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# Hema: Bringing New Retail to a Broader Industry

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## Summary

Alibaba's vision for grocery retail in the digital era is to innovate by relying on its own ecosystem and infrastructure – including Alipay (mobile and online payment platform), Aliyun (cloud computing), and Cainiao (logistics platform). And the company's Hema supermarket chain is another chapter in Alibaba's game-changing story. Hema plays a part in Alibaba's digital transformation plan for brick-and-mortar retailers, by offering (according to the company) both the best online and offline shopping experience. As the pioneer on Alibaba's new retailing map, Hema is already delivering higher sales productivity than seen in pure offline retail.

## The Hema concept: a key Alibaba innovation

Hema supermarkets, Alibaba's innovative grocery retailer that aims to get consumers to enjoy grocery shopping more, is making big strides in tier-1 and tier-2 cities. By mid-2018, Hema had 47 stores – and it is expected to reach 100 by the end of 2018, increasing from only 8 in January 2017. Although, at first glance, Hema looks like a traditional grocery store – selling fresh seafood, fruit, and vegetables – its concept extends far beyond that. At Hema stores, for example, consumers can choose fresh seafood at an affordable price, then decide whether they would like to take the raw seafood home with them or have it cooked, to eat in-store. After making purchasing decisions, consumers need to order via the Hema app, then pay for their groceries via Alibaba's mobile wallet app, Alipay. Hema also offers online purchasing and delivery through the Hema app. Orders placed through the app are fulfilled by using in-store inventory, after which the products are placed in bags and transported – on conveyor belts above the shopping area – to a dedicated packing and delivery area. When it comes to deliveries, Hema can realise half-hour arrival for orders within a three-kilometre radius of its stores.

Hema is Alibaba's key innovation, employing digital technology to integrate the best online and offline shopping experiences. The chain is already delivering higher sales productivity than seen in purely offline retail. For instance, according to Hema, the Jinqiao outlet in Shanghai has already achieved CNY 56,000 sales per square metre: three to five times the average sales per square metre seen in traditional supermarkets. Its comparatively higher sales productivity mainly comes from its integrated online and offline retail experience, which is empowered by digital technology.

## Alipay payments lock in consumers

Shopping at Hema is a smartphone-powered, cashless experience, with the help of Alipay, which is embedded in the store's app. Hema only accepts Alipay, thereby locking in its targeted consumers, who are required to rely on Alibaba's ecosystem and digital power. Alipay is an important data-driven payment system: Once enough information and consumption patterns have been collected online or offline, it starts to produce data in terms of a consumer's consumption behaviour, consumer credit, or other online data related to the consumer profile. All consumer data collected through Alipay is then incorporated into Alibaba's data bank, and it can be used on different occasions – for example, when consumers log onto Alipay, online operators can easily identify all related consumer behaviour, helping to improve sales efficiency. Leveraging Alibaba's digital power, Hema is able to adopt a consumer-centric approach, thereby optimising the consumer experience by refining the relationship between people, place, and products.

## Consumer-centric approach greatly improves sales efficiency

Hema's offline stores offer an enhanced consumer in-store experience. Thus, consumers who visited and purchased products at Hema's offline stores display a level of trust and brand loyalty towards the overall Hema brand. As a result, 50% of consumers who have purchased through offline stores intend to order through the online Hema app when they need home delivery of grocery and other products. As a pioneer for Alibaba's retail innovation, Hema is modernising the route to market by planning product and outlet display based on cutting-edge digital technology. With access to Alibaba's consumer insights, and best-selling online products and brands, Hema is able to select the most popular product/brand mix that caters to its target consumer group. For example, take the Hema snack corner and beer product mix: The displayed brands in Hema stores are top-selling online brands on Alibaba's platforms, including Tmall and Taobao. By using Alibaba's data bank, Hema is able to display best-selling products first, thereby leading to an increase in in-store purchases. Then, with the accumulated consumer data, Hema plans to improve its on-shelf product mix and outlet displays, all supported by Alibaba's digital technology. Its data-empowered and consumer-centric approach actually provides a better in-store shopping experience. And this, in return, leads to consumers viewing a retail channel like Hema more as a total brand – increasing their willingness to purchase through the store's online apps.

