

What Killed ofo? Efficient Financing Pushed it Step by Step into the Abyss

Nansong Zhou

University of International Relations, China

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Abstract: ofo is a bicycle-sharing travel platform based on a “dockless sharing” model that is dedicated to solving urban travel problems. Users simply scan a QR code on the bicycle using WeChat or the ofo app and are then provided with a password to unlock the bike. Since its launch in June 2015, ofo has deployed 10 million bicycles, providing more than 4 billion trips in over 250 cities to more than 200 million users in 21 countries. However, negative news coverage of ofo has increased recently. In September 2018, due to missed payments, ofo was sued by Phoenix Bicycles. In the same month, some netizens claimed that ofo cheats and misleads consumers. On October 27, another media outlet disclosed that the time limit for refunding the deposit was extended again, from 1-10 working days to 1-15 working days. Various indications suggest that ofo is in crisis. What happened to ofo? How did the company come to be in this situation? This paper will answer these questions.

1. Introduction

Bicycle sharing is a service in which bicycles are made available for shared use to individuals on a short-term basis for a price or for free. Such services take full advantage of the stagnation of bicycle use caused by rapid urban economic development and maximize the utilization of public roads.

The first instance of bicycle-sharing in history occurred in 1965 when fifty bicycles were painted white, left permanently unlocked, and placed throughout the inner city in Amsterdam for the public to use freely. However, this project soon came to a halt because of the high theft rate and the high damage rate. In 1995, the first systematized public bicycle-sharing program appeared in Copenhagen, Denmark; in 2007, the first truly commercial bicycle-sharing company came to Paris, France¹.

According to “Bicycle-sharing schemes: enhancing sustainable mobility in urban areas”, there were five schemes operating in five countries (Denmark, France, Germany, Italy and Portugal) with a total fleet of 4,000 bicycles (the largest was in Copenhagen, with 2,000 bicycles) in 2001. There were more than 1000 bicycle-sharing companies and 227 million active users in 2017.

Shared bicycles have attracted increasing attention. Because of their compliance with the concept of low-carbon travel, governments also look favourably on this new concept.

Although bicycle sharing started slightly later in China, the number of shared bicycles in China has overtaken that in European countries and the United States. China began to introduce foreign public bicycle models in 2007. Ten years later, there were nearly nineteen million users in the Chinese bicycle-sharing market.

Bicycle sharing in China developed in three stages. The first stage lasted from 2007 to 2010. In this stage, the public bicycle model was introduced to China. This model allowed people to borrow a bike from a “dock” and return it at another dock belonging to the same system. This system was managed by the local government. The second stage lasted from 2010 to 2014. In the second stage, bicycle-sharing companies started to appear in the market, but most of their bicycles still had to be parked in docks. In the third stage (from 2014 to the present), with the rapid development of mobile Internet access, Internet bicycle sharing headed by Mobike began to appear, and there was a significant increase in the number of bikes that did not need docks.

¹ http://www.earthpolicy.org/plan_b_updates/2013/update112

ofo is one of the most famous companies in the bicycle-sharing market. The users of ofo can easily obtain the code needed to unlock a bike by scanning the QR code on a bicycle with their phones. In 2017, ofo had deployed over 10 million bicycles in 250 cities and 20 countries.

Meituan announced the acquisition of Mobike on April 4, 2018. This acquisition became a landmark in the bicycle-sharing industry and indicated that the outlook was poor and that independent development was almost impossible without the support of capital. The latest Meituan prospectus revealed that 26 days after its acquisition, Mobike had a revenue of 147 million yuan, depreciation and operating costs of up to 396 million yuan and 158 million yuan, respectively, and gross profit loss of 407 million yuan. These numbers indicate that the company loses approximately 15.6 million yuan a day, or 5.7 billion yuan a year. When Mobike, the largest competitor of ofo, was taken over by Meituan in April 2018, the situation of ofo attracted public attention.

2. Challenge

Negative news regarding ofo has recently increased. Each news item indicates that ofo is experiencing difficulties.

