

Queen of VC Kathy Xu: Meituan Dianping will Blossom as a Super Platform

ACN NEWSWIRE Sep 20, 2018

HONG KONG, Sep 20, 2018 - (ACN Newswire) - As a super platform with powerful network effects, Meituan Dianping will blossom and flourish, according to Kathy Xu, founder and president of Capital Today, one of the first independent private equity firms in China.

Crowned as "Queen of Venture Capital" in China, Xu topped the list of "China's 25 Best Female Venture Capitalists 2018" published by Forbes China. Founded in 2005, Capital Today has focused on internet, retail and consumer sectors, with investments in JD.com, Meituan Dianping, Ganji.com, VIPSHOP, Three Squirrels, Tudou.com, Netease, Beibei.com and Zhihu.com.

An early VC investor in Meituan Dianping, which will be listed today on the Stock Exchange of Hong Kong, Xu told the story of her investment in Meituan Dianping, and her confidence in this super platform.

Diversification vs. focus

One question frequently asked of Meituan Dianping is why the company does not focus on one core business. It has expanded from group purchasing, to food delivery, hotel and travel booking, movie ticketing, grocery delivery, bike-sharing, car-hailing and other lifestyle services. In each new market it entered, Meituan faced formidable competitors.

People who ask this question of Meituan Dianping "don't understand," said Xu.

"If you are in a traditional industry, then you need to focus," Xu said. "In the Internet sector, however, you have to reach in different directions just like an octopus. In the internet business, it won't work if you focus."

In traditional industries, you must focus so that you can expand in scale and lower the cost. It is a different story with very different economics in the Internet sector, she explained.

"The more users you get, the more valuable they become because of network effects. The value of each user will show up in multiple businesses. As long as

you manage well and choose the right markets, your network effect will keep magnifying," she said.

"Meituan has been very successful in quickly building up its leadership in new markets because, as a super platform, it enjoys very low user acquisition cost for its new businesses," she said. "With network effects, such a super platform can dominate the whole market."

In her eyes, Wang Xing, co-founder and CEO of Meituan Dianping, is like a "deep learning machine" who spends a lot of time studying, researching and pondering how to grow his business. "Meituan often was not the first player in the new markets, but the company learned fast and dived deeply into new businesses. More importantly, Wang always chooses the right strategy and has strong execution power," said Xu.

Investing in Meituan

Xu first invested in Dianping in 2012 when it was competing with Meituan on group purchases. At that time, Dianping was the market leader in first-tier cities, but Meituan dominated the nationwide market.

As both companies were burning cash frantically to gain market share, she supported the merger of the two companies. "Facing merge or die, it is better to merge," she told Dianping and pushed both sides to the negotiation table.

After the merger of Meituan and Dianping in October 2015, some investors were hesitant to invest in the new company. "They were afraid about the competition with Alibaba, about not having enough cash on hand, and the difficulty in business integration," she recalled.

After three months of due diligence and rounds of internal debates, Xu decided to make significant investment in Meituan Dianping in January 2016. The company was the super platform she was seeking.

She defined a super platform as one of the few APPs people use most frequently on their mobile devices. Such a super platform should have over 100 million active customers, with each customer using the platform more than 8 to 10 times per year. Meituan Dianping is a super platform that people go to for their essential daily life services.

Winning in food delivery

Ele.me was the pioneer in China's on-demand food delivery market. When Xu was considering about investing in Ele.me, she heard that Meituan was about

to enter this market. She decided to wait and take a look at both companies.

As a late-comer in the market, Meituan learned and followed the tactics of Ele.me to attract users. After six months of learning and exploring, Meituan hired 1,000 people and sent them to 100 cities after one month of training.

Meituan was quickly expanding its food delivery service to over 100 cities nationwide, while Ele.me was still concentrating its business in a few cities. "You have to move fast and you have to go nationwide," she said. "There are no local players on the internet."

The most important reason for Meituan to win the food delivery battle was that Meituan built its own delivery network, she said. As Meituan improved its food delivery efficiency with an average delivery time of about 30 minutes, Ele.me was busy with the upstream supply chain development.

Meituan Dianping saw its market share in on-demand food delivery increase from 31.7% in 2015 to 59.1% in the three months ended March 31, 2018, according to iResearch report.

Wang Xing predicted in late 2016 that the food delivery war would be over within 12 months. Three players will be left with 7:2:1 market landscape, as the winner would take 70% of market.

Xu agreed with the 7:2:1 prediction for the food delivery market. "The priority for Meituan is to secure its leadership position," she said. "This is a must-win battle. If Meituan can gain another 10 percentage points in its market share, it will be safe."