## Making use of the digitalised supply chain

By relying on Alibaba's ecosystem – making use of Aliyun (cloud computing), Alipay (mobile and online payment platform), and Cainiao (logistics platform) – the digitalisation of supply chain and logistics becomes extremely important to Hema's farm-to-table fresh goods sales. Hema operates a streamlined supply chain, which is quite different to that of traditional retailers, who operate multiple-layer wholesale and complicated supply chain/distribution systems. For its imported fresh products, Hema sources directly from farms and suppliers around the globe. To achieve this, the Hema Fresh model makes use of China Eastern Airlines and Frutacloud, chartering flights (with the Hema logo) for transport. With this kind of logistical support, American cherries can reach Chinese consumers in Hema stores within 48 hours of being picked. Hema's overall success is inseparable from its advanced supply chain and logistics, the goal of which is to provide fresh goods like fruit & vegetables from farm to table in 24 to 48 hours.

## Hema will serve as an incubator for retail innovation

Alibaba is using Hema as an incubator for the company's new retail plans. One recent example is the digitalisation of recently acquired RT-Mart – one of China's leading hypermarkets, with 400 outlets throughout the country. Using Hema as a model, RT-Mart has introduced a series of features aiming to offer the best of both online and offline shopping experiences. Based on Hema's accumulated digital experience, RT-Mart applies the chain's Enterprise Resource Plan (ERP) system during the store digitalisation process. When it comes to offline experience, RT-Mart also adopts a similar model, providing access to Alibaba's digital technology, customer insights, supply chain management, and mobile payments via Alipay. It also provides one-hour arrival for online orders within a three-kilometre radius. Currently, RT-Mart has completed the digital transformation of 100 stores.

In a wider scope, Hema's pioneering model can become the solution provider for the digital transformation of Alibaba's other new retailers – in China, or even globally. The key success of Hema's model is digital technology combining the best of the online and offline shopping experience, thereby helping to produce higher sales productivity than purely utilising offline retail. Just as with RT-Mart's example, data-empowered technology will facilitate other retailers' digitalisation transformation, as well as supply chain management.

## What might happen next?

Hema is positioned as a chain of community stores serving mid- to high-end consumers within a three-kilometre radius of its outlets. The company is set to increase its penetration into foodservice, with the recent move of bringing popular emerging foodservice brands to consumers. To facilitate the business, Hema plans to integrate its onsite mini central kitchen with foodservice players' central kitchens, in order to promote prepared and tailor-made dishes for takeaway consumption. For instance, local foodservice brands will offer more lines of semi-prepared dishes and meal kits – consumers can either choose to eat in after the meal is prepared at an in-store kitchen or to take away. For takeaway products, the company will mainly offer fully prepared dishes and meal kits. The increasing number of prepared dishes and meal kits could also be a strategic idea, asking capable food processors to provide ingredient packages or semi-prepared dishes to foodservice players – especially for players who are looking for new growth channels, e.g. dumpling or frozen-food players.

Hema also plans to open F2 c-stores, as well as Hema Jishi, an innovative restaurant with robots serving customers. The F2 c-store model is similar to that of Hema supermarkets, but with smaller-sized stores located near office buildings and targeted to office workers. The F2 plan is to win a share from traditional foodservice players who offer set lunches, as well as retail c-store players like FamilyMart and 7-Eleven. Hema Jishi's automated robot-serving restaurants aim to cut labour costs, as well as standardise the catering service experience.

Given the farm-to-table model, it might be possible for Hema or other Alibaba's new retailers to form sourcing agreements with fresh goods suppliers overseas. If they prove to be particularly brave, Hema and others may also invest a minority stake in overseas brands, given that the chain currently is already putting a lot of effort into its private label. By investing in promising overseas brands that fit well with its targeted consumers, Hema can gain more power on the supply side, better facilitating its farm-to-table model.

# Imprint

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