

# An Insight into How Companies' Structures are Influenced by Domestic Environments

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## ABSTRACT

This study aimed to understand how domestic environments influence companies' structures. A descriptive research design was adopted to analyse the difference in the business model between Whole Foods Market and Fresh Hema. The research was conducted from offline functions, data management, customer analytics, and advertisement. The results revealed that business model and business ethics would be affected by customer preferences, domestic regulations, and internet development.

**Keywords:** *Descriptive research, Business mode, Business ethics*

## 1. INTRODUCTION

### 1.1. Purpose of Research and Its Mission

"O2O" is an e-commerce business model that combines online and offline opportunities. In other words, the model constructs two business units of a single retailer [1]. In this online to offline model, customers can gather commodity information, process payment online, and then pick up products or enjoy offline services. Applying online promotions and marketing with offline transactions and services allows a closed loop to form that contains timely information, capital flow, and efficient logistics [2]. With the significant development of e-commerce business in China, this paper will focus on the relationship between companies' business modes and the domestic environments.

### 1.2. Business Mode of Fresh Hema

While most grocery retailers attempted to build their online platforms, Alibaba's Fresh Hema has already developed a distinctive online end involving customer participation, defining target customer groups, and reducing supply chain constituents [3]. Its mobile application serves to filter users, process exclusive payments (Alipay, in-app), and allow customers to access the store's inventory instantaneously. More

importantly, the company implements its unique strategy of "scene-marketing". To illustrate, customers can see real-time products being displayed in the store on the mobile app, sometimes even those products in the store but not on the shelves [4]. In addition to allowing customers at home to gain the experience of shopping in-person, Fresh Hema also provides a free 30-minute delivery service for customers within a 3-kilometre radius from the store [5].

What is more, according to Fresh Hema's mobile app, customers can even purchase ingredients online and choose to dine in a physical store. After doing this on the consumer end, the store would hand ingredients to chefs in the dining area (also located in-store) to process them. Thus, customers that order in advance remotely would not have to wait in lines in an actual store in order to enjoy cuisines. Online customers enjoy certain privileges that offline customers do not, while each end receives nearly the same shopping experience, which is the core value of "scene marketing". With all these endeavours, Fresh Hema's goal is to attract all their customers online to enjoy quickness and convenience while contributing to Alibaba's online database that constantly analyzes customers' purchasing habits. Thus, the company will effectively recommend, promote, and advertise [5].

### 1.3. Business Mode of Whole Foods Market

On the other hand, Amazon's Whole Foods Market regards its online functions differently. Unlike Fresh

Hema's major endeavour to push customer flows online, Whole Foods is believed to be focusing more predominantly on its offline store services. Firstly, however, it is a necessity to consider its online platform development with the influence of Amazon. Currently, the grocery retailing industry has been mainly tied to brick-and-mortar stores in the US with slight online expansion. However, Amazon's Whole Foods bets that fresh grocery delivery is the wave of the future, thus combining its delivery and pickup services with Amazon Prime [6]. More importantly, Amazon Prime is the only option for customers to order Whole Foods groceries online. To specify, customers will have to log onto the Amazon site first and then order Whole Foods delivery or pickup. As demonstrated on Whole Foods Market's section on the Amazon site, the perks of using Amazon Prime includes 10% off on sales items, grocery delivery and pickup, and 5% cashback with Amazon Prime Rewards Visa Cards. By doing these, Amazon has made its purpose clear: get Whole Foods customers to subscribe to Amazon Prime services. With this move, Amazon can promote its products through this platform, especially its artificial assistant, Alexa. According to the official website of Amazon, customers can vocally command Alexa to create a categorized shopping list with regards to the Whole Foods inventory. Afterwards, customers can either command Alexa to process the order to delivery or pickup or have the shopping list displayed on Amazon's mobile app, thus saving time visiting the store with this premise. As argued by Fink, Fuhrmann, and Zhang (2), one of the traits that American consumers have is the habit of browsing online first and then purchasing products in person. Amazon's online Prime promotion will accelerate its ability to analyse purchasing habits and make quick adjustments using customer feedback.

