



A Quick Take from
Blue Book of China's Commercial Sector (2019-2020)

Hypermarkets and supermarkets engage in multi-format operation

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Background

In today's new consumption era, increasing numbers of hypermarket and supermarket chain operators are adopting a multi-format approach to make shopping experiences more exciting. They are also incorporating more technological and experiential elements in-store to enhance experiences. This article illustrates some popular formats launched by supermarket and hypermarket operators, including small-format stores, big-box stores, community supermarkets, membership stores, and many other new retail formats.



*This article is an update of an article published earlier in the **Blue Book of China's Commercial Sector (2019-2020)** ("Blue Book"). Published in October 2019, the Blue Book tracks developments in China's commercial sector to provide a comprehensive and authoritative account of latest trends and issues. Sectors covered include retail and e-commerce, internet finance, logistics and catering. Also included is detailed analysis of China's consumer market and of the changing preferences and behavior of Chinese consumers. It is an essential resource for businesses, analysts, scholars and governments to gain further insight into this fast-evolving sector.*

Please visit <https://www.fbicgroup.com/?q=book/blue-book-china%E2%80%99s-commercial-sector-2019-20> for more information about the Blue Book.

Popular retail formats launched by supermarket and hypermarket operators

Small-format stores

Small-format stores are favored by many hypermarket and supermarket chain operators as small-sized stores can better address consumers' increasing demand for convenience, personalization and fast services. Yonghui Superstores, for example, launched "Yonghui Superstores Mini" in December 2018. With an operating area of around 300-500 sqm, each of the stores sells mainly fresh produce and targets nearby neighborhood. There were 527 Yonghui Superstores Mini stores as of 3Q19, covering 50 cities in China. On the other hand, Freshippo supermarket also launched its own small-format store "Hema Mini" in June 2019. Hema Mini is a small-sized version of Freshippo supermarket with an area of 300-500 sqm, as compared to the average size of a Freshippo supermarket of over 4,000 sqm. Unlike Freshippo supermarket, it does not include an in-store dining area. As of October 2019, there were three Hema Mini stores in China. These stores are mainly located in more remote areas and lower-tier cities.



Photo source: Xuahua.us, Sohu

Recently, increasing number of retailers have also launched small-format stores to diversify their business. Some retailers have also used their small-format stores to test digitalization. For instance, Carrefour opened a small-scale concept store in WF Central in April 2019. With an operating area of approximately 720 sqm, the store is highly digitalized, featuring some advanced in-store technologies and applications such as “scan and go” facilities and mobile payment.



Carrefour in WF Central, Beijing



Self-checkout machine in Carrefour

Photo source: China Business Herald

Besides, some retailers have opened small-format stores in local communities to provide fast and convenient services to neighborhood residents. For example, JD.com’s “7FRESH Life” which was launched in December 2019 in a residential area in northern Beijing. Targeting communities and neighborhoods, the store – with an area of 300-400 sqm – operates around the clock; it is a combination of a restaurant, fresh food store and convenience store, providing more than 3,000 types of fresh food, daily groceries, ready-to-cook and ready-to-eat food. There is also an in-store dining area. Customers can also place orders via 7FRESH app; online orders are be delivered to customers who live within 1.5 km of the store as fast as 30 minutes.



Storefront of 7FRESH Life



Ready-to-eat food inside 7FRESH Life

Photo source: 7FRESH Life

Quick comments:

Compared with large-sized stores, the costs of operating small-sized retail stores are relatively lower. It is a good way for supermarket and hypermarket operators to penetrate communities and test new initiatives.

Big-box stores

Some retailers, on the other hand, have opted for setting up big-box stores to provide better customer experiences. China Resources Vanguard is such a case. It opened its first new retail format “CR Vanguard Mart” in Suzhou’s Xinqu district in November 2019. With a store size of around 5,000 sqm, CR Vanguard Mart (Xinqu store) focuses on enriching consumption scenes, refining product categories, increasing the spaces dedicated for fresh food and fast-moving consumer goods and establishing more experiential spaces, in a bid to enhance shopping experiences and provide a wide variety of services to customers. It also hopes to leverage offline consumption scenes and themed online sales and marketing campaigns to meet the personalized needs of consumers.



CR Vanguard Mart storefront



Inside CR Vanguard Mart



Self-checkout machines in-store

Photo source: CR Vanguard Mart

Quick comments:

Retailers should evaluate the synergy between these big-box stores and its own core business, and make sure the products and services they offer suit the needs of consumers.

Community-based shopping centers and supermarkets

Recently, the “community supermarket” phenomenon is gradually taking over the “fresh food supermarket” phenomenon which has dominated the market in the past few years. Increasing numbers of incumbent supermarket operators have opened new types of community shopping centers/ supermarkets to offer diverse services to community/ neighborhood residents. For instance, CP Lotus opened its new retail format “Lotus Plaza” in Wuxi in December 2019, which is a community-based shopping center integrating retailing, leisure, culture, entertainment and fitness elements. With an operating area of nearly 40,000 sqm, Lotus Plaza houses over 80 well-known brands including its own CP Lotus supermarket. It also leverages various digital technologies such as artificial intelligence system and membership management system to improve customer engagement.



Opening ceremony of Lotus Plaza

Food counters inside Lotus Plaza

Photo source: Linkshop

Another example is domestic supermarket chain Beijing Chaoshifa. It launched a number of “community e-centers” in Beijing in 2019. These community e-centers provide “8+N” services to residents, i.e. eight basic functions – offering fresh food and breakfast, serving as a convenience store, providing housekeeping services, salon services, bill settling services, courier services, as well as “N” selected services according to the needs of local communities.



