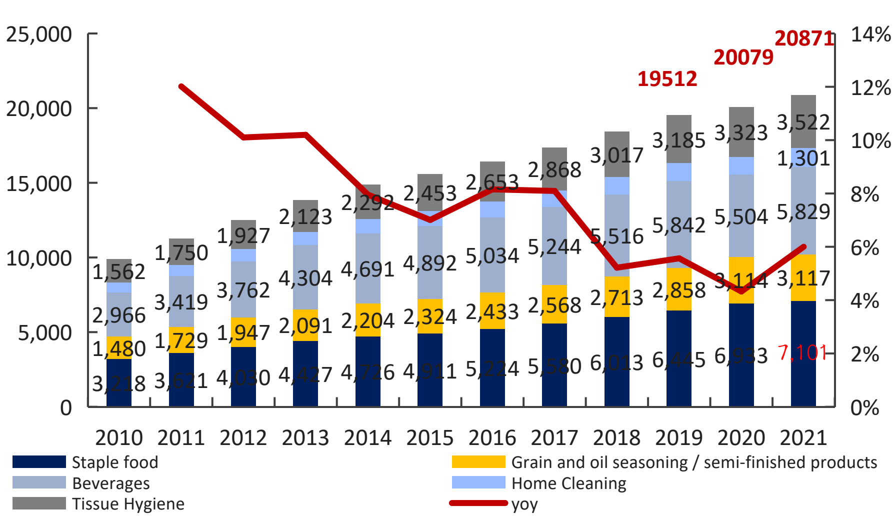
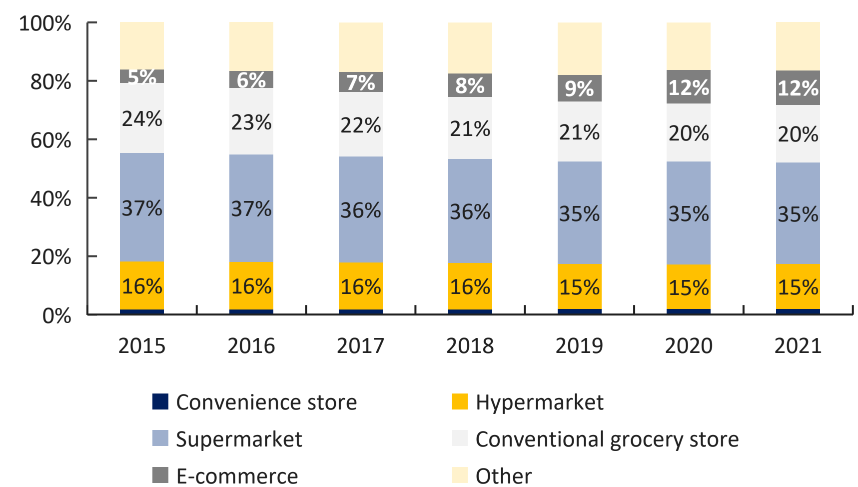
Source:[1] Company financial statement.

Self-operated e-commerce could be the best solution for heavy and light goods now, due to the high logistics cost

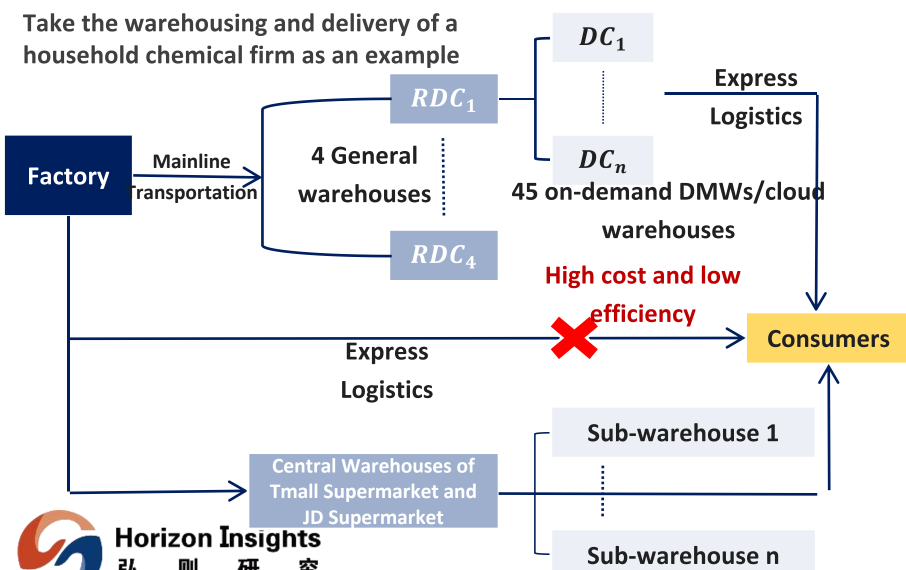
Heavy and light goods market size (100mn yuan)[1]



Heavy and light goods retail channel distribution[1]



Take the warehousing and delivery of a household chemical firm as an example



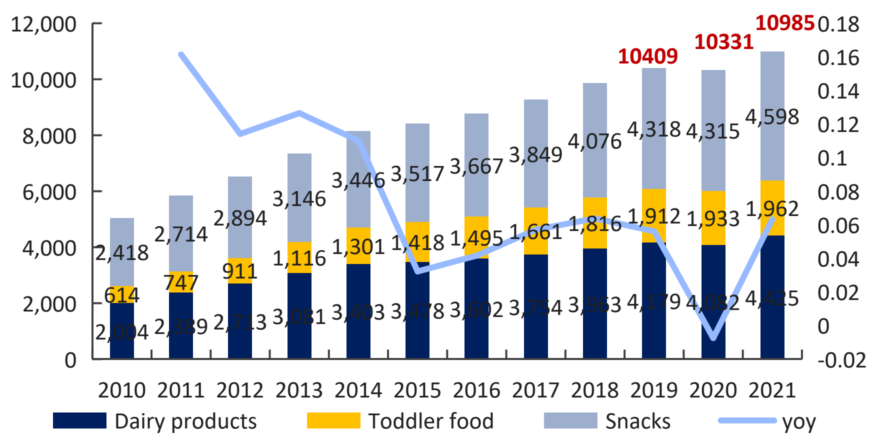
E-commerce logistics	Cost
Factory direct delivery	Warehouse and logistics cost rate at 23%
National Sub-station Express	Warehouse and logistics cost rate at 18%
Tmall Supermarket/JD Supermarket	Tmall Supermarket deduction point at 13.5%, JD Supermarket at 6%, yet both suffer losses

Due to high logistics and warehousing rates, enterprises generally stuggles to make profit or even suffer losses in heavy and light goods under the platform e-commerce model, evident in household chemical companies' losses in heavy FMCG goods even on JD Self-operation and Tmall Supermarket.

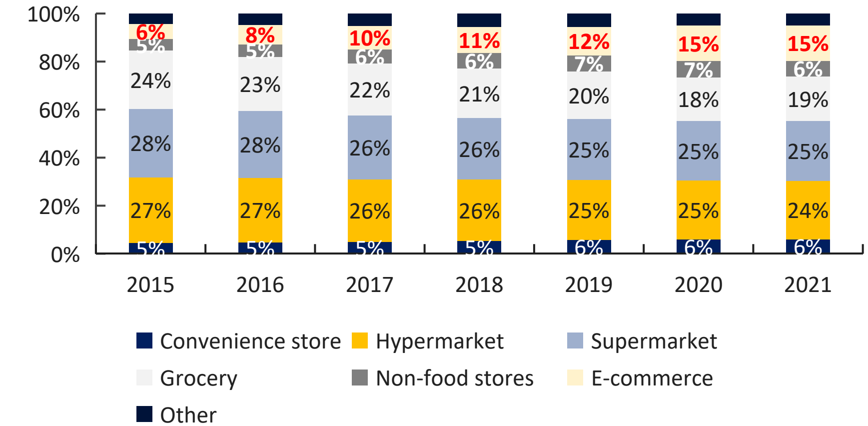
Source:[1] Euromonitor

O2O model helps lift online rate of ready-to-eat foods, the main purchase category of instant retail with low per customer transaction while high costs

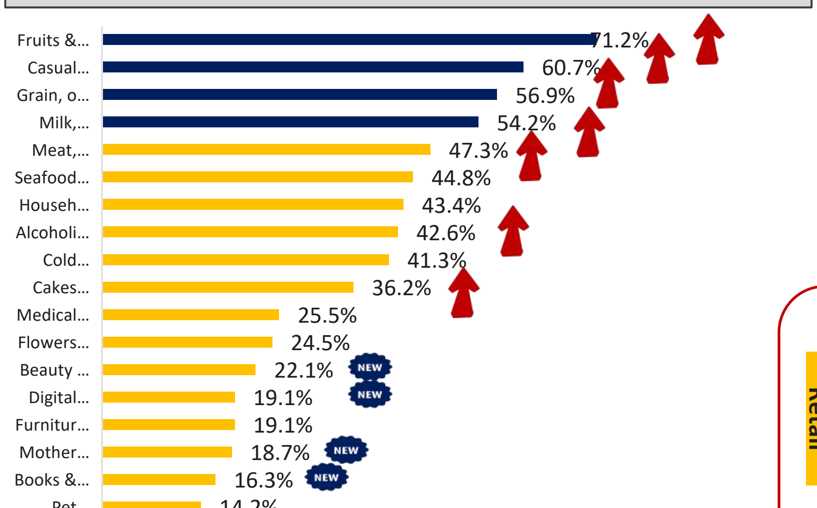
Ready-to-eat food market size (100mn yuan)[1]