## 2. FACTORS INVESTIGATED

### 2.1. Offline Functions

Fresh Hema takes a brand-new approach different from the traditional grocery retailers when it comes to its physical stores. According to Fresh Hema's CEO, Yi Hou, the company's physical stores are meant to solve the issue of brand identity and help with customer retention. As investigated, more Chinese consumers tend to look up products or services online first, then shop in-store; otherwise, they would visit the store beforehand and shop similar items online [4]. More remarkably, the company sees a significant percentage of customers aged 25 to 35 years old who are not sensitive to pricing. Instead, they value the shopping experience and the quality of products they receive [7]. Thus, Fresh Hema defines its physical stores as providing new experiences and attracting customers to the company's online end [7]. Various events occur in physical stores, such as wine tasting and cake making [4].

Additionally, its retailing and dining services combined refreshes customers' minds. In Fresh Hema's first store at Jin Qiao Plaza, customers were amazed by the experience of buying seafood in the retail section and immediately getting ingredients cooked in the dining area [7]. During this process, employees would direct customers to download Fresh Hema's mobile app, sign up for membership, and finally pay using Alipay [5]. Notably, members can pay as they shop as stated on its app. In other words, previously registered online users do not have to wait in lines to check out. They can pay independently using the application. Such experiences secure the quality of products and services delivered to its young consumers who are open to new concepts and innovations [8], eventually aiming to attract every customer online.

However, whole Foods Market's primary focus is on its physical stores. Under the premise of its promotion of Amazon Prime, Amazon can use Whole Foods Market locations as its physical outlets. According to Chu (1), with its move into the O2O retailer industry, Amazon will have more locations for Prime members to pick up fresh food or return Amazon products, integrating in-person end of the online purchase, connecting Amazon's massive inventory with Whole Foods Market's storefronts. More interestingly, according to Amazon's website, some Whole Foods stores in the United States now have lockers to store Prime members' packages for them to pick up afterwards. Amazon's strategy of acquiring physical spaces means they can use them to even further set up each as partial distribution warehouses [9]. In summary, Amazon's Whole Foods is generally committed to utilizing its physical stores as spaces for Amazon Prime development. However, whether to develop different online platforms is up to Amazon.

Henceforth will assess the different aspects of Fresh Hema and Whole Foods Market's online and offline platform functions.

### 2.2. Data collection & Customer analytic

Whole food and Fresh Hema are both FMCG companies (Fast moving consumer goods); most of their products in the store are sold daily. In the Fast-Moving Consumer Goods (FMCG) sector, data is critical in retaining customers and getting new business due to the low-profit margins. These businesses need to understand and target their audience appropriately. Data analytics takes advantage of the valuable data generated by consumers whenever they purchase items, be it offline or online. This data paints the customer profile. With the frequent purchases happening in supermarkets, these businesses will see patterns in shopping behaviour to leverage. Knowing what customers buy their products from, their spending behaviour, and purchase habits, allows supermarkets to create well-targeted marketing

promotions and offers that appeal directly towards what customers want; this draws them back to their stores for future purchases. Data analytics also allows these supermarkets to gauge the effectiveness of their marketing campaigns and overall profitability.

### 2.3. Data management & Innovations

Wholefood originated In Austin, Texas, in 1980. As an all-organic supermarket, Wholefood focuses more on offline presentation. In the United States, citizens prefer shopping for groceries more traditionally. " It was conducted by Gallup who found that 46 percent of the U.S. public shop for groceries in person at least once a week while 37 percent do so more than once per week. The public has a minimal appetite for online grocery pickup and delivery services though with 88 percent of those polled saying they have never availed of them. ". Wholefood had the objective of eliminating complexity and letting the customer know exactly what they are purchasing. So Wholefood created an amazing in-store experience for the customers, collected customer preferences and adjusted sections in the store accordingly. According to the customers, John Mackey, the CEO of Wholefood, said Wholefood is making many innovative ideas. For example, a store in California opened a bar in the wine section of the supermarket. "It was hugely successful, and that bar started selling more beer every week than we were selling in seafood in the store for a while," said John, and other Wholefood stores soon adopted this innovation as well.

