

# ***A Financial Analysis of Meituan Based on Its External and Internal Environment***

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**Abstract:** This paper conducts a comprehensive examination of Meituan, a prominent technology retail firm in China, renowned for its innovative "retail + technology" approach aimed at enhancing lifestyles through superior dining experiences. Evaluating Meituan's recent financial performance, the study underscores its impressive growth, marked by a 23% year-over-year surge in combined yearly sales, totaling 220 billion yuan, and a noteworthy adjusted net profit of 2.8 billion yuan. A critical analysis of the Chinese food delivery market reveals Meituan's dominant position, operating in a duopoly with Alibaba's Ele.me, while also anticipating the potential entry of Pinduoduo as a formidable competitor. The paper emphasizes the imperative for Meituan to strategically navigate the evolving landscape of the fresh supply chain domain, striking a balance between exploration and exploitation to establish a sustainable competitive advantage. Despite Meituan's robust revenue performance, with a first-quarter 2021 revenue surpassing CNY 37 billion and a remarkable YoY growth rate of 120.9%, potential hazards such as the intensification of antitrust regulations in China's Internet sector and operational challenges arising from Meituan's diversification efforts are explored. In conclusion, the analysis posits Meituan as a promising long-term investment, provided the company effectively addresses emerging risks and capitalizes on strategic opportunities in the ever-changing technology retail sector.

**Keywords:** Meituan, E-Commerce Industry, External and Internal Environment, Risk Assessment

## **1. Introduction**

Meituan is a retail technology company. Meituan uses the "retail+technology" battle to carry out the company's aim of "helping everyone eat better and live better". Since customers need to travel, eat, view movies, have their hair cut, and use a variety of lifestyle services, Meituan's corporate objective is to help everyone eat better and live better. Meituan's purpose is always to generate value for users and merchants in more consuming scenarios. Thus, Meituan's ultimate objective is catering: it not only provides for the range of demands of billions of people, but it also aims to make food more palatable, convenient, and healthy for everyone in the long run.

Talking about Meituan's recent profitability and strategy, Meituan announced its results for the fourth quarter and entire year of 2022 on March 24. With a combined yearly sales of 220 billion yuan (RMB, same below), a 23% year-over-year increase, and an adjusted net profit of 2.8 billion yuan, the company's diverse operations are still seeing stable growth.

Meituan has been actively promoting the "retail+technology" strategy this year and has been steadily raising its expenditure in R&D in important sectors. The yearly budget for research and development has reached a new record high of 20.7 billion yuan, up 24% from the previous year.

In the meantime, Meituan's total year-over-year real-time delivery order volume climbed by 14% to 17.7 billion, with a daily peak order volume topping 60 million for food and beverage delivery. With an average annual transaction volume of 40.8—a 14% rise year over year—user stickiness with the platform has further increased.

Meituan CEO Wang Xing stated, they will continue to offer consoling goods and practical services to hundreds of millions of customers, assisting millions of merchants in growing their online businesses through digital means, which has increased consumption and generated more jobs in 2022. They shall keep an eye on the common issues as they work to advance the digital upgrading of life services and the retail sector through technological innovation.

In order to fully satisfy customer consumption needs through real-time retail and high-quality online and offline supply, Meituan is continuing to exploit its advantages in numerous application scenarios as a technology retail firm. Meituan saw a 57% year-over-year growth in core local commercial operating profit in 2022, coming in at 29.5 billion yuan. Among them, the delivery industry upholds the goal of producing high-quality development, and in recent quarters, customer stickiness has increased. Meituan Catering Delivery's top daily order volume exceeded 60 million in 2022 due to this [1].

## 2. Evaluating the External Environment

### 2.1. Competition from Rival Sellers

In recent times, China's meal delivery industry has experienced explosive growth and intense rivalry. After Baidu's food delivery business and Ele.me were respectively acquired by Alibaba in 2017 and 2018, the Chinese food delivery market changed from a "Three Kingdoms Killing" to a duopoly rivalry between Alibaba and Meituan, which control over 97% of the market.

The two businesses have taken up the majority of the takeout market in China since their founding. According to Table 1, Ele.me served and connected 3.5 million active merchants since 2018, covered 676 cities and hundreds of counties in China, and had 660000 riders. However, Meituan ridership has already surpassed 2.7 million, and there are over 300,000 active merchants linked to the restaurant management system. 2800 counties, districts, and cities are served by Meituan, and over 5.8 million active merchants are served by its platform [2].

Table 1: The Market Standing of Ele.me and Meituan.

