

Research on Online and Offline Integration after COVID-19: A Case Study from a Chinese Grocery Store

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ABSTRACT

In this post-COVID era, the online and offline integration of the consumer product market conforms to the climax of consumer social interaction and covers more segments. This is a growing trend. A case study through an identical China smart grocery called Freshippo (HEMA) was conducted relating digital tools, online channel in-shop consumption, and community building aid by smart technology. The analysis provided support that digital technology became even more important in today's consumer product market as it creates new social space for consumers and brings in higher efficiency and new consuming scenarios for retailers. This instrument is shown to be suitable for retailers to pace up in adapting digital technology to meet consumers' needs in this post-COVID society.

Keywords: Post COVID-19, Smart retailing, Online and offline integration, Freshippo

1. INTRODUCTION

In 2020, the outbreak of COVID-19 occurred during the Spring Festival holiday in China. The shutdown of logistics, the spontaneous self-isolation, and the worry about offline shopping have led to the obvious growth of online fresh consumption, especially for short distance transportation, which has become the focus of the retail industry when the pandemic is most serious.

In 2017, the first Freshippo ("HEMA") opened, marking the official launch of Alibaba's smart retail concept. Smart retailing is a new business model that traditional enterprises, supported by modern technologies such as big data, cloud computing and supply chain network, rely on the Internet and transform to provide better consumer experience. In 2020, Freshippo's headquarters was established in Shanghai, which also marked the further maturity of Alibaba's proprietary grocery retail chain.

After the outbreak of COVID-19, many Internet companies carry out retail business, and reach more

consumers by creating multiple brands and different consumption scenarios. Figure 1 shows the phenomenon of peaking with the growth of internet flow. Fresh food grocery because of its high-frequency rigid demand characteristics, has gradually become the breakthrough of online and offline integration comprehensive product. The construction of offline consumption scene has also become an important business display window for Internet enterprises.

Retailers need to adjust their strategies as soon as possible and use smart technologies to empower companies in terms of efficiency, multi-channel, transparent internal management, and high customer relationship stickiness[1]. Freshippo will be a case to explore how the Internet enterprises in the retail industry to do online and offline industry integration in order to cover different segmentations, occupy more market shares and improve customer loyalty. Smart retailing is one of the most important topics and research directions in China's retail industry. This paper will provide more industry insights into the future of China's new retail industrial through the case study of Freshippo.

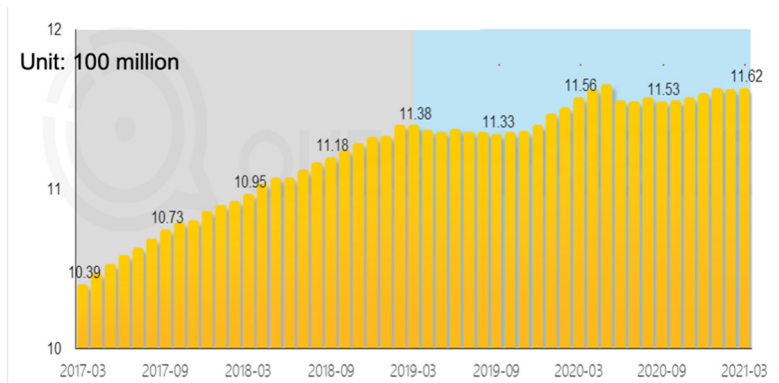


Figure 1. MAU(Monthly Active User) of mobile Internet users in China [2]

2. ANALYSIS OF ONLINE AND OFFLINE INTEGRATED OPERATION MODE OF FRESHIPPO

2.1. Timely and transparent information system to break through the barriers of stores and online transactions

The most important flow entrance from Freshippo to consumers is its APP. Consumers can achieve a variety of purposes through the APP in stores. In order to ensure customers' consumption experience of fast purchase and fast checkout, Freshippo APP can help users make fast self-service checkout at each transaction window. At the same time, if no staff can be found in the store, consumers can scan the App to verify the real-time price. Meanwhile, Freshippo has introduced the electronic price tag system through the application of big data platform, which provides a more convenient and efficient price adjustment system for itself in price management. For example, Freshippo employees only need to adjust commodity prices in the backend and synchronize online and offline prices, so that there is no time difference and deviation in price adjustment. This means that the price information obtained by consumers in the store, whether through the app to query the commodity price or through the on-site electronic price tag, is consistent, open and transparent. At the same time, consumers can quickly query the current promotion activities through apps, such as buy one get one free, etc. This means that customers entering the store can quickly obtain relevant information by querying the promotion activities of the day before or after entering the store, and make purposeful purchases in the store.

