

Platform Power and Subsidy Wars: Structural Distortions in China's Online Food Delivery Market-Taking Meituan as an Example

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Abstract. This essay examines the structural distortions and power asymmetries in China's online food delivery market, focusing on the rise of Meituan and the subsequent hypercompetitive environment intensified by subsidy wars. While platforms such as UberEats and DoorDash in Western markets fostered balanced competition between restaurants, platforms, and consumers, the Chinese market evolved differently. Meituan consolidated monopoly power during the COVID era through commission fees, delivery charges, and exposure-based advertising schemes that disproportionately burdened small and medium restaurants. The later entry of Taobao and JD, rather than alleviating this imbalance, introduced aggressive subsidy strategies funded partly by merchants, further eroding profitability and creating conditions of negative gross margins. Consumers benefited from low prices, and platforms leveraged data advantages, but restaurants were reduced to expendable actors in a distorted market equilibrium. By analyzing market concentration, cross-subsidy pricing, and coupon-funded competition, this study highlights how unchecked platform dominance undermines industry sustainability and social welfare.

Keywords: Platform power and subsidy, structural distortions, online food delivery market, Meituan.

1. Introduction

With increasing needs for takeouts for urban residents, especially during the COVID era with boosts by policies and external environments, it can be seen a significant increase in demand for integrated online takeout delivery platforms such as UberEats and DoorDash [1]. While in the Western world this increase in demand sparked healthy competition among restaurants and delivery platforms that balanced the interests of restaurants, platforms, and customers, the Chinese market took an unexpected route to competition that undermined industry structure and significantly eroded the interests of restaurants [2, 3].

In the initial years of takeout adoption, Meituan, the first megacorporation to establish a systematic network of riders and restaurants, gradually consolidated monopoly power in the Chinese market and expanded this power during the COVID era with the help of both quarantine measures and favorable policy [4, 5]. At the same time, the competitiveness of the entire catering industry surged with flooding entrants and the highly inelastic demand from consumers. With this inequality in market power, Meituan exploited both restaurants and riders by charging delivery service fees significantly higher than those of Western platforms on top of charging commission fees and by pressuring restaurants into advertising programs [6]. As more consumers choose to takeout rather than dine in, takeout orders, a supposedly beneficial source of orders, have significantly undermined the profit margins for catering service providers.

After the COVID era, new entrants such as Jingdong and Taobao entered the market. In theory, their presence should have disintegrated Meituan's monopoly power and benefited merchants. However, their reliance on large coupon subsidies to attract customers—funded jointly by platforms and catering service providers—further deteriorated restaurant profitability [7, 8]. While consumers and platforms have evidently benefited from such market structure, the fiscal and structural burdens have significantly pushed them to the brink of collapse.

In this essay, this study will examine the structural distortions of the online food delivery market in China in three parts: a thorough analysis of the current market structure, the ways in which Meituan

exploited its monopoly power, and how current market competition among delivery platforms further exacerbates conditions for merchants. This analysis aims to shed light on a contemporary case of a malfunctioning market mechanism in China and to provide insights for similar markets.

2. Hypercompetition and Power Imbalances in China's Online Food Delivery Market

One of the most significant factors that affects the capability for suppliers in the industry to transfer costs towards consumers or platforms is the competitiveness in the industry. This could be directly measured by the Herfindahl–Hirschman index, by measuring the sum of the squared market shares, such an index could directly reflect the market structure and competitiveness of the respective industry with the magnitude being inversely correlated with the competitiveness.

From 2013 to 2025, the market structure of the food delivery platform became increasingly concentrated rather than competitive. In the very beginning, marking the start of the first wave of subsidy war that escalated between Meituan and Ele.me around 2015, the HHI index encountered a historical trough of 2851, reflecting a relatively competitive market environment [9, 10]. As the Subsidy war continued, people saw a significant increase in the HHI index of the industry as the market share and transaction values were substantially concentrated in Meituan and Ele.me, and at the same time, the profit margins of restaurants were significantly squeezed by the two firms. At this point, the market has reached a de facto duopoly situation. As COVID continuously hits the entire territory of China, many other small and medium platforms have exited the market due to the economic shock, and as a result, the Market power of Meituan and Ele.me continues to increase, as reflected by the HHI of 5336 in 2020 [11].