Hema is a relatively young company that originated in Mainland China. As an Online to offline company, Hema is known for its fast delivery system and freshness. Hema has placed in Cookie to analyze customer views and give recommendations to promote efficiency. In addition, Hema has established a customer information database on the sales side through APP, WI-FI probe, electronic radio frequency, and other technologies, which can obtain customers' age, gender, shopping preference, purchase frequency, evaluation, and other data. They provide these data to the store operation team and the buyer team to understand what the store needs to replenish, when to fill it, and how to deliver it accurately.

### 2.4. Advertisement & Brands

Both Alibaba and Amazon see the supermarket business as a new way to increase customer steam. However, Wholefood and Hema provide a different opportunity to the two companies, a prospect that involves the supplier of the products.

Wholefoods mission statement involves

selling the highest quality natural and organic products available,

caring about our communities & our environment,

creating ongoing win-win partnerships with our suppliers.

Wholefood has to have very safe and robust suppliers of products. International third-party brands to fulfil all these missions. Suppliers such as Agritalia, duBreton, and Vital farm. For these international third-party brands to sell and promote their products through Wholefood, they must pay an advertising fee.

"(Supplemental financial information and business metrics)/In millions."

Amazon's fastest-growing revenue division is its other category, mainly its advertising business. It grew 95% in the fourth quarter of 2018 and increased 10.1 billion starting from 2018 (One year after Amazon purchased whole food.)

Although Amazon has other business platforms, the advertisement fee collected from the Wholefood market contributed to this dramatic increase.

Fresh Hema brands most of its products. It has this brand called Daily fresh. Daily fresh ensures the freshness of the product. Instead of collecting third-party advertising fees, it focuses mainly on exploiting the brand under its own company. Because "Daily Fresh" is only sold for one day, Hema saves a lot of fresh-keeping and packaging and significantly reduces costs. Hema will use precision advertisement and other methods to handle the backlog of single products at the level of loss prevention. For example, if there is a problem with the order one day, a few servings of 200 grams of pork cannot be sold. Regular supermarkets usually use discounts, but the number of customers in the store is limited, and there will be losses. Hema will use big data to screen out customers interested in pork consumption and push a discount message to him, which can be processed in a few minutes. With Alibaba's powerful customer data supply, Hema's product surpasses most suppliers. Since Hema centres on Freshness instead of Organic, it does not depend heavily on international third-party brands. At the beginning of this year, Hema has launched more than 20,000 new products, of which more than 6,000 are Hema's brand products. It claims its latest product iteration speed is 3 to 4 times faster than the industry.

### 2.5. Payment for Startups

Online payment of Alipay on the Hema app is the only option to check out in Fresh Hema online from the Hema app, and at the retail store, other forms of online payment like Wechat are not allowed. Therefore, offline in the retail store, the salesman will guide customers to download the Hema app. Cash is accepted but not promoted, and the cashier will pay for the customer on their own Hema app.

The benefits online payment brought to Fresh Hema included improved customer check-out speed at the retail store. It has also reduced potential costs and errors that the accountant keeps manual accounts; transactions will be recorded safely and accurately. Furthermore, Alipay is a great tool to collect customer information because the Hema app or Alipay enables Fresh Hema to relate every purchase to the customer account, and the Hema app customer download at retail attracts offline customers to shop online. Online payments also provide finance to keep potential customers, which will later be discussed in detail.

With Whole Foods, they accept cash, electronic food stamps (EBT), Apple Pay, major credit and debit cards, Whole Foods Market gift cards, Visa, American Express Mastercard gift cards, and Amazon Prime. This wide variety of payments will favour many customers. However, it is not efficient, and errors will occur.

