

# Pricing Strategies on Online Take-out Oligopoly Marketing: A Case Study of Ele.me

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## Abstract

**This article is circled with the pricing strategy of the case, Ele.me. First, the business model of it been overviewed from the perspective of service domain, cost structure, and market structure. Then, the discussion around Ele.me's pricing strategy has been rise by the measures that it adopted already and the possible solutions for improvement. Finally, the summary reflects the content to do the recall.**

## Keywords

**Marketing; Pricing Strategy.**

## 1. Introduction

In China, the Take-out industry has become a large-scale and mature market with years passing by. It is a usual phenomenon rather than luxurious enjoyment for a person to order his or her food through a delivery platform in the contemporary business world. Ele.me's existence helped restaurants in promotion, which is reflected by 80% of respondents. [4] Through the influence of the great epidemic of Covid-19, more restaurants joined the Take-out platform that could avoid consumer loss brought by quarantine policy, which the online platform faces a rare opportunity with developing boost. Now, Ele.me is merged by Alibaba group, and it expands its market position as a "consumer services and on-demand delivery flagship platform" [1]. With the "new retailing" strategy, Ele.me aims to personalize every consumer's needs and enhance content-based interaction by big data technologies.

In the following section, the essay will analyze Ele.me's pricing strategy to attract consumers and the further improvement suggestions.

## 2. Take-out Industry of Ele.me

To analyze the Ele.me, it is necessary to review its business model and market structure before analyzing its price strategy. From the service domain, cost structure, and market structure, readers can have a business view of the Ele.me company.

### 2.1. Service

Theoretically, Ele.me is one of the oligarchs in the online Take-out industry that provide services of online Take-out, new retailing, instant delivery, and restaurants supply chain. In the consumers' view, Ele.me provides the service that restaurant and retail recommendations and following delivery. According to perceived preference and perceived serviceability, Peng and Shao support the idea that discount coupons, service quality, diversified restaurant choices are the key concept in their business. [3] However, a problem pointed out by Ye is that Ele. me's business possibly over depended on sales promotion solely, which the drawbacks appear in one of its competitors, JD.com. [4] Ye proposed Ele.me should find other business models to expand their profit source, and the software should be a good source to fetch. Also, Wang and Yi analyzed the current ranking system of Ele.me and developed a new recommendation algorithm of RC/AHP, which proved the possibility of Ye's thinking. [2, 4] On the macro business

view, after the merger with Alibaba Group, Ele. me's development is not limited to Take-out but emphasizes all-around "building a consumer life service platform," including takeaways, food materials, sanitary appliances, office and school supplies that a series of retail sector businesses. [1]

## 2.2. Cost Structure

Since Ele.me is an online platform, its fixed cost will be relatively small. The major fixed cost is spent on digital platform operation, such as servers, software, etc., and administrative overhead, such as office supplies, office renting, advertising, etc. On the contrary, its variable cost is considerable due to its enormous economic scale. Most variable expenditure will depend on the human resources, whether rider's basic salary and commission or official employee's salary and bonus is the primary variable cost. In addition, Ele.me issue some coupons for consumers and drivers' subsidies as part of the company's variable costs.

## 2.3. Type of Market Structure

China's domestic Take-out industry is a duopoly structure on the market level. Due to the effect of economies of scale and entry barriers, other small food delivery platforms are hard to compete with two oligopolies because of low long-run-average-cost advantage. In specific, the whole market share is mainly held by Meituan(美团) and Ele.me(饿了么), which take around 65% and 32% separately. Inversely, it is worth noting that the monthly active users of Ele.me is as double as Meituan, which is 75,858,500 towards 37,445,700 in total. [5] It suggests that Ele.me has a higher market potential advantage in the oligopoly competition with Meituan. [4]

## 3. Pricing Strategy of Ele.me

In the following section, some examples of the pricing strategy of Ele.me shall be discussed. Then, the in-sight view will be given, followed by suggestions on how Ele.me can improve its pricing strategy.

### 3.1. Current Pricing Scheme Analysis

#### 3.1.1. Third-degree Price Discrimination

Compared with Meituan, which targets consumers as 18 to 40 middle-class, educated population, Ele.me focuses more on school students and employees because of its campus entrepreneurship background. [3, 4, 5] Consumer groups' characteristics of students or private employees are different from each other. So, Ele.me can use these group characters to make consumer segments and apply price discrimination. For example, since the smaller scope of students' daily activities, issuing discount coupons for a particular area of restaurants near the school is relatively easy, target identifiable and efficient for student groups rather than the private employees. Therefore, it creates chances for Ele.me to charge different prices (P) for managing its marginal revenue (MR) equal to its marginal cost (MC).