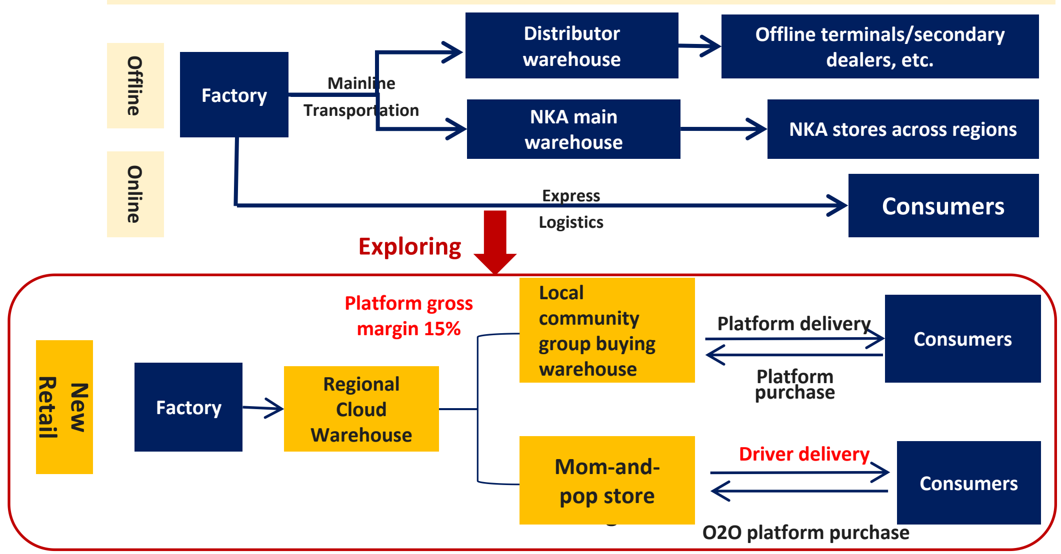
Ready-to-eat food retail channel distribution[1]



China's instant retail categories in 2020[3]



Take a snack enterprise warehousing and distribution as an example: low per customer transaction, high warehousing and logistics rate, such as per customer transaction on Tmall at 33 yuan, with a logistics and warehousing rate of 12%



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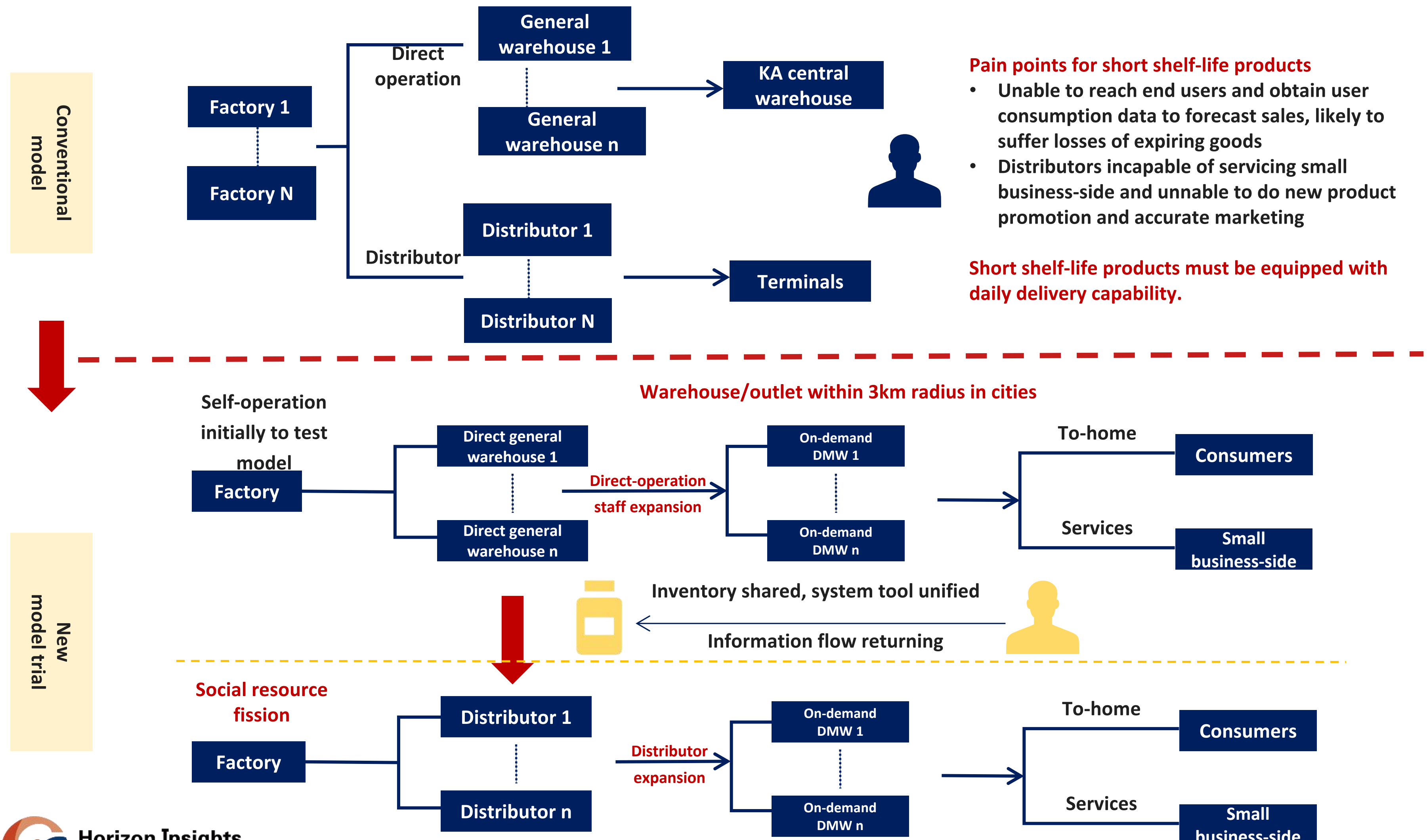
Source:[1] iResearch; N=2000,2021.5;[3] iResearch; sample size N=907, November 2020.

On-demand DMW O2O could be the best to handle products requiring low temperature storage or short shelf-life that conventional e-commerce falls short

A case study of a leading dairy company exploring the supply chain of low-temperature products



Pain points for short shelf-life products

- Unable to reach end users and obtain user consumption data to forecast sales, likely to suffer losses of expiring goods
- Distributors incapable of servicing small business-side and unable to do new product promotion and accurate marketing

Short shelf-life products must be equipped with daily delivery capability.

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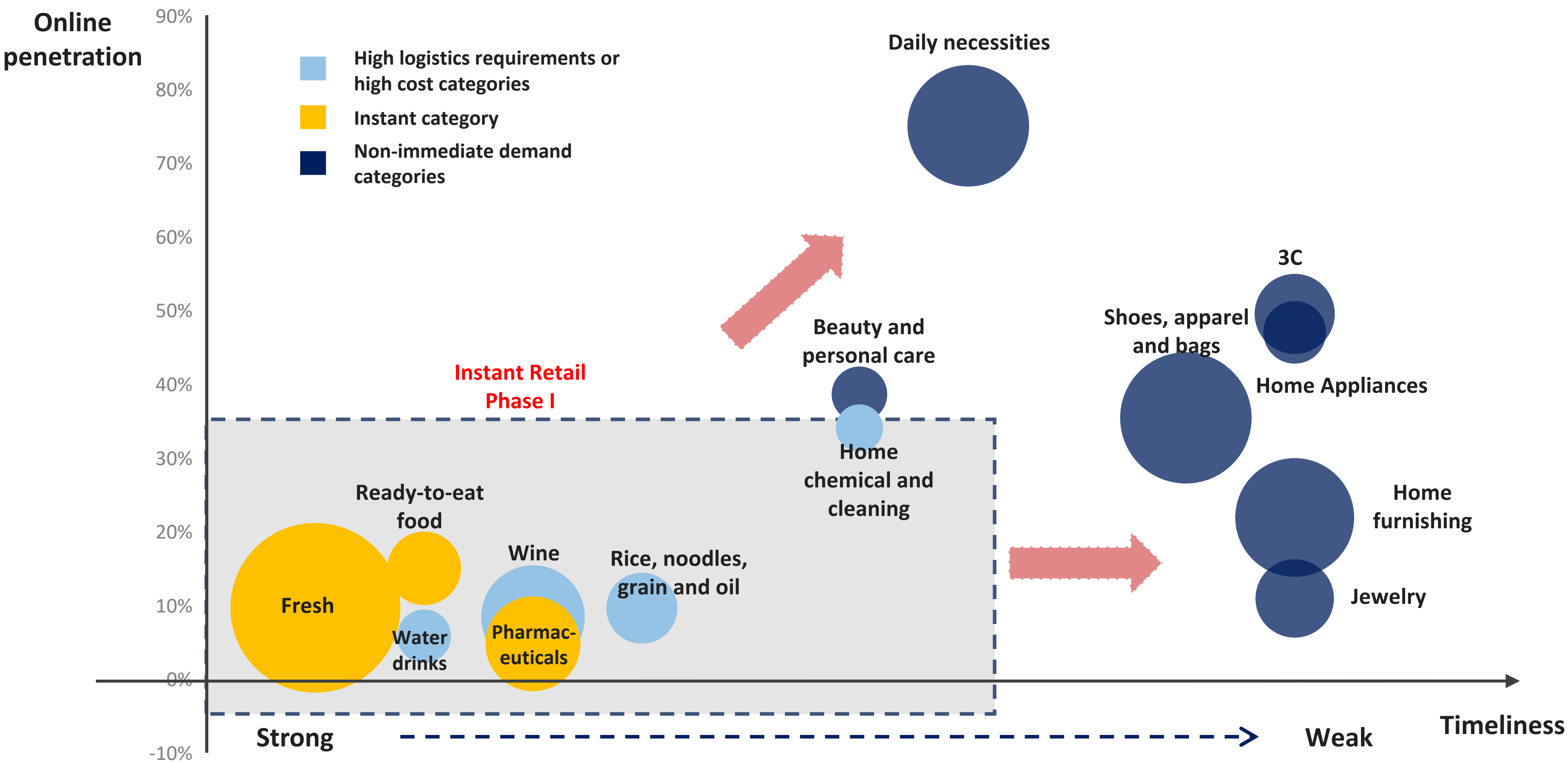
Instant retail may form a positive cycle of lower price → larger traffic → more brand input after scale expansion and cost cuts



