



“New Retail” in Action – Issue 7

Going “fresh” and “experiential”

Part 2: Hema Xiansheng – leading the O2O revolution in fresh produce



Asia Distribution and Retail
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Background

Hema Xiansheng is the pioneer in O2O fresh produce retailing and has captured a lot of attention in the “New Retail” era. It was launched by Alibaba Group in 2015 as an O2O fresh food platform, and it is one of Alibaba’s major initiatives in the fresh food market alongside the launch of Tmall Supermarket, Mr. Fresh, and Yiguo.com. Hema’s recent expansion was aided by a US\$ 150 million cash injection administered by Alibaba Group, as Alibaba Group hopes to expand its presence in China’s O2O fresh produce industry.

Hema’s first physical store was opened in Shanghai in January 2016 and it has been speeding up its expansion since 2017. As of August 2017, it has 13 stores in China, 10 in Shanghai, two in Beijing and one in Ningbo. It would then gradually roll out to the tier 2 and 3 cities.

In August 2017, Alibaba reported that Hema's Jinqiao store in Shanghai, the first physical store in the country, has become profitable for the first time.



Photo source: Fung Business Intelligence

Offering great O2O experience

Physical store

Hema's physical stores look very much like traditional neighborhood supermarkets, with a wide selection of products, including fresh produce, packaged food, beverages, snacks, grocery products, imported products and seasonal items. Every item is attached with a RFID tag which shows the information of the product such as price, product origin, manufactured date, and recommendations of similar products, etc. Customers can either pay by Alipay via Hema app or pay by cash; they can also use the self-checkout counters by scanning the code and complete the payment via the Hema app.

Most of Hema stores designate around 15% to 20% of floor space for catering and dining purposes. In some second generation stores, the dining venue occupies as large as 50% of the total area. Consumers can buy fresh produce and seafood in the store and have them cooked in the food booths in-store. The food booths provide a good revenue stream for Hema as it not only collects rents from them but also charges 20% of their revenue as commissions.

A special feature in Hema's physical store is that besides displaying and selling products, the store also acts as a warehouse and fulfillment center for online orders. Some of Hema staff act as "item collectors" – they find and pick up the products, scan them with their handheld device and put them into a thermal bag. The barcode on the product tag enables the collector to get the right products efficiently. The bag will then be hooked onto an automatic conveyor belt and transferred to a delivery center adjacent to the store.

To provide better shopping experience, Hema has organized various events and activities during holidays to engage with customers, such as hosting riddle competition for kids and giving discount coupons to winners, organizing dumplings and pizzas making class, etc. Moreover, Alibaba has launched a membership scheme for Hema shoppers who can sign up with their Taobao or Alipay accounts, enabling them to view and purchase available items from the nearest store.

Hema app

Hema has launched an app which is linked with Alibaba's Alipay. Customers can purchase fresh produce and other products via Hema's app at their fingertips. The items would be picked from the store front and consolidated and packed at the fulfillment center at the back. Delivery service is provided to customers who live within a 3 – 5 km distance from the store within 30 minutes.

Currently, online orders made via Hema app account for more than 50% of total orders. For mature stores like the one in Shanghai Jinqiao, online orders account for as high as 70% of total orders.

Hema app also has a high conversion rate. It is reported that among the users who open the Hema app, the conversion rate for making a purchase could reach 35%.



Technologies and big data

Technologies play a key role in realizing Hema's O2O initiatives. Prices are synchronized instantly between the app and the offline stores. The price tags attached on the products are electronic shelf labels, which enable Hema to easily adjust the price and ensure uniform pricing online and offline. The barcode on the price tag not only could let customers trace product origin and track delivery, but also provide a means for Hema to deploy a smart supply-chain management system.

Hema can track every purchase and gauge the buying preferences of customers. Hema can create a personalized product page for every customer using the app.

Store visit and observation

In our most recent visit to Hema Xiansheng, we went to the store in Shanghai Pudong district on a weekday morning in early September. Located in the basement of Tower 1 Jinqiao International Commercial Plaza, this store is the first as well as the largest store in China by far. Quite surprisingly, the store was crowded even though we visited on a weekday morning. Customers are mostly in their 30s and most of them shopped alone.