Fresh Hema can only accept Alipay is mainly due to China's domestic environment trend. In 2020 China's online payment users hit 1 trillion. No other country matches China's online spending score at this point. This figure puts China as equivalent to the world's 16th largest economy today 18.9% of them prefer third party payment and 51% of third-party payment market users use Alipay. Therefore, it is possible for Fresh Hema only to accept Alipay in China and still be successful.

## 2.6. Customer Retention

Online payment hooks out customer retention. Whole Foods was bought by Amazon in 2017 and said that it typically has hundreds of sale items in stores that will be eligible for the additional 10% off with Prime membership. New and exclusive deals will rotate weekly. Furthermore, other benefits like a coupon keep Amazon users consuming Whole Foods.

Fresh Hema offers a similar membership to keep long-term customers seeking the benefits. Another way to retain customers is by offering Huabei in Alipay. Huabei works like a credit card since, in China, not many people have credit cards due to strict regulations compared to the US, with the credit card being the most common way to obtain a loan. According to statistics in 2019, the number of credit cards held per capita in China is only 0.44, compared with about 6 per capita in the US. Therefore, Ali's Huabei takes on the Chinese loan market with 49.3 per cent being post 90s young people: target customers of Fresh Hema, according to iResearch data. By May 2019, the users are mainly 31-35 years old. The consumption scene of this group has gradually changed from take-out to home cooking, and the demand for fresh commodities has increased.

Users over the age of 41 accounts for the least, which may be because Fresh Hema only supports Alipay payment mode is too tricky for middle-aged, and older

adults; And the products sold are relatively high-end, and the consumption view of users in this age group is not highly compatible, so there are fewer users in this age group. Huabei on Alipay and Hema app provides finance to these target customers when they cannot afford weekly or monthly expenses at Fresh Hema. This keeps potential targeted customers in freshh0ema and feeds Alibaba's ecosystem.

## 3. BUSINESS ETHICS

### 3.1. Social Responsibility at Startup

Hunger is murderous. In the developing world, approximately 30% of the population—infants, children, adolescents, adults, and the elderly—is now suffering from one or more of the various forms of malnutrition (WHO). Surprisingly, 1 in 7 kids in America suffers from childhood hunger.

Whole Foods Market was involved in the No Kid Hungry campaign to stamp out childhood hunger by 2015. When customers use their American Express® card at their stores, 10 per cent of the Whole Foods Market purchase will be donated to Share Our Strength. On the other hand, Fresh Hema pours many foods such as seafood and drinks after 9 pm to keep their merchandise fresh. The difference is clear: Whole Foods Market places a significant priority on sustainability and social benefits, whereas Fresh Hema focuses solely on the freshness of its products at the expense of dumping foods.

Approximately 95% of all food is directly or indirectly produced on our soil. With fertilizers and pesticides from agriculture, soil degrades rapidly. In turn, the world food supply chain will be disturbed. Human beings are ruined by the agro-industrial approach as it has already made a billion people go hungry, drastically reduced biodiversity, and almost destroyed the ecosystem [10]. Ultimately, the vicious cycle of environmental deterioration and world hunger will proceed.

Fortunately, people in the United States have become more aware of environmental protection. Regardless of people's views towards environmentalism, 89% of Americans recycle everyday objects such as newspapers and glass [1]. Since 2016, 41% of Americans have identified themselves as environmentalists who oppose the high yield of foods at the expense of polluting soil, the primary source where foods grow [11]. In addition to concerning the environment, they also worry about people's health after consuming those foods. Being an environmentalist, therefore, has become a trend in the US. As a result, Whole Foods Market follows the trend to establish a strong brand and make more profit at startup. Rather than selling foods "contaminated" by antibiotics that increase food yield, merchandise in

Whole Foods Market must be “free of artificial preservatives, colors, flavors, sweeteners, and hydrogenated fats” [12]. Unlike Fresh Hema, organically grown foods are what Whole Foods Market seeks out and promotes.

