

Managing the Dragon Blog Post

An Inflection Point In The Global Electric Vehicle Industry?

By: Jack Perkowski | March 28, 2017

In 1992, when barely 1.0 million vehicles were produced in the country every year, China was truly the land of the bicycle. On a drive along the old Capitol Airport Road into the center of Beijing, one saw every form of transportation imaginable: horse-drawn wagons, trucks, motorcycles, an occasional car---- and hundreds of bicycles! Crossing the street was a hair raising experience in those days, as pedestrians hurried to avoid wave upon wave of bike riding Chinese.

If the thirty or more new bike sharing companies that have popped up over the past year have their way, China will once again be a country where bicycles rule the streets. More than three million shared bikes can now be seen in over forty Chinese cities. From a standing start at the beginning of 2016, there were an estimated 18.9 million bike-sharing app users in China at year end, a number that is expected to triple in 2017.

Bike sharing is not new, of course, and roughly 1000 cities around the world have at least one bike-sharing service. Bike sharing programs are typically sponsored by local governments or corporations, and are relatively orderly affairs. Bicycles are picked up and returned to bicycle "docks" at fixed locations, and the rider pays a meaningful amount to ride. An annual membership in New York City's Citi Bike Program, for example, is \$14.95 (103.2 yuan) per month, which entitles a subscriber to an unlimited number of 45-minute rides, with longer rides subject to extra fees. Compared to taking a taxi, bike sharing is a bargain. In New York City, the meter starts at \$2.50, and increases by \$1.50 every kilometer. In addition to saving money, bike sharing can also save time by enabling riders to navigate Manhattan's congested streets.

China's new breed of bike sharing companies, however, are taking bike sharing to a new level by utilizing a "dockless" operating model and offering unbelievably cheap rental rates.

Dockless bike sharing provides the ultimate in convenience to the rider. Once money is deposited into a user's account through an online payment company, a smartphone app identifies the location of an available bicycle, and enables the user to scan a QR code to unlock the bike. Once the ride is finished and the bike is re-locked, the cost of the ride is deducted from the user's account. Since the GPS system keeps track of the bicycle, the user is free to leave the bike wherever it is most convenient. No need for bicycle docks, and no need for the user to search for one.

Eager to gain market share, and armed with loads of capital from Chinese and international investors not wanting to miss the next big China opportunity, the new bike sharing companies also offer cheap rates. Depending on the brand, 30 minutes on a bike will cost between 0.5 and 1 yuan (\$0.07 and \$0.14). At those prices, a New Yorker would have to ride a bicycle from 100 to 200 times each month to realize a similar cost per ride.

Consumers obviously like the service. In Beijing, using a shared bike is much cheaper than catching a taxi, which costs 2.3 yuan (\$0.33) per kilometer. Beijingers are even choosing to pedal rather than taking public transportation. One Beijing resident

[explained](#) how she takes the bus to work every day, but hops on a bike to cycle back home when she gets off at 5:30 pm. In her own words: "It's about 20 minutes to ride from my office to home, so I only need to pay 0.5 yuan (about \$0.07).....It's cheaper than public transportation."

Growth in bike sharing in China's densely populated cities has taken off because it solves that all important "first" or "last" mile in transportation at a very affordable price. Data [shows](#) that, of the 400 million trips taken on a Mobike, the first of the new breed of bike sharing companies, the typical ride is 1 to 3 kilometers, often between home and the subway, or the subway and work.

Seven new ride sharing companies have raised \$885 million in equity capital from Chinese and international investors over the past six months. Mobike, which began inundating Shanghai with its orange and silver bikes when it launched in April, 2016, is backed by financial heavyweights that include Tencent, Warburg Pincus and Temasek Holdings. In February, Mobike raised \$300 million, and said it has joined forces with Foxconn, which has also taken a stake in the company, to double the number of bikes it will make this year to 10 million.

Meanwhile, Beijing Bikelock Technology Co., more commonly known as Ofo, is backed by such notable companies as Xiaomi, Didi Chuxing, CITIC Capital, Matric Partners, Coatue Management and DST Global. Ofo, with its distinctive yellow bikes, recently raised \$450 million of funding at a valuation of \$1 billion.

While consumers and investors like the new bike sharing startups, they are causing headaches for city administrators. Dockless bike sharing may be convenient for consumers, but it means that bikes are discarded everywhere, clogging sidewalks in major cities like Beijing and Shanghai.

Shanghai authorities recently [seized](#) over 4,000 shared bikes which had been parked illegally on sidewalks and city streets. Complaints from annoyed residents have been increasing. "There were only eightcomplaints in Shanghai in the first half of 2016, but the number rose to 176 in the second half. As of March this year, we have received more than 460 complaints," [said](#) a senior official at the Shanghai Consumer Council. As a result, China's bicycle associations are now drafting guidelines to regulate the industry.

Another major question is the sustainability of the new bike sharing model with its razor thin margins. Bike sharing enthusiasts would do well to take note of the industry's country cousin, China's car sharing industry. Largely inspired by Zipcar, a U.S. company that issues cards to members to unlock vehicles for rent, China's 350 short-term car rental companies are having cash flow and earnings problems, with virtually all in the red, according to a recent [study](#) by a unit of PriceWaterhouseCoopers.

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