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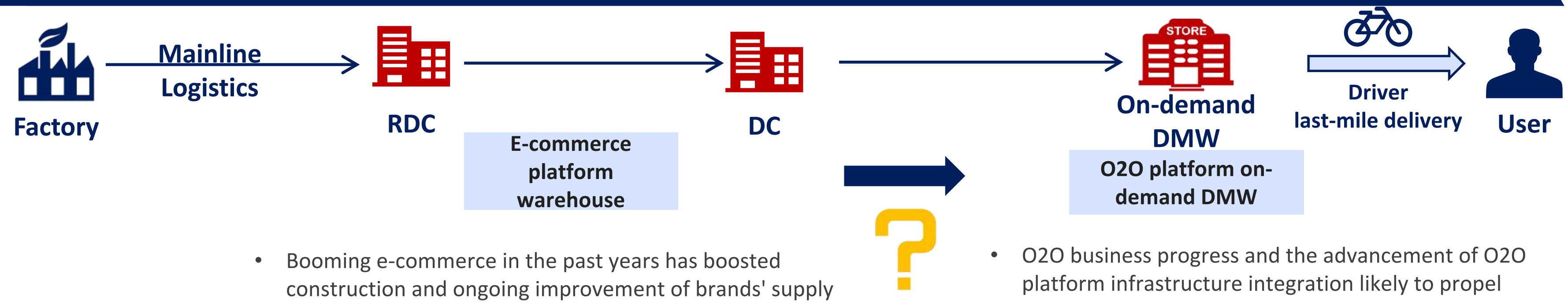
Note: Bubble size characterizes scale

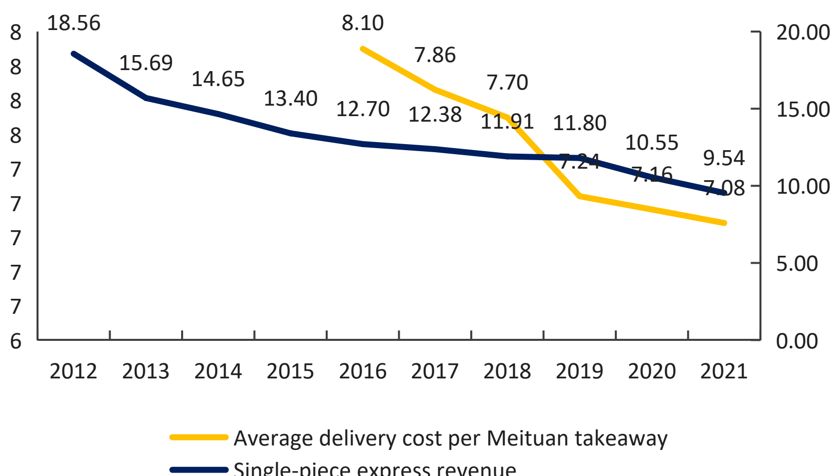
Instant shopping may enjoy higher delivery driver efficiency, after realizing volume unlocking→ better infrastructure → lower delivery costs



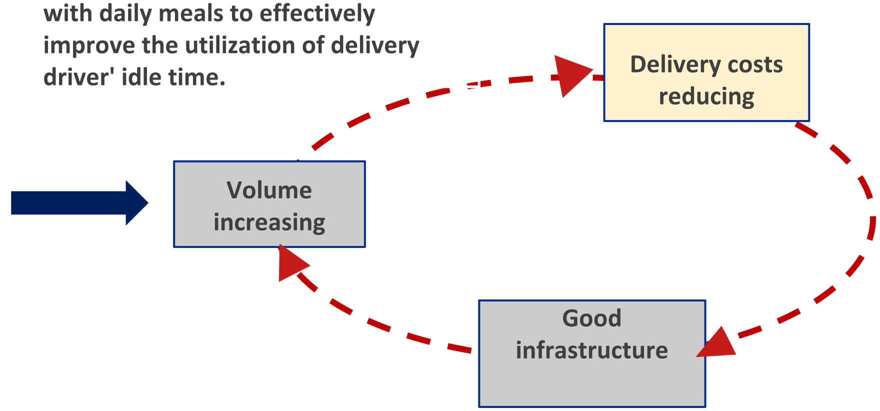
- Booming e-commerce in the past years has boosted construction and ongoing improvement of brands' supply chain.
- Brands’ RDC establishment can better serve consumers and improve timeliness, while relieving pressure on factories and reducing costs.
- Tmall and JD’s years of next-day delivery push stoked DC warehouse construction in tier-1/2/3 cities, bringing brands’ goods closer to consumers.

- O2O business progress and the advancement of O2O platform infrastructure integration likely to propel brands to deploy goods closer to consumers.
- On-demand DMW still in the early stage, requiring platforms to lead the industry to make rules and integration, in spite of rich terminal resources.
- Meituan already exploring instant warehouses, initially aiming to supply for instant shopping, and later to be used as city on-demand DMWs to empower brands.

Trends in express parcel and takeout delivery prices[1]

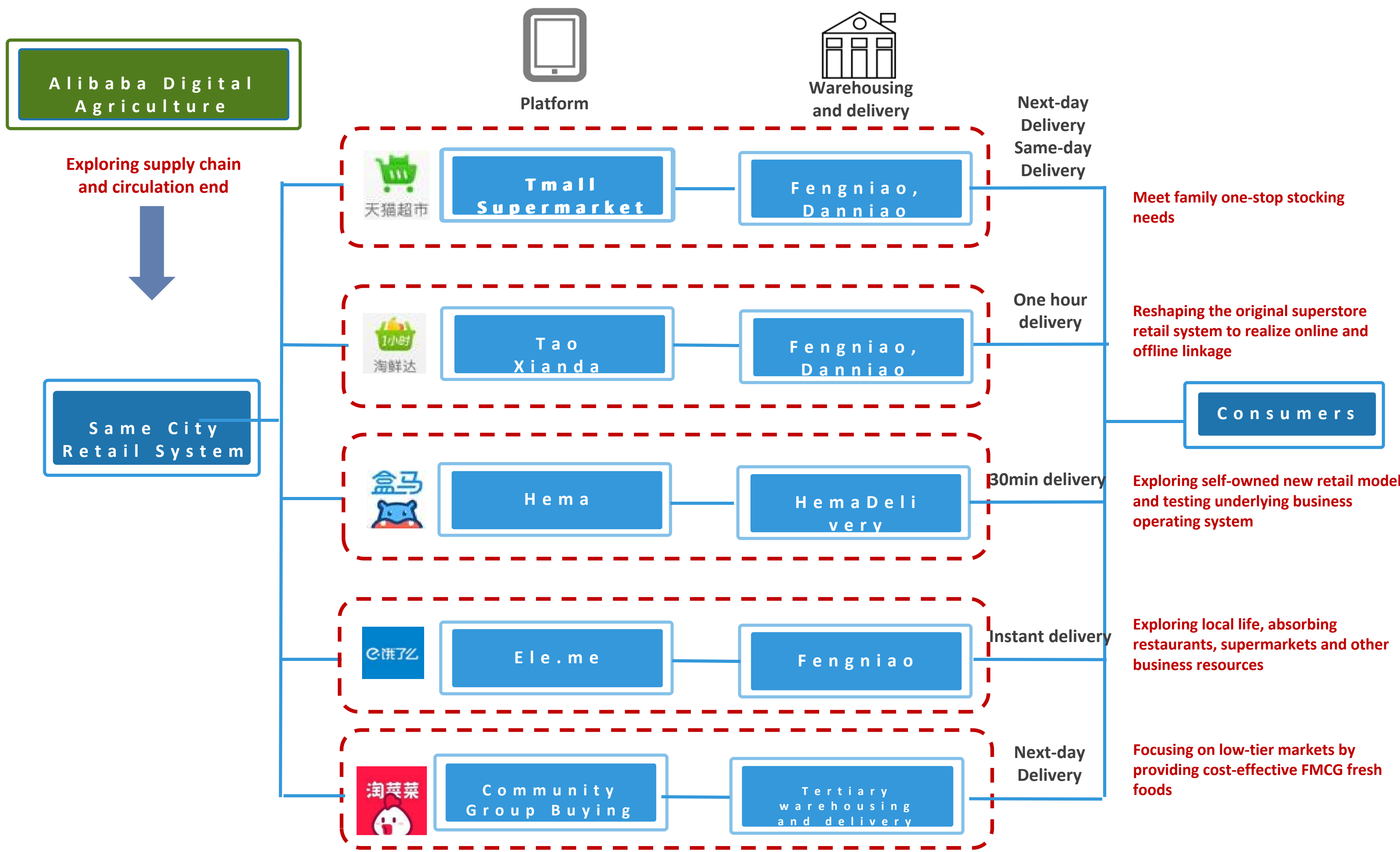


Retail delivery hours are staggered with daily meals to effectively improve the utilization of delivery driver' idle time.



Source:[1] Company financial statement; China’s State Post Bureau.