	Ele.me	Meituan
Numbers of riders	667000	2700000
Income	18.1 billion rmb	38.1 billion rmb
Servicing Cities	676 cities	2800 cities
Active Consumers	3500000	5800000

### 2.2. Competition of Potential New Entrants to the Industry

In the vegetable providing market, Pinduoduo is a powerful rising star. This is no longer a story of new forces challenging old forces, but rather two top players from different tracks squeezing into the new track together. At present, the outcome is difficult to determine, but what is certain is that both Meituan and Pinduoduo will continue to invest and will not give up. They all plan to complete at least 250 billion GMV this year, which is more than twice the actual completion of the previous year. At

present, the daily order quantity of Duoduo Buycai has reached 35 million pieces (approximately 420 million GMV), while Meituan Preferred has a slightly lower order quantity of 32 million pieces (approximately 320 million GMV). Alibaba Taocai has 12 million items.

The advantages of Pinduoduo are its traffic and supplier resources. It uses big data to capture suppliers with good traffic in Duoduo Mall to provide products for community group buying business, and allows suppliers to bid daily.

The richness and quality of Meituan's preferred products are better than those of Duoduo Buycai, with almost no white label products listed. In some areas where Duoduo Buycai is listed, white label products account for 10%. Meituan selects each user to purchase 3.6 times a month, with an additional purchase of 2.4 times. Meituan does not strongly promote supplier bidding and begins to cultivate a group of core suppliers [3].

### **2.3. Competition from Producers of Substitute Products**

Meituan's strength is in its merchant ties, which provide a robust life service matrix with a variety of entrances and a sizable platform linkage effect. Catering enterprises are inextricably linked to the Meituan system as a result of the establishment of three new business sectors: takeaway, in-store liquor transport, and restaurant management systems. With catering as its primary industry, Meituan has now developed a strategic positioning and is improving its services for both users and merchants. Users have come to rely on it because of its strong sales force, extensive merchant technology, and effective brand effect.

Ele.me, the company has most of Meituan's substitutes, depends on the multichannel drainage system, the Alibaba ecosystem, the expansion of service scenarios, and the development of a whole life service platform. On the other hand, after integrating into the Alibaba ecosystem, Ele.me has gradually changed its subsidy strategy of burning money for growth in the past and implemented a new retail strategy. At the same time, Ele.me has established a strong linkage effect by connecting its membership system with Alibaba products, achieving the exchange of traffic and membership data, and attracting and retaining more high-value users.

### **2.4. Supplier Bargaining Power**

Fresh food, not other everyday consumer goods, is the main focus of this supply chain. High consumer quality criteria, a clear variety differential, and a high damage rate are all hallmarks of fresh food. It assesses an organization's upstream procurement and warehouse allocation skills in contrast to regular everyday necessities. Thus, it is crucial to understand how to create a fresh product supply chain.

Meituan is not lagging behind in the fresh supply chain field, but it is also not leading. It launched KuaiLv (B2B Catering Supply Chain) in 2016, and after 5 years of exploration, it has accumulated many fresh food suppliers upstream. It should have a certain grasp of the overall process, quality control, and user preferences, which can be reflected in its grasp of over 500000 active merchants [4].

Overall, Meituan has certain disadvantages in terms of supply chain compared to its main competitors. Wang Xing is very clear about this. He said that they are committed to establishing and maintaining good relationships with major suppliers and gradually improving procurement efficiency. Therefore, it would like to admit that because there are not very large participants in ordinary physical e-commerce. The supply chain is something need to catch up with other participants.

In the initial stage, the disadvantages in the supply chain will not seriously hinder the development of Meituan community group buying business, but in the future, the ability of this link will be further tested. Currently, Meituan needs to seize the time to learn and explore, otherwise even if the current single volume leads, it cannot be converted into the final advantage and moat.

## 2.5. Customer Bargaining Power

The core source of income for Meituan takeout is the commission, promotion fees, and a portion of delivery fees paid by merchants, followed by a portion of delivery fees and membership fees paid by consumers. Therefore, strictly speaking, Meituan takeout customers include consumers and merchants. However, the actual proportion of income gaining from the public is actually quite low because Meituan uses self-marketing operations to transfer the money that customers must spend to merchants [5]. Thus, retailers make up the majority of Meituan takeout's clientele. Indeed, Meituan stated as much in their prospectus.

On the other hand, Meituan's official tagline is: customers first, retailers second. It's clear that merchants are ranked second among customers. However, Meituan consistently highlights the importance of "customer-centric" in a number of commercial settings, including financial reports and official websites. Therefore, it's clear that Meituan's customers include both consumers and merchants, but it's hard to tell which one is its priority.

## 3. Evaluating the Internal Environment

### 3.1. Price Earnings Ratio

As of June 2023, Meituan's diluted earnings per share for the past quarter were \$0.21, and diluted earnings per share are \$0.37. The going concern P/E ratio is obtained by dividing the current stock price by the company's going concern earnings per share. As of today, Meituan's current stock price is \$28.47, with a going concern earnings per share of \$0.37 for the past 12 months, resulting in a going concern P/E ratio of 76.95. In the past decade, Meituan's continuous operating P/E ratio has reached a maximum of 10306.98, a minimum of 74.83, and a median of 342.39, as Table 2 shown [6].