In the post COVID era, as more other firms like JD and Taobao decided to enter this large-volume but low-margin market also marking the second Subsidy war, the HHI of the industry fell back to the 3100–4900 range [12, 13]. But overall, the market structure is systematically unchanged: Though people see an increase in competition, over 90% of the market shares are still firmly grasped by a few megacorporations [14].

In the catering service sector, however, the industry has presented a significantly competitive atmosphere to the point that statistical evaluations of the HHI is scarcely possible, especially in the post COVID recovery period. For instance, the top 100 catering chains in China accounted for only about 7% of total sales in 2017, compared to over 30% in the U.S., highlighting the industry's extreme fragmentation [15]. With this information, people can make a rough conclusion of the three markets involved (Customer-Restaurant, Customer-Platform, Restaurant-Platform). Customers generally hold significant bargaining power in the Customer-Restaurant Market (Hence, Customers have a variety of restaurant choices), and relatively low bargaining power in the Customer-Platform sector (Hence, Customers do not really have a varied choice of platforms). From the Platform's perspective, compared to the other 2 parties, Platforms held the most significant bargaining power that enabled them to charge both Users and Platforms to a higher extent. But due to the hypercompetitive atmosphere, individual restaurants generally fail to obtain any bargaining power and are forced to subjectively accept the price provided by both the platforms and the customers. With the advantage of delivery platforms in such background, platforms led by Meituan started to commit to a "Cross-Subsidy pricing" that presents in the form of "technological service fee" on the supply side and delivery fees on the demand side, continuously pushing the profit margins of catering service providers and the willingness to pay of Chinese food consumers.

While theoretical models such as Du suggest that monopolistic platforms may enhance efficiency by optimizing seller entry and cross-subsidizing consumers, this efficiency is evaluated at the aggregate level [16]. In practice, however, merchants' margins remain persistently eroded, and survey evidence highlights their precarious financial positions. Thus, even if platforms approximate a social optimum in seller numbers, they do so at the cost of shifting disproportionate fiscal burdens onto restaurants.

3. How Meituan Exploited its Bargaining Power

As an increasing proportion of consumers approach catering services via online channels, or switch from traditional forms to approach these services to online means, catering service providers have no choice but to compete over exposure online just like how traditional restaurants need to carefully select their geolocation to deploy. To achieve this, almost all online delivery platforms offer services for these restaurants to pay a fee to increase their chance of being seen by a customer. Using Meituan as an example, Meituan's exposure ranking accounts for two main factors: Merchant quality—accounting for orders per month, user evaluations and serving speed—and the cost per click advertising price that merchants choose to offer to the platform. As advertising price significantly impacts and directly relates to exposure rates, this directly provides the instrument for delivery platforms to exploit service providers by manually creating a tragedy of the commons that disproportionately impact small and medium enterprises that heavily rely on public exposure.

Also, a recent structural model of platform competition, though focused on the U.S., reveals a key insight: platforms tend to set consumer fees close to the social optimum, thanks to offsetting distortions. But their restaurant commissions are nearly double the socially optimal level, largely because platforms don't account for how more restaurant variety benefits consumers [17]. In China, a new layer of factors were added into the market: Restaurants generally lack alternatives in platform selection due to the overwhelming volume of individual platforms. Interestingly, Meituan did not exploit their cross-subsidy pricing advantage towards customers: They are largely intact, paying the socially optimal price. The reason for this is the high elasticity of demand for consumers, especially Chinese consumers. A Chinese consumer study shows the delivery charge heavily influences user behavior. Specifically, between 2–5 ¥, every 1 ¥ increase drastically reduces willingness to order (OR: 0.435). Users' acceptance peaks when the delivery fee is in the 0–1.4 ¥ range [17].

Although on the customer's end, the platform did not engage in charging a price that significantly deviates from the socially optimum value, delivery fees are also a significant source of unregulated income (unlike commission fees that are regulated by antitrust authorities). According to Meituan's Q1 2025 financial report, on top of the commission fees, Meituan still extracts approximately 25.72 billion CNY in delivery fees—about ~48% of its core local commerce revenue—as part of their income that contributes to profit and covers administrative costs [18]. According to TechNode, several merchants have reported spending around 30% of revenue per order—including commission, marketing, and miscellaneous fees—without coupon subsidies included, which significantly undermined the profit margins of independent small and medium restaurants that have a relatively low profit margin due to the lack of scale [19].