2.1 Shortage of capital

In September 2018, Shanghai Phoenix sued ofo, demanding compensation of more than 68 million yuan, with liquidated damages totalling more than 70 million yuan. Best Logistics Technology (Chinese) Co. Ltd. sued ofo in the Binjiang District Court of Hangzhou. According to media reports, ofo did not appear in court to answer the lawsuit. The claimant of BEST Express asked ofo to pay more than 3.1 million yuan for transport services and said ofo was in total arrears of more than 14 million. Recent lawsuits have revealed that ofo is short on cash.

Bicycle-sharing is dependent on capital support. According to the China sharing economic development report 2017, the total amount of shared bicycle financing reached 25.8 billion yuan in 2017. Although ofo completed the E round of financing and the financing amount exceeded 700 million US dollars in July 2017, ofo was so eager to complete the E2-1 round of financing that it pledged all its bicycles to Alibaba in exchange for 1.766 billion yuan at the beginning of 2018. This means that ofo has entered its darkest hour.

2.2 Poor reputation

ofo's strategy is to deploy a large number of low-cost bicycles to enhance market share, ignoring comfort. The cost of an ofo bicycle is 224 yuan, which is less than a tenth the cost of a Mobike. This strategy helped ofo to speed up the overall layout and increase its number of users in a short time. However, as time went by, the drawbacks of this strategy emerged. It is not easy and comfortable to ride low-cost bicycles. In addition, there is an increase in the number of broken ofo bicycles, and complaints about the poor quality of ofo's bikes are heard everywhere.

In addition, the ofo deposit has also been criticized. A number of netizens reported that they wanted to use the ofo app to pay the deposit, but ofo set up a trap to induce users to consume. ofo also created many obstructions with respect to returning deposits to users. For example, ofo hid the portal for claiming the deposit in the ofo app. Even though users can find the portal to claim the deposit, when the user clicks it, several screens pop up emphasizing that if you claim your deposit, you will pay a larger deposit next time you want to use the service. This system, which prevents users from claiming their deposits, has caused resentment among users.

2.3 Fierce competition

In March 2018, Meituan acquired ofo, an event described as a unicorn buying another unicorn. This acquisition means that Mobike has become a member of the Tencent Empire and its shortage of funds has eased. Mobike will receive financial and experience support, which may help Mobike develop a profit model.

To remain independent, Dai Wei, the CEO of ofo, rebuffed Ant Financial Services Group's acquisition proposal, which was a chance to join the Alibaba empire. Because of the failure of the

acquisition, Alibaba invested capital in Hellobike to guarantee involvement in the bicycle-sharing market, raising up an enemy against ofo and Mobike. Hellobike started a free deposit war after acquiring support from Alibaba, which placed an enormous amount of pressure on ofo and Mobike.

3. Analysis of the dilemma

There is an enormous difference in the profit models of modern Internet companies and companies in the past. In the past, it was necessary to consider market requirements and user experience before a company created a new product, and it would take a long time to build an industry giant. However, modern capital cannot wait to invent out of thin air a new business model utilizing huge discounts to attract users. It forms new markets to impact and even replace the old markets, just as Didi and Uber did to the original taxi market. Capital will gain strength from the old market and grow. The competition of production is not only a battle between companies but also a war of capital strength. Start-ups become pawns in a game of capital. On the one hand, efficient financing helps start-ups to grow quickly and promotes the development of new markets; on the other hand, it may also kill start-ups and discourage a new industry.

ofo is a product of the capital market, and bicycle sharing has also become a hub of Internet commerce. With the expansion of the bicycle-sharing market, there was a significant increase in capital inflows, which increased expansion and competition in the market. Since ofo's birth, it has been shadowed by capital. Investment saved ofo numerous times, but it also pushed ofo step by step into the abyss.