Alibaba has been exploring crosstown retailing in recent years, targeting a closed loop of traffic + offline warehouse and delivery



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JD.com made a foray into instant retail in 2015, with a rapid GMV growth after integrating its same-city shopping bussiness division in 2022

JD intracity retail push

2015	2016	2019	2020.4	2021.11	2022.3
JD Daojia officially launched	JD Daojia and Dada Express merge to form Dada Group	The "Wu Jing Tian Ze (survival of the fittest)" project launched offline outlets, with an half an hour delivery at the fastest.	Integrated JD Supermarket, Consumer Products Division, New Channel Division, 7FRESH and No.1 Store to establish a large mart omni-channel business group	Launched Nearby tag and established the "Xiaoshigou" brand	Established the same-city purchase business department, integrating JD Daojia and former retail omnichannel Daojia business department

JD Instant Retail - Xiao Shi Gou

Traffic sources

Annual Active Buyers 570 million — JD.com

Home page portal to direct traffic →

JD Daojia — Annual Active Buyers 62.3 million

Storefront

147,000 active stores offline

Groceries, convenience stores	Flower, gifts	Fresh fruits, vegetables	Medicine, healthcare	Home furnishing, fashion	Grain, oil, foodstuffs	Mother and baby products
Casual Foods	Cell phone, home appliances	Beauty & Skincare	Bakery, cakes	Dairy products	Alcohol, beverages	Apparel, sportswear

Delivery System

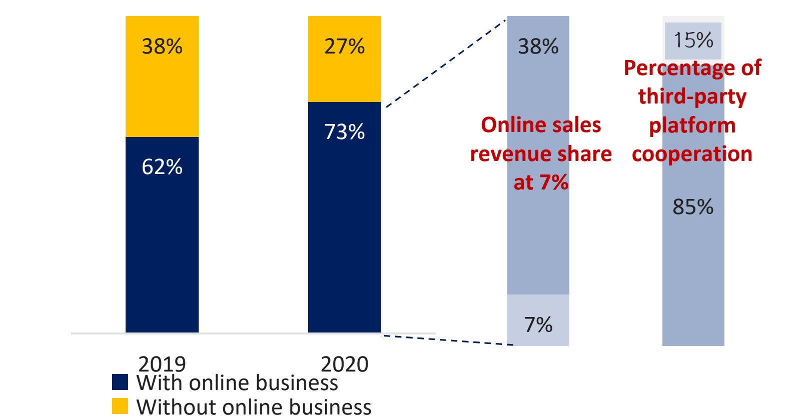
达达快送

700,000 delivery drivers

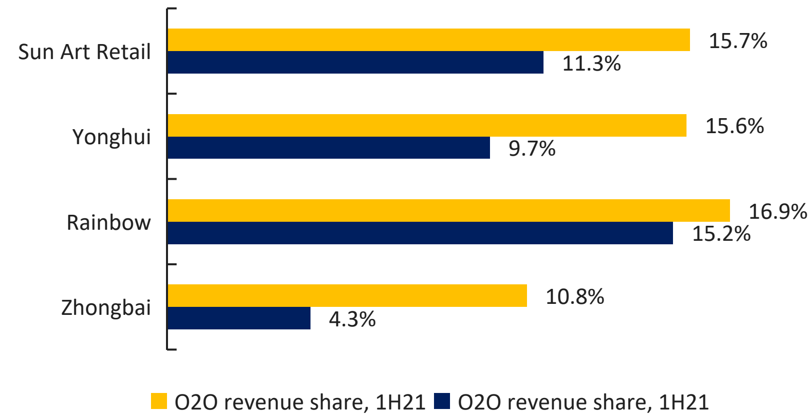
Covering 1800+ cities nationwide

Online channels play a larger role for KA convenience stores after Covid outbreak, which dominate "on-demand DMW" of platform instant retail

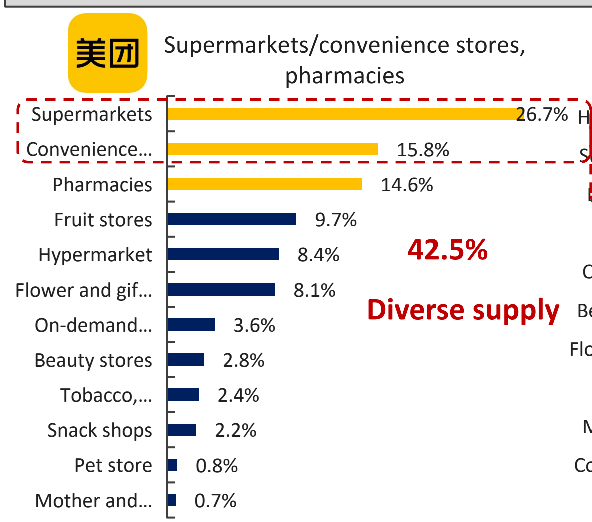
Online business of convenience stores accelerates after Covid [1]

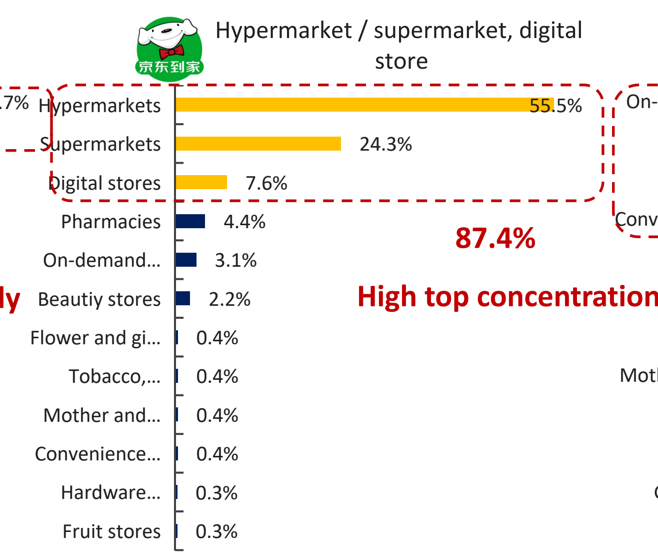


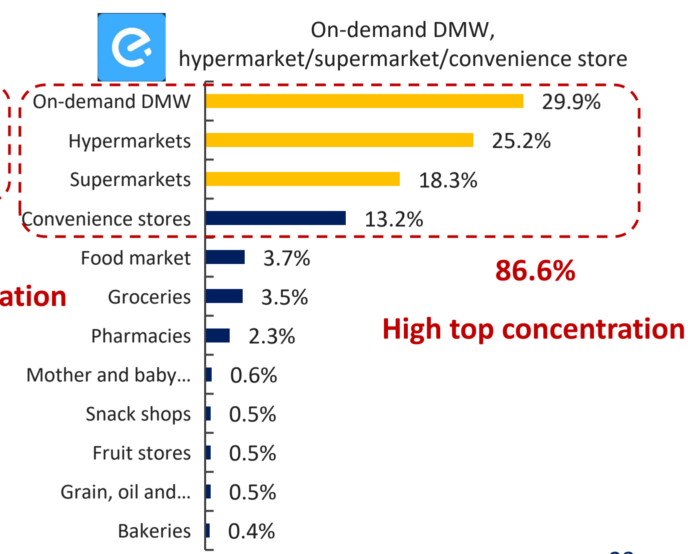
Changes in the percentage of O2O revenue to retail supermarkets[1]



Revenue share of different retail format stores by O2O platform in 1Q22[2]







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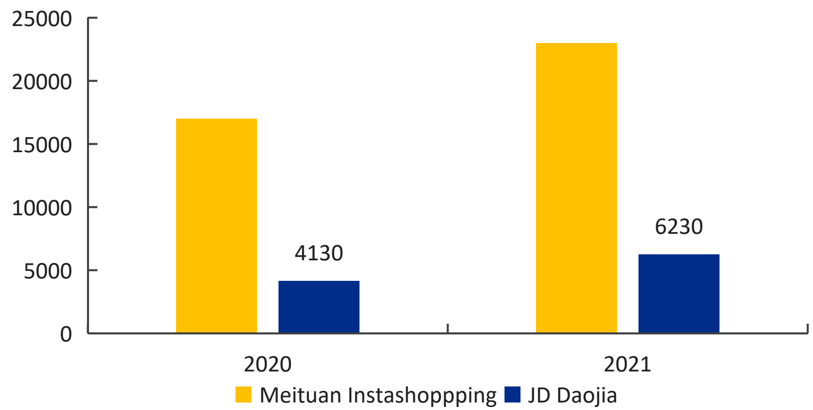
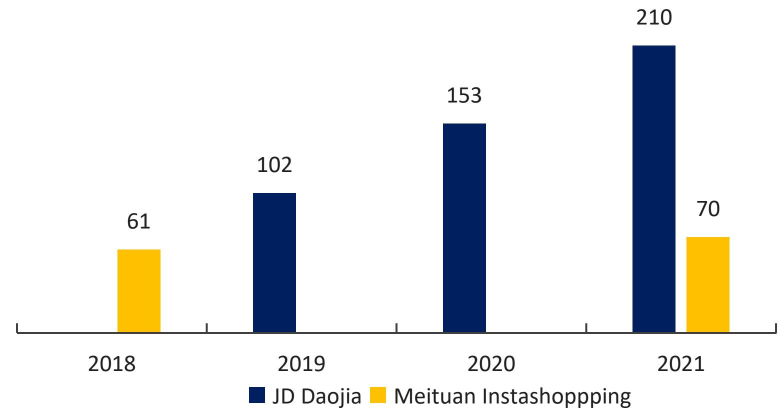
Source:[1] CCFA convenience store research;[2] O2OMind.