Storefront of Chaoshifa community e-center

Hair salon, watch and mobile phone repair counters in-store

Photo source: Linkshop

Meanwhile, some retailers have tapped the community supermarket format to compete with wet markets in residential areas. In May 2019, New Huadu Supercenter and Taoxianda, an O2O delivery platform under Alibaba, jointly launched a new brand “Linju Market” in Quanzhou. Unlike traditional wet markets, Linju Market is a one-stop community supermarket which combines the function of supermarket, wet market and catering services. Consumers can buy products in-store, or they can place orders through Taoxianda app and have the orders delivered to them in one hour if they live within a 3km radius from the store. It also offers hair salon services to consumers.



Photo source: Linkshop

Yonghui, on the other hand, is transforming some of its “Yonghui Life” convenience stores into community fresh food supermarkets. It has reportedly shut down around 40 Yonghui Life stores in Xiamen and Hefei, but announced plans to add new neighborhood stores. The new stores will have a larger operating area with enriched the fresh food offerings.



Photo source: Jiemian

Quick comments:

Community retailing is the next big thing in the supermarket and hypermarket sector. Operators must understand and anticipate the specific needs in communities, and provide relevant products and services accordingly.

Membership stores

Paid-membership stores, which usually provide deeper discounts and better services, have attracted the attention of many consumers. Eyeing the opportunity, Costco, the U.S. members-only big box discount retailer opened its first store in China in Minhang district in Shanghai in August 2019 and drew large crowds of visiting shoppers. Running on a membership business model, Costco requires a membership card for all purchases. It currently offers two types of memberships – gold star membership and business membership at the same fee of 299 yuan per year; the membership card can be used at any Costco warehouse store worldwide. Its unique business model also provides insights for retailers hoping to tap the membership store sector.



Shanghai Costco storefront

Photo source: Reuters

Walmart's membership store Sam's Club has also accelerated expansion in China and announced its plans to have 40 stores by end-2020. Since 2018, it has also added Sam's Kitchen and Sam's Café to provide regular cooking courses and on-site food services to consumers. As of November 2018, Sam's Club has over 2.2 million members in China.



Sam's Club storefront

Photo source: Linkshop

Quick comments:

The membership model is set to see huge development potential as Chinese consumers are increasingly more willing to pay for better products and services. That said, they are still not very used to buying groceries in bulk.

Stores that act as store-front warehouses

Some hypermarket and supermarket operators have built “store-front warehouses” (warehouses that are located near retail stores to support speedy last-mile delivery) to enhance delivery efficiency and extend customer reach. As an example, Yonghui Superstores launched a few “Yonghui Life Satellite Warehouses” in Suzhou in August 2018; these warehouses are all located near its stores. With a size of around 400 sqm, each warehouse handles thousands of SKUs of fresh products and daily products. Customers can place orders via Yonghui Life app or WeChat Mini Program; the products will be shipped from the nearest Yonghui Life Satellite Warehouse to the designated address. As of June 2019, more than 30 Yonghui Life Satellite Warehouse were in operation; 23 of them were located in Fuzhou.



Photo source: Iyjiou

Rainbow Supermarket also opened its first Shahe “store-front warehouse” in Nanshan district, Shenzhen in September 2019. Over 3,000 types of products, including fresh food, beverages and liquor, and daily utilities will be delivered to the warehouse before dispatching to the end customers. Customers can place orders via “Red Scarf”, Rainbow’s mobile app and its WeChat Mini Program “Tianhong Daojia”. According to Rainbow Supermarket, the Shahe warehouse aims to provide one-hour delivery service and other conveniences for people living within 3km from the warehouse.



Photo source: Linkshop

Quick comments:

Setting up store-front warehouses is an effective way to improve last-mile delivery. However, this involves huge investments. Connecting and collaborating with third-party delivery platforms would be more suitable for smaller scale operators.

Other retail formats

Apart from the retail formats mentioned above, there are other innovative retail formats coming on the scene in the supermarket and hypermarket sector. For example, in December 2019, JD.com launched a new retail format “Seven Fun” in Galaxy Soho on the second ring road of Beijing. With an operating area of 1,000 sqm, Seven Fun targets mainly white-collar consumers. Besides selling groceries and other daily necessities, it also offers breakfast, lunch, afternoon tea, dinner, snacks, wine and drinks, and provides other daily life services such as laundry services and mobile phone charging services; furthermore, it has large space for party and seminars.



Seven Fun storefront



Wine corner in Seven Fun

Photo source: Linkshop

Similarly, Freshippo supermarket also launched its “Hema F2” stores in office areas in business districts to focus on white collars, while YH Super Species opened stores in airport, featuring dedicated areas selling special products such as local souvenirs targeting travelers at the airport.

Comments from Fung Business Intelligence

Facing the fierce competition in the hypermarket and supermarket sector, operating in multiple retail formats seems to be a way out for hypermarket and supermarket operators. As observed, most of the new retail formats that hypermarket and supermarket operators have tapped into are related to their core competencies – sourcing and distribution of fresh food, FMCG, and other daily necessities – but target different consumer groups or have different operating scale. Going nearer to neighborhood is also trending. Hypermarket and supermarket operators should understand and anticipate the needs of consumers in different local communities and tailor products and services for them. They should strive to differentiate from other formats such as convenience stores as some products and services may overlap with those offered in nearby convenience stores.

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