In the first half of 2015, capital markets were turbulent. It was very easy to raise funds, which stimulated Dai Wei in the early days of his business endeavours. At this time, he had not yet founded ofo. Rather, he and his friends were busy developing a tour bike rental service, and he was more interested in increasing the number of users to raise funds.

This method is very similar to the strategy of ofo. The embryonic form of ofo's operating model is based on attracting a large number of users in exchange for financing. Dai Wei did not consider the product itself until he had failed to receive financing several times. In October 2016, ofo had only approximately 60,000 bicycles, and after eight months, this number had increased by a factor of 100. The financing expanded so fast that ofo had no time to think about its profit model; rather, it spent most of its time and energy on managing, expanding and financing. In terms of capital, the initial focus was on the number of users and market share instead of how to turn a profit because bicycle sharing was a new market and different capital strengths need to earn the right to speak, which forced ofo to invest a considerable amount of money to compete with other companies for market share. However, once the company started to expand, the cost rose rapidly. ofo ordered many bicycles and announced a subsidy war. Although these measures were effective in attracting users, they created a huge burden for ofo without a good profit model, which made ofo more dependent on financing. Unable to make money on its own, ofo fell into a vicious cycle of financing and expansion. As the corporate scale enlarged day after day, there was a significant increase in the number of cities that ofo entered, which created higher operating costs. However, to cope with competition, ofo gave users steep price discounts. High costs and steep discounts forced ofo to rely on financing, and the pressure of financing forced ofo to expand.

ofo desired to dominate the market as soon as possible, so it needed a large number of bikes. Because of financial pressure, ofo had to order low-cost bikes. However, the damage rate for these low-cost bikes was very high, which soon had negative effects on ofo's reputation. Because of the high damage rate, ofo must order bikes constantly, which places continuous financial pressure on the company and increases the difficulty of achieving profitability.

In increasingly mature bicycle-sharing markets, participants in the market were constantly being eliminated. When the bicycle-sharing market entered a period of relative stability, the surviving enterprises that had experienced fierce competition were exhausted, and the time was right for them to be acquired by companies with a strong capital advantage. It is nearly impossible for bicycle-sharing companies to remain independent, and such companies help them to compete with each other and expand, hoping that the competition will be weakened in the process and thus

facilitate the completion of the acquisition.

4. Conclusion

The popularity of the bicycle-sharing market is due to capital. Major capital inflows are needed to open up and expand new markets. Thus, when the concepts of “last kilometre” and “bicycle sharing” appeared in the market, they quickly attracted abundant capital. ofo, as the initiator of such concepts in China, was extolled. Not only did capital provide the basis for the development of ofo, but the flow of capital entering the bicycle-sharing market promoted the expansion of the company. However, too rapid expansion and excessive competition led by capital strength created financial problems for ofo. ofo had to order a large number of low-cost bikes that did not have good quality to seize the market, which led to a high bicycle damage rate. Because of the financial pressure ofo was under, it was a fatal blow that a large number of users wanted a deposit refund. Thus, various measures were taken to prevent users from claiming their deposit, leading to user dissatisfaction. These measures and the high damage rate caused ofo to develop a poor reputation. This poor reputation then reduced the possibility of achieving profitability. ofo, a company with high spending and no profit model, had to rely on the capital from financing. Efficient financing gave ofo the illusion that if it had enough users and market share, it could obtain financing to ease the financial pressure. ofo had no time or energy to try to gain a profit, and it was unable to do so because it was necessary to cut spending if it wanted to make a profit. However, if ofo reduced bike orders and subsidies, there would be a significant decline in the number of users, which would accelerate its demise. The enormous amount of capital available through efficient and convenient financing allows start-ups to carry out large-scale subsidy wars and expand freely, making competition among companies more intense and protracted. Nevertheless, excessive competition wastes considerable public resources. More importantly, companies in emerging fields are struggling to compete, and they cannot reflect on their industrial advantages or future, which directly affects the long-term development of the entire industry. Though efficient financing supports a large number of excellent enterprises, it can also ruin the future of many excellent companies and even the future of an industry.

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