In fact, this digital consumption model not only helps Freshippo save some labor costs, but also reduces the contact between people and store staff, and protects the safety of consumers and stores to a certain extent under the pandemic. In addition, the use of APP has effectively broken the online and offline transaction barriers. For consumers entering the store, Freshippo no longer needs to get the attention of consumers through large leaflets and a large number of personal promotion in the store like

traditional supermarkets. At present, young consumers do not like the consumption mode followed by others. They prefer leisure and pressure-free independent consumption mode. Therefore, open and transparent information transmission online and offline will help young consumers, that is, the current target customer group of Freshippo, have a better in store consumption experience and provide a more relaxed, pleasant and independent pressure free consumption environment.

Consumers will show more trust and be willing to spend more money in the face of a transparent and open consumption system. Also, 'visitors with a purpose' can only represent a small number of offline consumers, but they can bring more revenue to the enterprise[3]. Therefore, since Freshippo APP can query more categories and products' information more quickly, it will help Freshippo cultivate more purposeful consumers, promote their consumption level, and prolong their consumption time in the store. This is because APP can break through the limitations of time and space, remind customers to realize more products outside their original shopping plan, and add them to the shopping list. It may even provide the motivation for secondary consumption after the customer checks out or before he plans to leave the store, that is, the consumption time to quickly check deficiencies and fill gaps.

2.2. Hot processed food: Two ways to support the consumption scenario from online consumers

Figure 2 showed, as of the first quarter of 2021, Alibaba's online-to-offline retail brand Freshippo owned 251 physical stores, increasing from 135 stores in the 1st quarter of 2019. During this period, Freshippo provides additional social shopping scenes by adding in-store hot food areas, catering areas and joining third-party snack shops in its stores, which has a strong appeal to consumers in this post-covid time in China where social control still exists. At the same time, Freshippo's in-store fresh food will also appear on its delivery platform, allowing nearby customers to order hot food from the store within 30 minutes online. The timely service from Freshippo brings higher service potential for consumers.

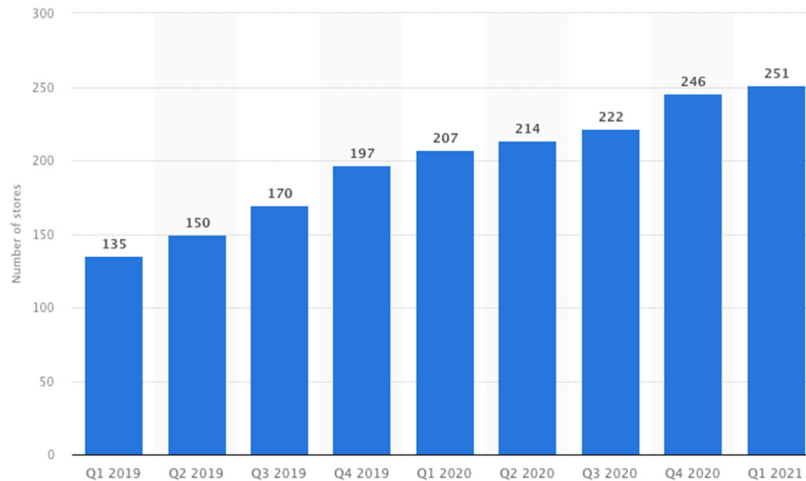


Figure2. Number of Freshippo stores operated by Alibaba Q1 2019-Q1 2021 [4]

There are three main features of the hot food area in Freshippo stores: large area, limited types of self-owned products, high-quality food with a relatively high price. First of all, Freshippo attaches great importance to the hot food area as the core of its store differentiation strategy. The area of a single store accounts for nearly 40% (take a store in a district in Beijing as an example). Open commodity areas such as cooked food, hot food, in-store snack shops and bakeries are arranged around and dedicated service personnel are provided for each area. This brings in a specialized service area and related process to the customers. Secondly, in terms of its own products, Freshippo mainly aims to optimize the quality using its own supply chain products, and reduce the daily retention rate of fresh products. Freshippo provides about 10-15 main food products in the hot food area, and supplements other food products in 4-8 in-store stores. In this way, Freshippo is very cautious about controlling its operating complexity by reducing the overall range of hot food product it can provide within a shop.

In terms of quality and price category, Freshippo tries to maintain high food prices, but acceptable for using the high-quality raw materials that are also provided in the shop. Freshippo further provides the hot food choice on its online application channel. Participating in consumer-generated advertising has a positive impact on the loyalty and trust of brand customers and non-customers [5]. Freshippo extends the original retailer role into social interaction platform. For example, consumers can write contents related to Freshippo hot food on China's mainstream social platforms, such as review posts, so as to further enhance the social popularity of Freshippo's self-catering hot food. Finally, it is clear that Freshippo has opened up a whole new social space for consumers through the in-store dining area, whether it is a daily family meal or a friend interaction. As in all, Freshippo creates both online and offline social interaction space for consumers through providing an in-shop hot food catering area.