Table 2: Meituan P/E Ratio.

Meituan P/E Ratio per Season										
Date	2020.12	2021.03	2021.06	2021.09	2021.12	2022.03	2022.06	2022.12	2023.03	2023.06
P/E	317.84	1476.24	loss	loss	loss	loss	loss	loss	357.86	85.29

### 3.2. Profit Margin

On March 24th, Meituan (03690. HK) released its results for the fourth quarter and full year of 2022. In 2022, Meituan achieved a revenue of 220 billion yuan, an increase of 22.8% compared to 179.1 billion yuan in the same period in 2021. Meituan's adjusted EBITDA for 2022 was RMB 9.725 billion, with an adjusted net profit of RMB 2.827 billion and an adjusted net profit margin of 1.3%.

According to the financial report, in the fourth quarter of 2022, Meituan achieved steady growth in multiple retail businesses, including local core businesses such as takeout, in store liquor and tourism, Meituan flash sale, homestays, and transportation ticketing, with revenue increasing by 17.4% year-on-year to 43.5 billion yuan and operating profit increasing by 41.0% year-on-year to 7.2 billion yuan.

Meituan CEO Wang Xing said, in the process of promoting digital upgrading of life services and retail industry through technological innovation, they will continue to pay attention to the common interests and long-term development of platform participants such as merchants and riders, firmly fulfill platform responsibilities, increase technology investment, continue to support the real economy, and make more contributions to the high-quality growth of the Chinese economy.

### 3.3. Internal Operational Advantages

The commission model is currently Meituan's main profit model. The majority of lifestyle service websites today use the commission model as their primary profit model, and Meituan also relies significantly on it. The primary source of revenue for this business is the sale of goods to group buyers, whom are paid the difference in price; As an alternative, a predetermined portion of the website's transaction volume may be utilized as a commission; or help merchants market and promote their products on the website in exchange for a predetermined amount of money. The products are really supplied by the website's registered merchants during the purchasing and selling procedure.

By planning marketing campaigns on its website to promote retailers, Meituan can draw in merchants and make money from online marketing. Owing to Meituan's substantial membership base and increased traffic, the majority of businesses are eager to take part in various activities that Meituan hosts. Meituan advertising is basically the same as welcoming customers into the store for businesses, and it involves less effort because it is done online. Customers will benefit from additional discounts and a wider range of needs being met, in addition to businesses on the platform seeing an increase in visibility and revenue. By attracting more new users at the same time, the platform may effectively accomplish three goals at once.

In addition to assisting in seizing merchant resources in the early stage, local promotion personnel also need to provide training on merchant business capabilities and supervise merchant discipline and integrity in the later stage. And this requires a large number of people, which also puts higher demands on the team's management ability.

With the enrichment of various online apps and the rise of local promotion models, the public has also become "immune" to this model. Relying on manpower to obtain so many merchant resources is now difficult to achieve, that is, Meituan's human resources and merchant resources are basically difficult to "replicate". Meituan's many businesses require a combination of online and offline operations, which inevitably requires some capital investment to complete, so its entry barriers are also stronger than pure online businesses.

Meituan's two core businesses - delivery and store to store, both have high entry barriers and require advanced network technology, sufficient backup funds, a large offline human resources team, and a complete local logistics system as support. The opportunity cost and time cost are high, so it is difficult for Meituan to enter the core business area. At present, Meituan has gained popularity in its own field and formed a good reputation among the public. So if it wants to enter a new field, the marginal promotion cost will be greatly reduced, and compared to zero well-known enterprises, there is no need to invest too much customer acquisition cost.

### 3.4. Competitive Strength and Market Standing

The core strategic thinking of the company is to transform the local service industry with the help of internet technology and thinking. Meituan is mainly engaged in catering. This is because catering is the most frequent and fixed consumption scenario in people's daily lives, which can bring huge user flow and cash flow, both strategically and financially. The "Food + Platform" strategy proposed by the company is to achieve business expansion and turn on the high-speed development wheel while exploring the remaining value of the catering industry chain, utilizing the high-frequency consumption characteristics of the platform for traffic aggregation and cross selling and expanding other consumption scenarios [7].

In selecting new business expansion, Meituan's approach is to balance the need for a larger market size and the potential for increased concentration after entering a new industry. It is possible to change the industry in the short term through variables, such as platform, capital or technology, and increase



market share, develop network and scale effects in large industries, feedback existing businesses, and expand business boundaries.