#### 3.1.2. Two-part Pricing & Inducing Brand Loyalty

The VIP of Ele.me, so-called "Super Foodie Card" (超级吃货卡), charge monthly fee from consumer to pay a discount price. Although, unlike the golf club that pays for access quality, Ele. me's VIP pays for access to more tokens and discount coupons. In its platform supermarket, accumulated tokens can convert gifts, coupons, and privileges, such as discounts, cash returns, priority delivery in the busy period, etc. Ele.me uses the "Two-part pricing strategy" to push consumers to spend more on exactly the same goods. Meanwhile, it uses tokens and coupons to induce consumers' brand loyalty, making them hardly give up the input effort and switch to other platforms.

### 3.1.3. Peak-load Pricing

Like the telephone and electricity, the Take-out industry also has peak hours at lunch. Ele.me divides delivery fee into three-part, "distance charging," "meal price charging," and "period charging," and adopt the "Peak-load pricing strategy" that add extra price for period charging in the busy hours. For example, Ele.me will charge an extra 4.5 RMB per order at lunchtime because of order overload.

### 3.1.4. Ranking Bidding

According to Zuo, like Google, Ele.me pricing for its search engine rankings and charging annual fees from upstream merchants. [5] The reason why those upstream restaurants are bidding for an upper rank on the search results is because of the exposure rate. Obviously, the restaurants at the top of rank will be easily seen and considered by consumers, which increases the potential sales and Word-of-Mouth among consumers.

## 3.2. Improvement Suggestions

In 2021, the revenue from "Local Consumer Service," which is mainly donated by platform commissions, delivery fees, and other services of Ele.me, is 31,537 million and increased 24% than last year. [1] In the "Type of Market Structure" part, it discusses that Ele.me have a higher potential in developing monthly active user consuming by the comparison with Meituan. Also, Alibaba claims to take Ele.me into its ecosystem, giving it the privilege to access and expose with more consumers. [1] So, the improvement of pricing strategy will circle the ideology on developing potential consumers.

### 3.2.1. Second-degree Price Discrimination

"Add-on order" (凑单) is not a new concept in the Chinese market. Like "Groupon" (团购) group buying website helps multiple individual consumers team up for ordering large amounts of goods from suppliers, such as the restaurant's combo. On the one hand, restaurants extract additional willingness to pay from more consumers and higher prices. On the other hand, individual consumers get their share at a relatively low price per unit. Considering the massive quantity of monthly active users and low consumption rate of Ele.me, it would be a good idea and high efficiency to motivate and attract potential consumers with "add-on order" convenience.

### 3.2.2. Cross-subsidies Strategy

One of the advantages of Ele.me than Meituan is to use Alibaba's ecosystem and its vast consumer base, which present cross-selling opportunities across platforms by strategic synergies. [1] Traditionally, the "Cross-subsidies strategy" is used in two substitutions. But it may extend to multiple subsidiaries of a large financial group. Like Youku introduces the Korean pop star series, Ele.me may charge a high price in derivatives products such as cosmetics and diet show in the series.

### 3.2.3. Second Price Sealed Auction

Apart from pricing strategy in B2C, B2B business can still improve pricing strategy. It can be used for upstream merchants with a higher rank in searching results and apply to the advertisers who wish to get a better advertising slot. In the "Second price sealed action" model, the bidder who bids the highest price wins and pays the second high price, which bidder has the incentive to bid the price with the expected value. It ensures the utility of price offers, avoiding the bidder's malicious bidding or cost overflow. Adopting this pricing strategy will help Ele.me maintain sustainable development instead charge one-time money from restaurants and advertisers.

## 4. Conclusion

This article briefly reviews Ele.me's business and focuses on the company's pricing strategy, which assists with both analysis and suggestions.

As one of the oligarchs in the food delivery industry, Ele.me has a relatively large user base and a low consumption rate. After being acquired by Alibaba Group, its advantages in user base have been strengthened again while gaining cooperation from other subsidiaries. Therefore, in addition to the price strategies that have already been adopted, such as "Third-degree price discrimination", the new price policy should pay attention to the consumption attractive of existing users, including "group buying" and "cross-subsidy strategies" to ensure sustainable development and maximize profits in the future.

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