At the startup stage, Whole Foods Market only establishes business relationships with firms and local vendors who share their concerns for education, social responsibility, and environmental impact. Whole Foods Market can establish partnerships based on integrity and transparency by understanding the potential impacts of ingredients on people’s health and the planet of foods that vendors provide. Regardless of the brand and prestige of potential partners, the core product sourcing of Whole Foods Market is from the local community, from farmers and vendors who sell organic foods without artificial intervention [12]. Fresh Hema, in comparison, cares less about whether the food is organic or not; instead, it concentrates on the brand of its partners, who are usually large retailers. This can be attributed to the fact that organic foods are not as widespread in China as in the US. Plus, people are not yet concerned and have not realised the problems of consuming inorganic foods in China. Fresh Hema believes that as long as its merchandise comes from prominent retailers in the industry, it can generate a significant profit by selling those fresh foods, no matter how organic they are.

Since the beginning of Whole Foods Market in 1980, one of its primary goals has been to create a healthy planet, to follow its green mission. As a result, they reduce, reuse, and recycle. For instance, abandoning single-use plastic bags at checkout since 2008, printing and packaging using recycled paper and water- or vegetable-based, and recycling cardboard, paperboard, paper, glass, plastic, and metal are all earth-friendly efforts they practice. People, particularly environmentalists, will increase their purchases and have a greater retention rate if they recognize Whole Foods Market’s efforts to safeguard the environment. There could also be a ripple effect: environmentalists advocate the brand, and more people become aware of it.

As a result, taking a very active role in social responsibilities at a startup is not just for goodwill but also future returns. Promoting the brand in the aspect of products offered and values offered made Whole Foods Market stand out when it was first launched. However, Fresh Hema has a novel business model that differs from its competitors at startup. It combines online and offline sales but attaches more importance to the latter. Thus, concentrating on developing and enhancing the business model rather than using other methods like promoting the “Green Mission” is Fresh Hema’s strategy.

### **3.2. Social Responsibility at Later Stages**

After Amazon’s acquisition, Whole Foods Market poses new restrictions on products sold and asks suppliers to pay for the adjustment. Instead of supporting local farmers and vendors, Whole Foods Market makes much room for national brands. According to Valerie Gray, a Whole Foods Market vendor who sells her pasta sauce, the number of paste sauces allowed to be displayed drops significantly, and her sales decrease by 75 per cent [13]. It seems that the local and personal touch is fading away after Amazon’s acquisition. Instead, places, where local foods are displaced turned out to be national brands and merchandise from Amazon, such as “Alexa”.

Fresh Hema’s attitudes towards social responsibility have not changed. Since its startup, it has concentrated on its business model and products sold rather than protecting the environment. Therefore, nearly all its actions to maintain sustainability are driven by market and government regulations. For instance, only after the Chinese government banned retailers from giving free plastic bags at checkouts, Fresh Hema does so. Not until being accused by the public of dumping foods into garbage bins [11], Fresh Hema start donating the foods to food banks. Therefore, Fresh Hema strives to fulfil the millennial’s demands to keep foods fresh and deliveries quickly. Protecting the environment and keeping their business sustainable are not prioritized.

## **4. CONCLUSION**

After going through the assessments mentioned above, it is evident that the differences between O2O business models and business ethics are majorly affected by customer preferences, domestic regulations, and internet development. While Fresh Hema continues to develop its online platform and offline stores simultaneously, the company has to widen its vision into more potential customer groups and younger customer groups’ purchasing preferences, such as various payment methods and more diversified shopping options. Meanwhile, Whole Foods Market, under Amazon’s influence, will be recommended to keep obtaining insights into generation Z and the Millennial’s consumption preferences as it will be beneficial for the company’s market expansion and online platform development. Overall, this study recommends that both companies keep exploring potential customer segments and make timely adjustments to survive in the fast-changing era with O2O business models.

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