Instant retail platforms see significant growth in recent years: JD Daojia vs. Meituan Instashoppping

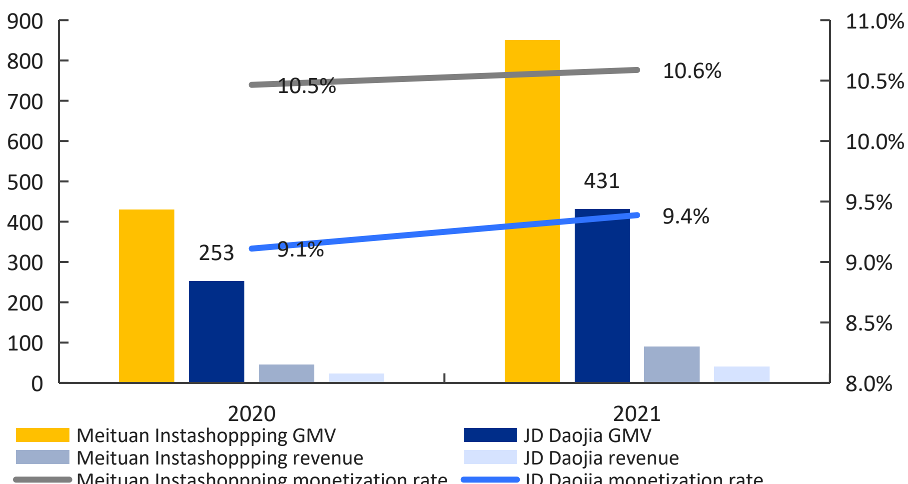
Meituan Instashoppping ATU vs. JD Daojia[1]



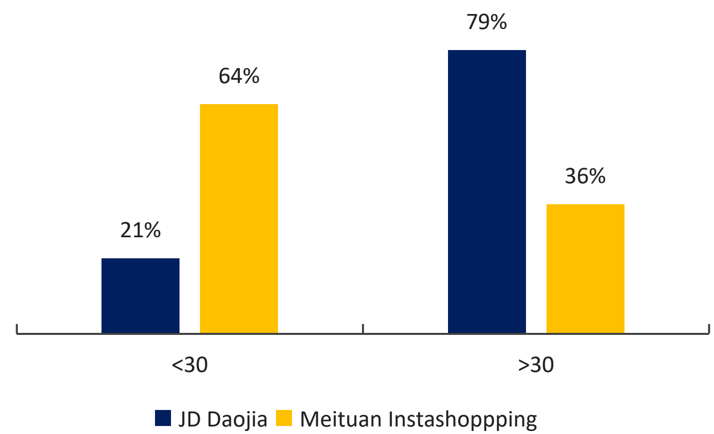
Per customer transaction: Meituan Instashoppping vs. JD Daojia [1]



Meituan Instashoppping GMV vs. JD Daojia[1]



User age: JD Daojia vs. Meituan Instashoppping [1]



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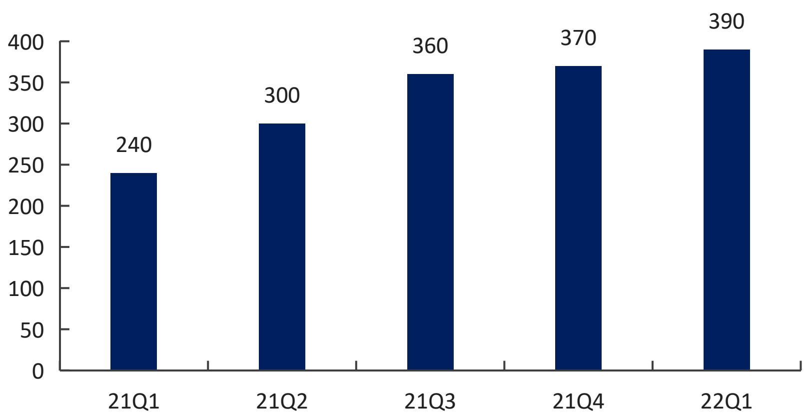
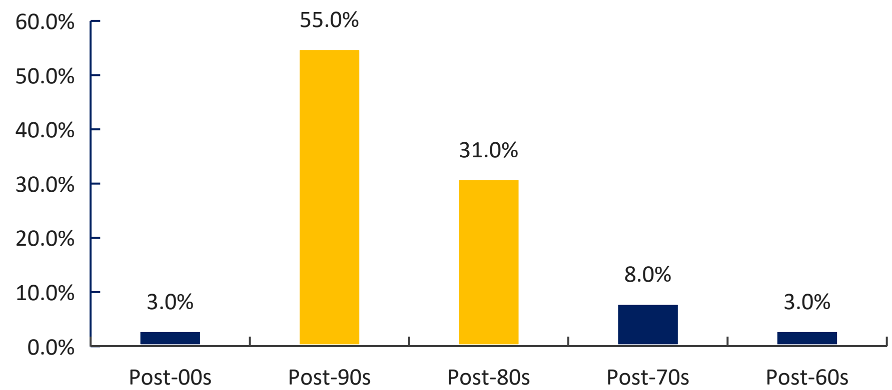
Source: [1]Company financial statement, Meituan Research Institute;[2] O2OMind.

Meituan Instashoppping burgeoned over the past two years, prompted by the pandemic

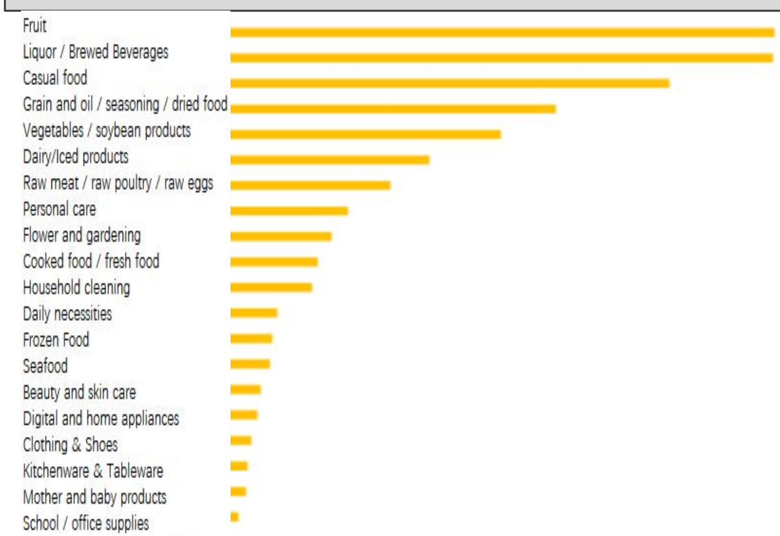
Meituan Instashoppping daily order quantity[1]



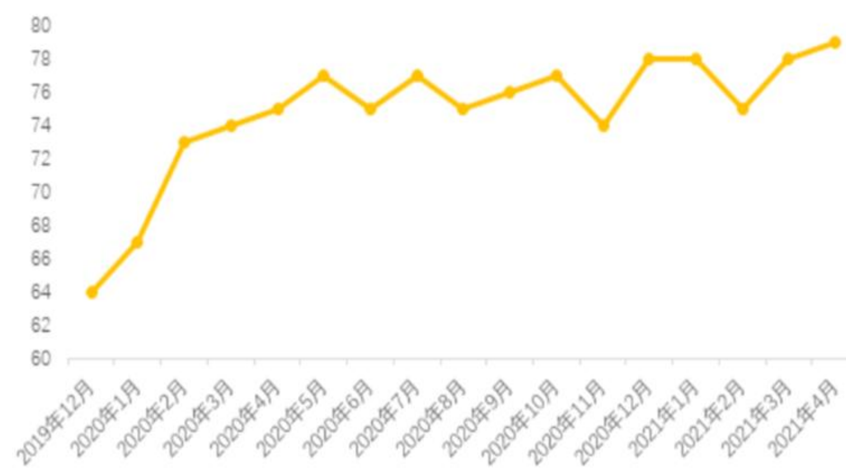
2021 age distribution of instant retail users in China[2]



Meituan Instashoppping transaction volume share by category in 2021[2]



Meituan Instashoppping consumer awareness gradually increased[2]



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Source:[1] Company financial statement;[2] Meituan Research Institute.

Amid e-commerce retail evolving from "Everything Store" to "Everything Now", Meituan Instashoppping utilizes user demand data to accurately supply

amazon

美团

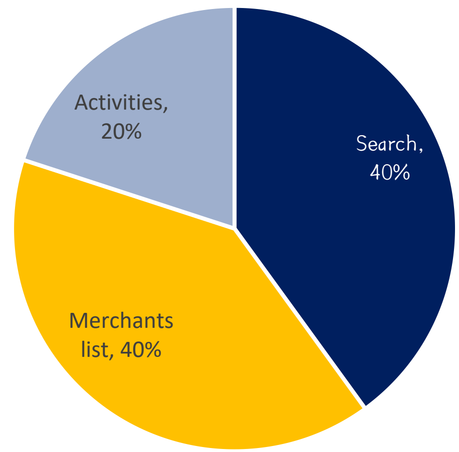
Everything Store

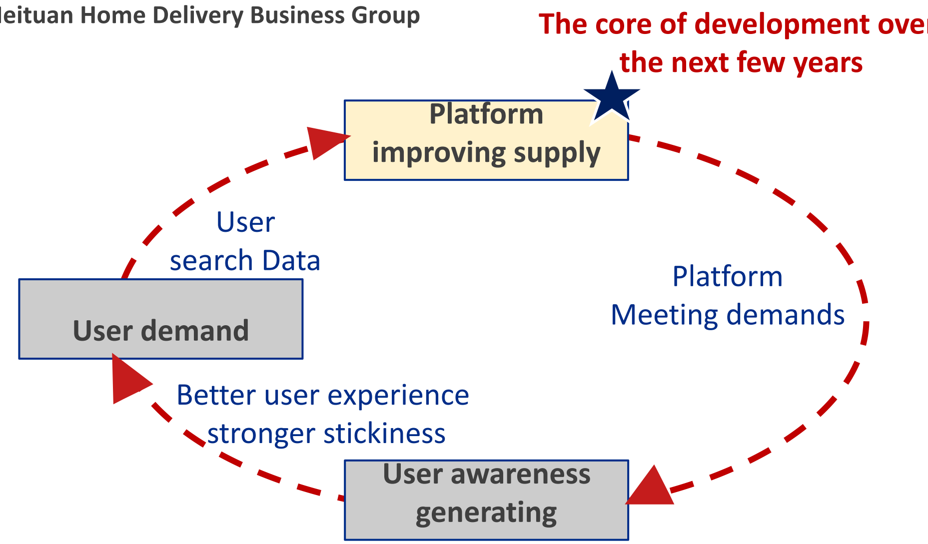
Everything Now

"The market of instant retail is expected to reach **1 trillion yuan** in the next five years, with **500 million transaction users**. Meituan aims to take a share of 400 billion yuan (**40%**) in the next five years."