2.3. Freshippo Linli: from food product focus to community building

Since 2017, Freshippo has developed a variety of store formats including: Freshippo Mall, Freshippo Mini, Freshippo F2, Freshippo Farmers' Markets, Freshippo Station, Freshippo Pick 'n Go, Freshippo X stores and Freshippo Linli. In fact, some of these formats have tried to adopt the light asset model, but they are still focusing on the continuation as a supermarket. Therefore, the new store format - Freshippo Linli that Freshippo is trying to promote actually represents that Freshippo will use an asset-light form to push forward preorder warehouse model to serve the community in a closer geographical factor, and truly solve the "last kilometer issue" of the supply chain. The Freshippo Linli is mainly based on the self-pickup model. The "ultra-small preorder warehouse" in the community also greatly reduces the labor cost in the supply chain and the use of delivery personnel. In addition, Freshippo Linli also reduces the cost of shopping for customers outside the distribution range of the Freshippo Mall, including travel effort and related time to the store. Such a model reaches more consumers and helps Linli brand to cover more segments, especially those middle and old consumers who are not particularly familiar with online shopping.

In essence, Freshippo Linli is another form of community group buying that is in full swing in China. Its service mode is still through online APP ordering and next-day self-service pick-up points. The goods purchased are mainly fresh food, fruits and vegetables and aquatic products. Differentiation strategy can help online retailers obtain pricing power [6]. As a new concept online-offline retailers, Freshippo attracts customers to pay more premium for their higher quality food. This service mode just fits the current situation that Chinese families buy these products steadily every week. At present, Chinese families buy fresh food 3 times, fruits

and vegetables 4.5 times and aquatic products 2.4 times per week. This means that the daily penetration rate of households through traditional supermarkets or community shopping outlets such as Freshippo Linli can reach about 65% (in the case of fruits and vegetables). Therefore, an online purchase and offline pickup model undoubtedly has great potential to occupy a share from the traditional supermarket. Specifically, the current Online e-commerce in China accounts for the entire commodity retail market penetration rate of about 35%, of which the penetration rate of fresh e-commerce is only 6.9%, so fresh food e-commerce undoubtedly has a great space of penetration rate climbing potential. The realization of it is undoubtedly based on the establishment of online retail channels combined with effective offline delivery coverage. One of the most direct business models born out of this commercial reality is undoubtedly Freshippo Linli.

The offline stores of Freshippo Linli are the most distinctive part of its business model value chain. Specifically, it has three major features: cost reduction as the core, store diversification, and simple standardization of service. In terms of cost reduction, Freshippo Linli mainly choose the locations with the lowest rent cost in the same geographical area, even though these locations are not in the traditional area that with higher potential attractiveness to customers like shopping malls or commercial street. Secondly, the single store area is small with an average space of 8-10 m², and without new decoration inside. Moreover, its shelves, seafood tanks and other storage settings are all using the lowest cost types under the operating conditions, and the overall quantity is reduced to only meet the demand of goods on the day. For example, sea water, river water and ice for products are provided by the same-day delivery truck, and there is no corresponding production and manufacturing equipment in the store. It also eliminates the need to meet a series of rigid store environment and food safety standards required from the government for Chinese retailers to operate in their stores. The Freshippo also welcomes all forms of a joint operation in its local stores depending on the individual needs to reach out to more geographical areas. Finally, in the aspect of service mode's standardization, Freshippo posts simple partition management process and management standards in each section of the store to ensure that the operation personnel can maintain a relatively standard service process.

3. CONCLUSION

Digital transformation has become an important part of retail companies in the post epidemic era, and the joint development of online and offline has gradually broken the space and time constraints for the retail industry. Through the open and transparent linkage development of online and offline information system, supported by digital technology, the digital operation and digital

supply of Freshippo have saved costs, improved the efficiency of resource allocation, and made a typical case for the retail industry in the post epidemic era. At the same time, Freshippo continues to expand its business format by creating a diversified consumption scene in the store and the community. The application of community ultra-small preorder warehouse also provides a new consumption scenario for the target consumers of Freshippo, which also helps Freshippo achieve rapid consumption transformation.

The case of Freshippo branding also provides insights for other retailers. Retailers should not only pay attention to the application of digital technologies in enterprises, but also closely combine digital tools with consumers' needs. Consumers have more diversified shopping channels and richer shopping decision-making factors. Businesses naturally need to keep pace with the times and improve their differentiation strategy and services. The shopping scene of consumers will not be limited to the stores and common online consumption channels. The recommendation guide of key SKUs on online platforms, the transformation of KOL recommendation and retail sales will become the topics that retailers need to focus on in the future.

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