Typically, an average small and medium catering service provider needs to maintain a Gross Profit Margin of 60–70% to earn a net profit margin of 3–9%, the threshold that keeps the firm in the market. But now, with the 30% revenue per order, takeouts may only generate half the revenue compared to dine-in users. But at the same time, takeouts also require a significantly lower number of resources on the restaurant's side. It should not be involved in covering the cost-of-service staff members and other costs designed for dine-in services. Independently, it should be beneficial for restaurants as an independent, “bonus” source of revenue. However, studies indicate that about half of takeout dollars replace dine-in sales—only the remainder represents incremental revenue, suggesting takeouts can cannibalize more profitable on-site dining experiences [20]. Moreover, few restaurants thrive on tight delivery margins—facing 15–30% commission fees eat directly into already slim profits [21]. Finally, while delivery provides reach and convenience, dine-in remains more profitable due to perceived value and order upselling opportunities [22].

4. How Intra-Platform Competition Further Reduced Platforms' Profit Margins

Summer 2025 marked a turning point in the delivery industry: the second wave of subsidy war as Taobao and JD entered the market. To seize the preexisting market shares from Meituan and Ele.me,

combining the fact that Chinese customers generally have a significantly high elasticity of demand, their competition gradually shifted towards becoming a subsidy war: which is a type of price wars that are led by the platform freely distributing universal coupons that could be used in all settled merchants. Such strategy marked great success in the prior competition between Ele.me and Meituan, as it significantly gave play to the advantages that are naturally bonded within the large size and cashflows of the companies. Unlike the prior competition, the widespread and intensity of this competition, to some extent, exploits catering service providers: such coupons are not solely funded by platforms. Investigating 33 catering service providers, Li found that the burden of coupon cost is borne both by the platform and the merchants with merchants bearing 30–70% of the cost and Merchants do not have the right to reject this pricing in any way [8].

Also, such coupons have significantly increased the demand for takeout orders as a whole, as the cost for consumers to purchase these goods significantly decreases, being actual third-party benefiting from the tussle. Merchants, however, suffer from this competition as the already low profit margins have been continuously compressed; in some extreme cases, people can even observe a negative gross profit margin [7]. This is not hard to comprehend, rather, it is a basic, elementary level math question: Originally, the gross profit margin was 70% across the entire catering industry, with the introduction of Takeout orders and the commission fees of takeout orders would take another 30%, leaving the gross margin remaining 40%. As these coupons almost cover the entire costs of the order (e.g. A discount of CNY15 for an order that costs over 20), the phenomenon for merchants to experience a negative profit margin is highly possible and should be statistically frequent. Such abnormal market environment was spotted by the SAMR (China's State Administration for Market Regulation), and the heads of the leading 5 firms have been appointed, but no consequences and antitrust act resulted, which, at the end, did not make any significant difference in the market [8].

At this point, it is not hard to see that the means for delivery service platforms are largely limited to price wars that sacrifice the interest of individual small and medium catering service providers. Also, as profit margins are brought to a significantly low point, this incentivizes some of the firms to reduce cost via ways that may undermine food safety, including but not limited to: substituting lower-quality raw ingredients, shortening sanitation procedures, over-reusing cooking oil, or cutting back on packaging hygiene standards, means that may provide short-term financial relief on the producer's side, but ultimately eroding the interest of the society, and creating a modern presentation of Graham's Law.

5. Conclusion

The trajectory of China's online food delivery market illustrates a cautionary tale of how platform power and hypercompetitive dynamics can distort an industry's equilibrium. While online delivery services initially promised convenience for consumers and incremental revenue for restaurants, the reality has diverged sharply. Monopoly consolidation by Meituan, followed by a destructive cycle of subsidy wars as Taobao and JD entered the market, created a pricing structure that disproportionately transferred costs to small and medium catering service providers. Restaurants, already operating on thin margins, were compelled to shoulder coupon expenses and commission fees that left many unable to sustain positive profitability. In extreme cases, their survival hinged on compromising food quality and safety, exemplifying a market in which short-term financial pressures displace long-term societal welfare.

Rather than balancing stakeholder interests, the Chinese market demonstrates how unchecked platform power and policy inaction can erode trust, undermine industry sustainability, and reduce restaurants to expendable actors. The ultimate beneficiaries of this model are consumers, who enjoy artificially low prices, and platforms, which consolidate traffic and data advantages. Yet the structural fragility it creates is unsustainable. Without regulatory reform and more equitable cost-sharing mechanisms, the industry risks entrenching a cycle where "bad practices drive out good," leaving both restaurants and society at large worse off.

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