-- 2020 Sep Wang Puzhong, CEO of Meituan Home Delivery Business Group

Instant shoppping traffic sources[1]





Source: [1] Horizon Insights grassroots surveys.

Meituan Instashoppping optimized supply according to users' instant demand, forming a positive business dynamics

Core direction: enhancing supply

Instant shoppping

Goal for 2022
1,000 business areas with commodity richness index > 90
2,000 business areas with commodity richness index > 80

Foreground businesses

Chain KA
- Convenience Stores
- Supermarkets

New Supply
- Instant warehouse
  - Convenience Stores
  - Pet shops
  - Beauty shops

Specialty Stores
Pets/Beauty /3C/Daily necessities etc.

Vertical shops
Fresh food, flowers, etc.

City Operations Group
Former retail store group
Mainly BD and collaboration with other segment foreground departments

800,000 merchants	Chain KA	New Supply	Specialty Stores	Vertical shops	City Operations Group
	15%	less	5%	10%	70%

Middle-ground

Platform Operation Department
Merchandise operations, compliance, platform governance, customer experience, merchant supply

Brand Commercialization
Brand Ad Placement

User Operation Department

Product Department

Business analysis
Business unit data analysis, task formulation, new business modeling analysis, industry research, etc.

Background: Instant shopping independent merchant management system and data architecture

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"Instant warehouse", unlike traditional offline retail, focus on online user needs, with Meituan offering comprehensive guidance

On-demand DMW: cheap rent
Suggesttion for long-tail items to improve gross profit based on consumer data
Baichuan system inventory guide

Some brands that Meituan has cooperated with

"Everything Now"

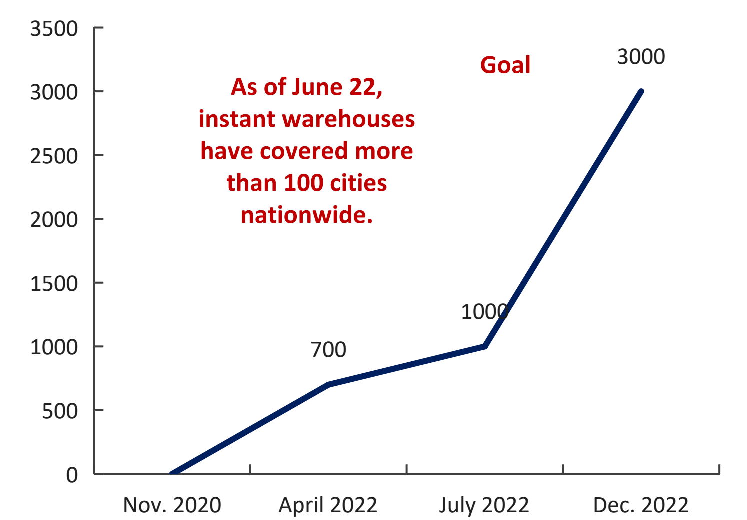
Instant warehouse Project Origin

- 40% of search demand is not met in instant shopppings, while traditional offline retail stores have limited SKUs, and online e-commerce cannot meet immediacy
- After supporttive measures and operational transformation, order volume increased rapidly for potential tail merchants, which struggle in growth before , seeing new incremental volume in the business area. Trials and validations are being conducted in pilot cities.

Differences between instant warehouses and traditional offline retail stores

- Traditional offline KA, convenience stores and community supermarkets' merchandise mix, which is old, has been designed to match offline users with the circulation of large national brands, while instant shoppping user groups are mainly young people, whose demand cannot be met by conventional supply.
- It is difficult for traditional offline merchants to balance online business, which needs different personnel, systems, and commodity mix.
- Instant warehouse has been set for online business, with 24-hour operation. Meituan offers instruction for product selection, site selection, pricing advice, as well as "Baichuan system" aiding inventory guidance. The on-demand DMW model also costs low in rent.

Number of instant warehouses nationwide[1]



Horizon Insights 弘 则 研 究 Source: [1] Meituan InstaShopping Merchant Training Center

Instant warehouses will become the "on-demand DMW" urban infrastructure for instant retail

Instant warehouse On-demand DMW

4000 SKUs in a single warehouse, 120 sq. m.

- **On-demand DMW:** no offline customer traffic, low location requirements, low rental costs; no customers inside the warehouse, **no need to consider the aesthetics and dynamic design, higher floor efficiency.**
- **Online only:** Rapid optimization of product mix and adjustment of inventory by focusing on the needs of online users, **high sorting efficiency**.
- **Baichuan system:** merchants more easily managing their sales and inventory; **better sorting efficiency,** mature on-demand DMW sorting speed up more than 50%, problem order rate down about 30%, and GMV sales up about 10%.
- **24-hour business:** Meeting users' immediate consumption needs at night.
- **Selecting long-tail goods according to user demand to improve gross margin:** long-tail daily necessities category gross margin at 50-60%, alcohol, beverage and food category gross margin at 30-35%, with the former accounting for a higher proportion initially, and the latter accounting for a higher proportion afterwards.

Unmanned sorting is expected to further reduce costs and increase efficiency going forward.

Small investment, short payback period, large profit margin

Unit: 10,000 yuan	Tier 1 Cities	Second-tier cities	Third-tier cities
Start-up funds	56	36	29
Silent Investment	8.3	6.7	5.2
Monthly turnover	55	47	35
Monthly gross profit	27.4	23.8	17.6
Gross margin	49.8%	50.6%	50.3%
Monthly operating costs	23.9	20.6	15.2
Monthly net profit	**3.5**	**3.2**	**2.6**
Silent ROI cycle/month	**3**	**3**	**2**

Source: Meituan InstaShopping Merchant Training Center

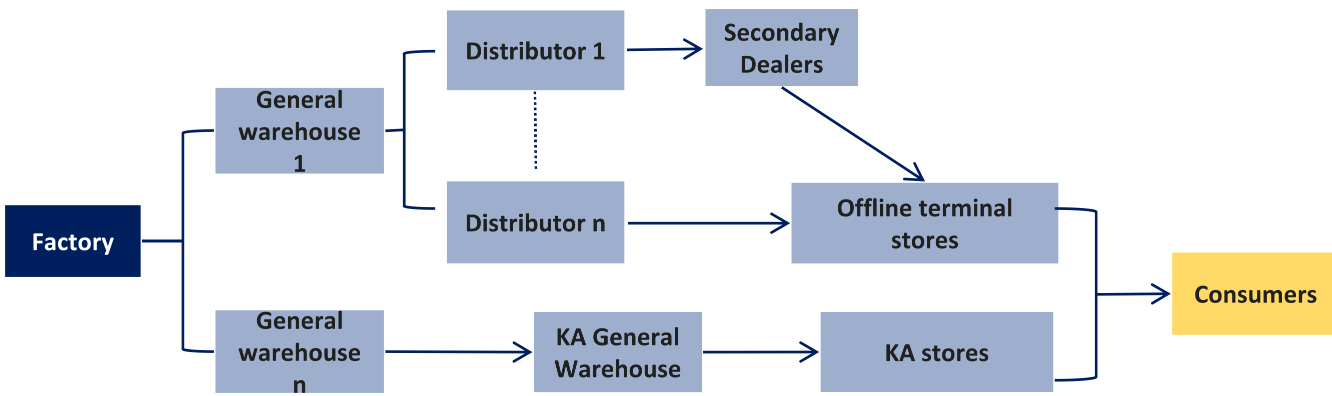
Puzhong Wang believes that instant warehouse is the best terminal format to match instant retail, thanks to its flexibility, SKU design for online users, strong online operation capability, good O2O operation, and penetration around 3km shopping area.

Meituan plans to invest 5 billion yuan in three years to support project development, with the goal of cultivating 1,000 10-million-yuan-level partners, 100 100 million-yuan-level partners and 10 billion-yuan-level partners.
In the next five years, Meituan instant warehouse partner stores will cover all cities with a population of 500,000 or more, with “Eeverything Now” in 30 minutes at the soonest becoming a new way of life nationwide.

When the instant warehouse covers the whole country to become the on-demand DMW infrastructure, it will be easier for brands to promote and distribute new product promotion across regions, forming an online and offline integrated marketing closed loop.

Meituan Instashopping helps brands revitalize their offline retail systems for a closed loop of online and offline marketing

Traditional offline supply chain model of brands



Transformation of traditional offline retail system

Supply chain model under cooperation between Meituan and brands

On June 1, 2022, Meituan Instashopping and Yili Jinlingguan cooperated to create the first **"Super Brand Day"** campaign in the mother and baby category, achieving the multi-dimensional benefits of **"sales + volume + channel empowerment + user mind cultivation"**. During the event, **milk powder transactions increased nearly three times year-on-year. The** "brand cloud warehouse" model jointly explored by Meituan Instashoppping and brands strongly boosted offline business, as evidenced in the transaction volume of **some of the brand cloud warehouses** launched soaring **by more than 42 times vs. a year ago.**

Brands' pain points under the traditional model:

Sales forecast: unable to connect directly with end consumers, information disconnected at the distributor level, unable to effectively promote new products and distribute goods.

Efficiency: unable to control sales and inventory at each terminal, low overall offline inventory turnover.

Supply chain stability: unexpected events such as Covid outbreaks requiring brands' high supply chain stability, brands unnable to control over offline sources of goods.