After horizontally laying out numerous consumption scenarios directly targeting C-end users, Meituan's next strategy is to expand 2B business vertically, which is why Meituan has started developing ERP restaurant management systems/supply chain solutions and other businesses for merchants. The construction and provision of infrastructure such as supply chain management and cloud computing are the focus of future medium-term development, which is also a necessary path for ecological large enterprises. Tencent and Alibaba have entered this stage of development earlier. In the longer-term future, self-operation, mergers and acquisitions, investment, and unrelated diversification. There are infinite possibilities in the long run. It's still too early to discuss [8].

At the tactical level, Meituan excels in flexible brand positioning and imitation improving. Meituan has developed and grown these businesses through refined operations, reflecting its strong operational and learning abilities, and also in line with the company's self-proclaimed belief that "Kenda is the core of Meituan's tactics".

## **4. Risk Management**

### **4.1. Market Risk**

Meituan's market risk is mainly consisted of regulatory risk and competitive risk. Meituan has experienced fines from regulatory bodies and various types of regulatory pressure, just like other sizable technology-based businesses in China. Furthermore, Naspers, the largest shareholder of Tencent, is thinking of selling the Meituan shares it bought from Tencent. Tencent, the major shareholder, has also decreased its interest in Meituan. It is possible that regulatory agencies will lessen the regulatory burden on major technology-based businesses, but additional regulatory evaluations could yet occur in the future. Meituan has made a public commitment to raise riders' pay and working conditions in response to public outcry and government control of the industry. Meituan's profit margin, however, has been constant thus far (mostly because of a decrease in consumer discounts and promotional activities), so it cannot be ruled out that Meituan may face stricter regulation in this regard in the future. In this way, Meituan's profit margin will be under pressure.

The risk of competition is yet another significant concern that Meituan faces. Alibaba's Ele.me is attempting to increase its market share in the takeout business (as of August 2022, Ele.me and the massive short video platform Tiktok have reached an agreement that allows Tiktok users to order meals directly from Ele.me); in the OTA space, Ctrip is eroding Meituan's most lucrative ventures, including retail, lodging, and tourism. Meituan's increasing dominance in China's consumer Internet market is being contested by Feizhu, Alibaba's online travel company (Feizhu's international flight search volume grew by 800% in the last week of December 2022). Furthermore, Alibaba offers significant benefits in terms of user volume as well as money-there are 1.3 billion active users on Alipay alone, while Meituan has a total of less than 700 million active users.

### **4.2. Internal Risk**

Besides market risks, Meituan also need to undertake self-risks, which mainly contain legal compliance risk, business operating risk and financial risk.

As an online food delivery and lifestyle service platform, Meituan needs to comply with various laws and regulations, such as Consumer Rights Protection Law, Food Safety Law, etc. If the company fails to comply with relevant laws and regulations, it will face risks such as fines and lawsuits [9]. Meituan's business involves a large number of orders and payment transactions, therefore business operating risk is also a major portion. If malfunctions or security vulnerabilities occur in the

company's operating system, it may lead to risks such as customer data leakage and financial losses. Meituan's business scale is huge and requires a large amount of funds to support its daily operations and development. If a company is unable to effectively manage its financial situation, it will face risks such as funding chain breakage and debt default [10].

## 5. Conclusion

Meituan is a technology retail company that uses a "retail + technology" strategy to carry out its aim of "helping everyone eat better and live better". Discussing its recent profitability and plan, the company's varied operations are still seeing steady growth, as evidenced by the combined yearly sales of 220 billion yuan, a 23% year-over-year rise, and an adjusted net profit of 2.8 billion yuan. Due to the fact that the current food delivery market is a duopoly market in China, Meituan's only advantageous domestic competitor is Ele.me under Alibaba. Considering Pinduoduo's future development areas, it is also possible for it to become an important member of the takeout market in the future. Relying on the fresh supply chain, Meituan is not lagging behind in the fresh supply chain field, but it is also not leading. Meituan currently has to take advantage of the opportunity to study and explore; otherwise, even if the single volume leads work, they won't be able to be transformed into the ultimate advantage and moat. For Meituan's Customer bargaining power, the actual proportion of income gaining from the public is actually quite low, and retailers make up the majority of Meituan takeout's clientele instead.

According to the first quarter 2021 results report on May 28, 2021 by Meituan, its revenue for the quarter was over CNY 37 billion, or around USD 5 billion, with a YoY growth rate of 120.9%. Meanwhile, Meituan's primary business division, food delivery services, generated about 54% of total revenue, more than double the amount from the same time previous year. The post-COVID recovery pattern in the food delivery, in-store, and hotel & travel industries has also been consistent. Possible hazards encompass the present surge in antitrust laws within China's Internet sector and operational deficits resulting from Meituan's novel business endeavors. It is believed that the company is worth investing in over the long run, even with the current dangers.

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