The store has a retail area of approximately 1,200 – 1,400 sqm, food and catering area of 600 – 750 sqm and a pick & pack area of around 300 sqm. There is also a fulfilment and distribution area adjacent to store, similar to the size of the retail area.

The store is neatly organized into different sections – butchery, convenient dish, fish and seafood, frozen seafood, dairy & frozen, vegetables and fruits, liquor, drink, snacks, etc. There is also a cart near the entrance displaying mooncakes, traditional Chinese bakery product typically eaten during the Mid-Autumn Festival. As observed, the store sells around 3,000 SKUs, and around 30% are fresh and frozen food.



Butchery section



Vegetables and fruits section



Convenient dish



Seasonal products – mooncakes

Photo source: Fung Business Intelligence

On the day we visited, the live seafood section was one the most popular areas crowded with customers picking crabs, lobsters and razor fish. Most of them took them back home but they could choose to have them cooked in the adjacent food booth.

Located right next to the seafood section, the catering and dining area is clean and spacious. There are a few food counters selling seafood dishes and Chinese food in lunchboxes. Customers can buy seafood in the store and have them cooked in the seafood booth with an additional fee. A few customers were eating there during our visit.

As the store also doubles as a warehouse and fulfillment center for online orders, we heard the spinning and rolling sound of the conveyor belts when we walked around the store. Quite a number of bags were being carried on the overhead conveyor belts which are linked to the backend fulfillment center.



Seafood section



Food booth next to the seafood section



Overhead conveyor belts



Thermal bags

Photo source: Fung Business Intelligence

Comments from Fung Business Intelligence

Fung Business Intelligence believes Hema is one of the best illustrations of Alibaba's notion of "New Retail" – the seamless integration of online and offline, with efficient logistics and big data capabilities. Apart from offering abundant selection of fresh products both online and offline, Hema also uses its physical store as fulfillment center to speed up the delivery process. This is crucial as customers now want products as fast and as conveniently as possible. And with the Hema app, the company can track every purchase made by the customers and create a personalized product page for them on their app. User experience is greatly enhanced through big data.

Hema provides delivery service for customers who live within 3 – 5 km from the store, and the delivery will be completed within 30 minutes. The coverage is larger than the usual 3-km distance offered by other supermarkets. Also, Hema does not set the minimum purchasing value for free delivery, as they focus on gaining more footfalls and market share at the moment.

According to Hema, 80% to 90% of its customers are aged 25 – 40; they have high income and enjoy high quality of life. The product assortment in Hema is carefully selected to suit the needs of the target customers. Fresh food and imported goods are the key. Hema has also started offering private label goods so as to differentiate itself from other fresh supermarkets.

Hema provides great shopping and dining experience for different customers – for those who prefer to eat in-store, they can choose the fresh ingredients in the store and have them cooked in the food booths; for customers who prefer to eat at home, they can have their food orders delivered to them; and for those who want to cook by themselves, they can order fresh food via Hema app and have them delivered to them. This is a revolution to traditional supermarkets.

Previously, Alipay (launched via Hema app) was the only payment method accepted in-store as Hema wanted to gather all consumer profiles and their shopping preferences. However, many customers abandoned their shopping after realizing that they could not pay in other methods. Starting from August 2017, Hema has started to accept cash payment in selected branches. We believe that this move can greatly enhance Hema's customer base as many shoppers may not want to install the Hema app and pay via Alipay.

Hema's first store, Shanghai Jinqiao store, has reportedly become profitable for the first time in August 2017 since its opening in January 2016. This is a truly remarkable achievement for the company as it could reap a profit in the low-margin fresh food business in just 20 months. Also, each of Hema stores has its own fulfillment center, which adds cost to the operation. Thus, we believe Hema's strategic focus on catering and dining is the key to make the store profitable so quickly. Catering, especially in the form self-owned food booths, could generate higher profit margins than the grocery business.



“The future of New Retail will be a harmonious integration of online and offline, and Hema Xiansheng is a prime example of this evolution that is taking place. It is a showcase of the new business opportunities that emerge from online-offline integration.”

Daniel Zhang
Chief executive of Alibaba

Part 1 - Overview of the Going "fresh" and "experiential" can be accessed at https://www.fbicgroup.com/sites/default/files/New_Retail_in_Action_issue6.pdf

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