Digital empowerment for brands by Meituan Instashoppping

Digital empowerment, consumer information acquisition, sales forecast: Meituan cooperates with 800,000 offline terminal stores, providing background operation tools and professional guidance to help stores achieve digitalization. According to data returned, brands have better control over offline regional sales, thus can effectively aid brands in new customer acquisition and elevate repurchase rate.

Reaching out to small and medium-sized retailers, helping goods distribution: Brands can quickly reach out and mobilize offline small and medium stores to promote new products and distribute goods.

Online and offline linkage to create a marketing closed loop, amplifying the marketing effect and shortening the user conversion cycle.

03 Meituan Select Building Near-Field Retail Delivery System in Lower-Tier Markets

Social value: Community group buying builds a near-field retail delivery system in township markets, solving the last mile delivery at low cost

Instant delivery	**Supermarkets/Convenience Stores**	Delivery: Third party delivery → Dada / Fengniao / Meituan	User	5-8 yuan per piece **Highest cost**
Next Day Delivery	**B2C Supermarket Tmall Supermarket / JD Supermarket**	Delivery: Local delivery team → Danniao/ JD Logistics	User	6 yuan per piece
Next Day Delivery (12 hours at the soonest)	**Community Group Buying Platform**	Delivery: central warehouse → unit warehouse-distribution center → Group manager →	User	1.6 yuan per piece

Retail nature: instant access to low-cost, high-quality goods.

- **A complementary optimization to traditional retail, not subversion, little new demand created, some erosion to the share of traditional retailing.**
- The lower tier market, the less retail formats, leading to higher instant delivery cost, and more expensive to build a guaranteed delivery system.

	Community Group Buying	Supermarkets	Grocery Shops	Convenient Stores	E-commerce supermarket B2C
Sample	Meituan Select	Yong Hui Supermarket	Suguo Convenience	Yong Hui mini	Tmall Supermarket
Coverage	500m around the community	**3km nearby**	500m around the neighborhood/office building	1-2km nearby; about 3000 households	Next day delivery to most cities nationwide
Positioning	Next-day delivery, part of the daily consumption needs of price-sensitive people	Mass consumer family one-stop shopping needs	Daily life immediate consumption demand, some simple meal demand	Complementing the community consumption of supermarkets, fresh daily use immediate consumption demand	One-stop stock shopping for mass consumer family
Number of SKUs	**2000**	**20,000**	**2,000**	**2000**	**100,000**
Category	40% fresh food, 60% daily necessities	40% fresh food, 60% food and daily necessities	65% food, tobacco and alcohol, 8% cooked food, 25% daily necessities	More than 50% fresh food, 90% daily dining	10% fresh food, 50% non-fresh food category, 40% daily necessities
Timeliness	Next Day Delivery	Instant delivery (long distance)			Next day delivery in some regions, faster compared to e-commerce parcel express
Price	**Lowest**	Medium	Highest	Sub-High	**Lowest**

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Source: Horizon Insights grassroots survey and estimates.

Given low penetration, community group purchase could top 1 trillion yuan in transactions in 2025 and reach 2 trillion yuan in 2029, with a 4-year CGR of 40%

Calculation 1: Share of social retail

Core basis and assumptions: In relatively mature regions such as Qingdao and Changsha, community group purchase now accounts for 1.5% of total social retail (user penetration at about 30%), and community group purchase in rural areas of Hunan accounts for nearly 10% of total social retail. Assume that all cities reach 1.5% and all rural areas reach Hunan's 10% level in 2025.

	2025E	2029E
Total urban retail sales of consumer goods	44.64	48.32
Percentage of urban social retail	1.50%	2%
Total urban community group purchase	6,696	9,663
Total rural retail sales of consumer goods	7.20	7.80
Percentage of rural social retail	8%	10%
Total rural community group purchase	5,763	7,797
Total (100mn yuan)	12,458	17,461
Compound growth	43%	9%

Calculation 2: Household penetration

Core basis and assumptions: The current penetration rate of daily active users in relatively mature regions is about 8%, and household penetration at about 25%. The total amount of community group purchase transactions will be calculated on the assumption that the household penetration of urban and rural community group purchase is 25% and 20%, respectively, in 2025.

	2025E	2029E
Number of urban households (10,000)	31,553	
Urban household penetration rate	25%	30%
Number of pieces per urban household purchase	3	3
Unit price	12	15
Number of rural households (10,000)	12,334	
Rural household penetration rate	20%	30%
Number of pieces per rutal household purchase	2	3
Unit price	10	12
Total daily pieces (100mn)	2.86	3.95
Total (100mn yuan)	10,438	17,300
Compound growth	37%	13%

Calculation 3: Penetration by category

Core basis and assumptions: In 2021, **fresh produce** e-commerce penetration was about 8%, and FMCG nearly 20%. Community group buying model relies on fresh produce for traffic direction and FMCG for profitability. The total amount of community group purchase transactions are calculated on the assumption that the penetration rate of fresh food and FMCG by community group purchase reaches 8% in 2025.

	2025E	2029E
Fresh Market Size	65,837	71,264
yoy	3%	2%
FMCG market size	65,507	73,729
yoy	5%	3%
Fresh community group buying penetration rate	8%	12%
FMCG community group purchase penetration rate	8%	12%
Total (100mn yuan)	10,508	17,399
Compound growth	37%	13%

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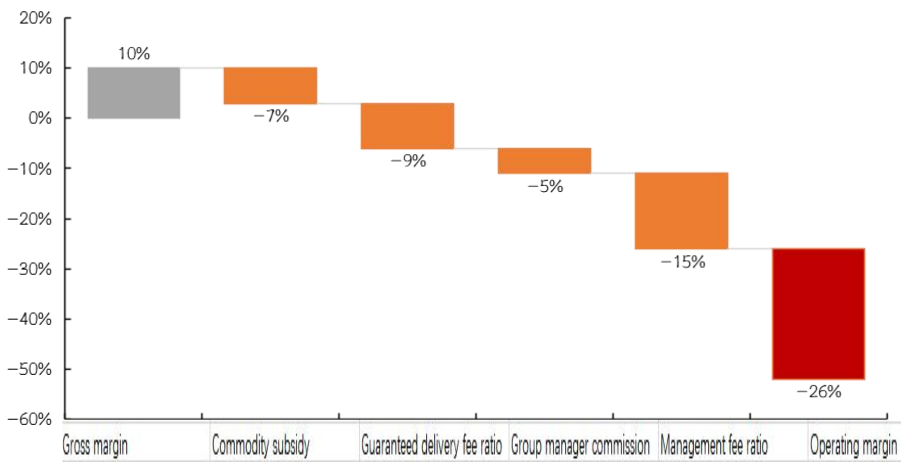
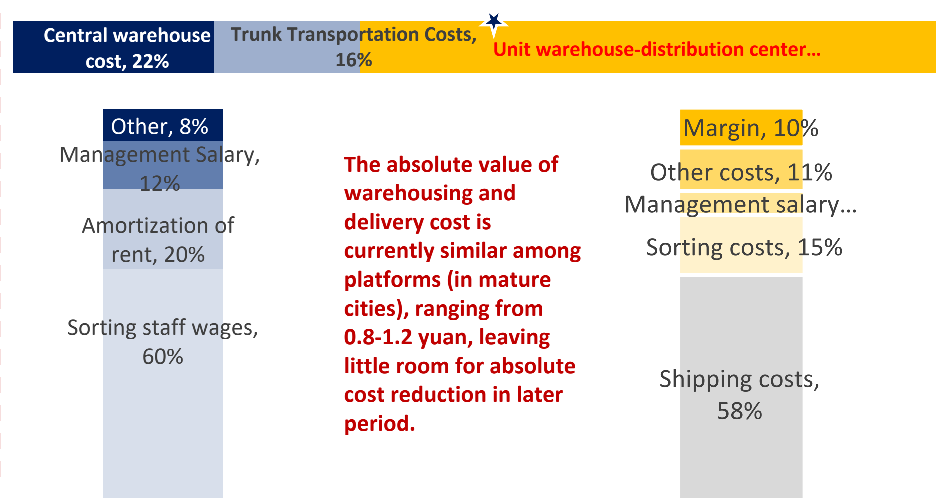
Source: Publich websites, Horizon Insights grassroots survey and estimates.

Higher gross margin and per customer transaction could be the key for Meituan Select’ UE revamp

Meituan Select UE now	Ideal Meituan Select UE



Warehouse and delivery cost breakdown:



UE model optimization:

- **Gross margin improvement:** 1) Higher fresh gross margin through better fresh processing warehouse utilization rate and direct origin dealer purchase; 2) SKU expansion, more standard products; 3) less commodity subsidies
- **Higher per customer transaction** to lower amortization of overhead rates and lower warehouse and delivery fee rates.
- Group efficiency improvement, line maturity and refinement of management to improve efficiency to bring **absolute reduction in warehouse and delivery costs.**

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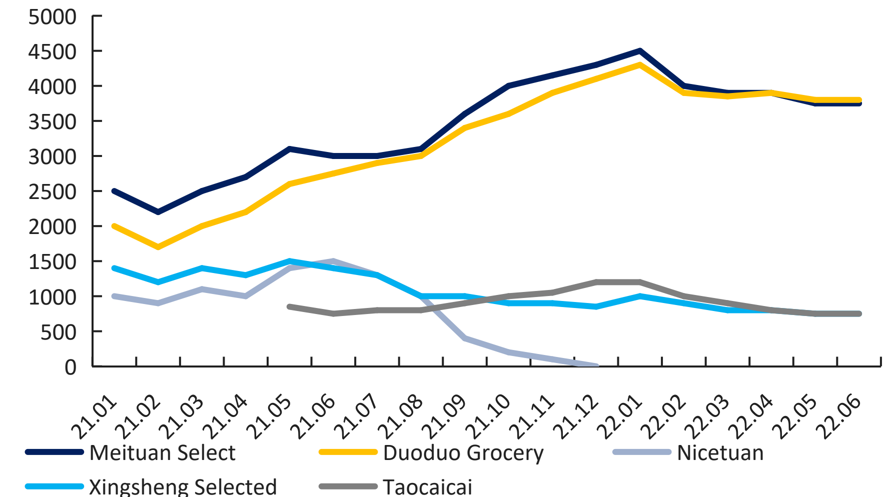
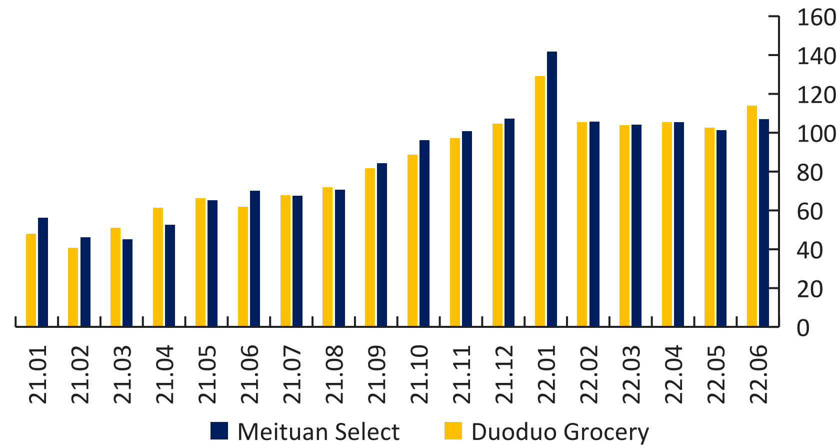
Source: Horizon Insights grassroots survey and estimates.

Platforms grow steadily in 2022; industry consolidates after regulatory crackdowns in 2021

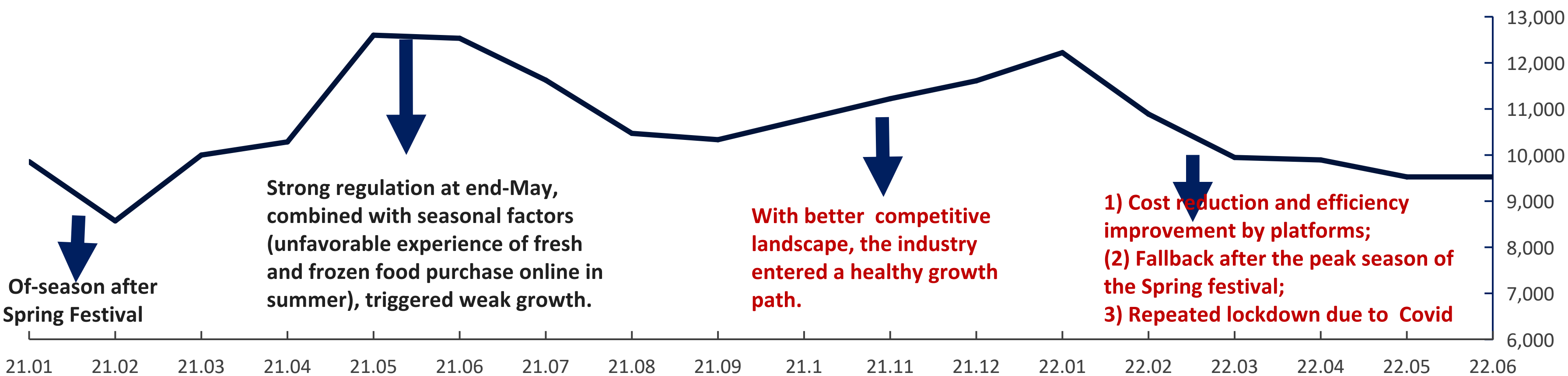
Average daily order volume of top community group buying platforms



Monthly GMV of TOP 2 Community Group Buying Platforms



Changes in monthly average daily order volume of community group buying



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Source: Horizon Insights grassroots survey and estimates.

Community Group Buying: Pinduoduo is traffic-oriented, Meituan management-oriented, while Alibaba operation-oriented

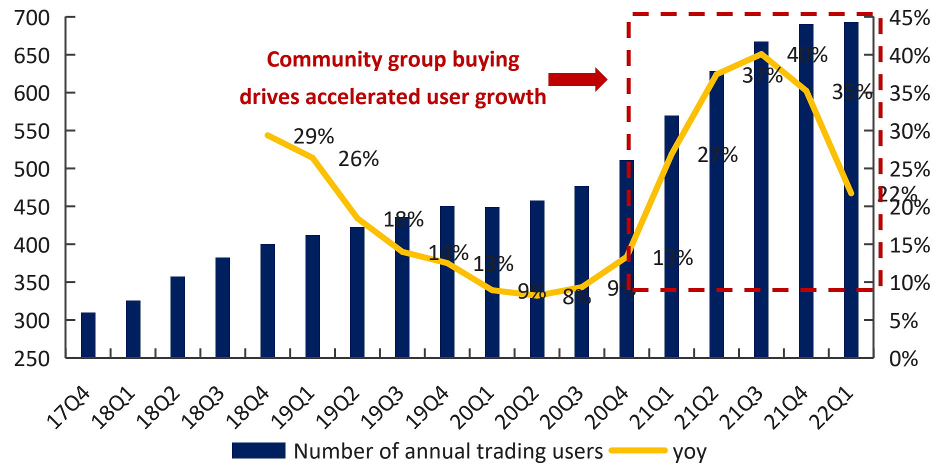
	Meituan Select	Duoduo Grocery	Alibaba
Resource endowment	Less resource endowment, more experience accumulation 1. Meituan Grocery, Kuailv capable of fresh supply chain in some cities. 2. Years of experience in offline warfare (take-out, grocery shopping, etc.), thick talent pool. 3. System for line optimization at the distribution end, etc.	Supply chain resource advantage. 1. supply chain: unbranded merchant resources on the main site at the standdard product end, origin dealer resources for large fresh standard products, cost advantage on less circulation links. 2. Highly matched user group traffic advantage on the main site.	Owning the most available resources. 1. Supply chain: Alibaba digital agriculture trying direct purchase at the source; Hema supply chain basis; Taobao main site supplier resources 2. Delivery and warehousing: reuse agents of Cainiao TongDa system (ZTO, STO, YTO, Yunda) 3. Group manager: Lingshoutong & Cainiao Yizhan and other multi-business binding
Organizational execution	Strongest, extremely strong ability to refine the management nodes of standardized processes, nationwide expansion after mapping out the execution methodology of each link	Strong execution and high efficiency. Headquartered but regionally divided, with plenty of room for decision making and fastest response	Average, difficult to integrate resources within large companies
Orientation	Management	Traffic efficiency	Platform
First mover advantage	Basic traffic has a certain first-mover advantage	Most significant first-mover advantage in traffic, strongest initial growth momentum	Taobao main site traffic direction

Outlook: Alibaba, Pinduoduo and Meituan will all stress high-frequency traffic portal, as the 1.5 trillion yuan market can allow at least 2 magnates to survive, coupled with the industry into a relatively stable growth path. Taking the above four facets in to account, **Meituan Select gradually benefits from its standardized process management system, likely to capture large shares long-term.**

Source: Horizon Insights grassroots survey and estimates.

Community group buying drives accelerated user growth for Meituan, while the retail business is likely to contribute incremental profits in 2025

Meituan's annual number of transaction users and growth (million)



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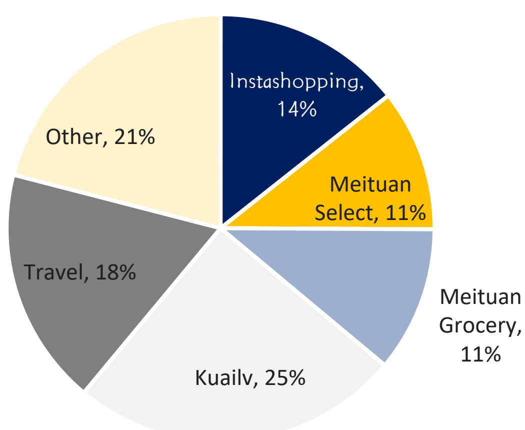
Retail business accumulates and integrates supply chain resources

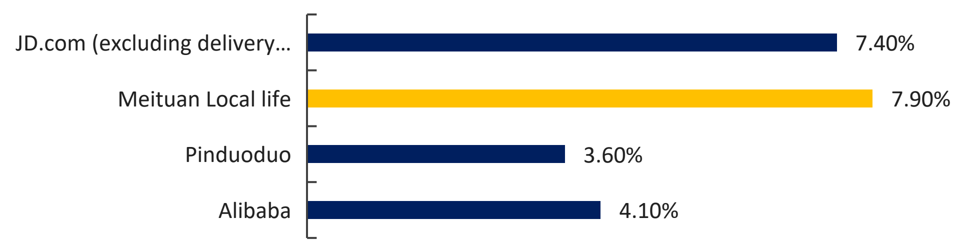
High-tier cities: Instant warehouse urban on-demand DMW + Meituan delivery

Low-tier cities: central warehouse - unit warehouse-distribution center - group outlet

Meituan new business revenue distribution



E-commerce realisation rate



- Given the predicted about 3 trillion yuan instant retail market in 2025, the incremental gross profit of this segment could be about 120 billion yuan (without considering delivery driver cost) calculated by the 4% e-commerce realization rate, with the net profit expected to be 48 billion yuan calculated by the take-out's gross margin of 25% and net margin of 10%.
- Given the predicted about 1 trillion yuan community group buying market, the industry's incremental net profit could reach 20 billion yuan calculated by the traditional retail margin of 2%.

Note: Alibaba realisation rate cited 2021FY, and the rest 2021, where Meituan Local Life realisation rate = (takeout revenue + to-store revenue - delivery costs) / (takeout + to-store GMV)
Source: Company financial statement.

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