

Research on the Transformation and Upgrading of Traditional Community Fresh Food Stores under the Background of New Retail 2.0

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Abstract: With the rise of purchasing vegetables online, traditional community fresh food stores are facing challenges as well as opportunities. It is a part of realizing transformation and upgrading through the Internet for traditional community fresh food stores to survive and develop in the future. This article analyzes the status quo and the development advantages of traditional community fresh food stores under the background of new retail, pointed out its predicament, put forward the transformation and upgrading strategy under the background of the traditional community fresh food store from four aspects, including customers, foods, markets, and supply chains, and reached a solid evidence through cases.

1. Introduction

With the upgrading of consumption and in-depth development of the Internet constantly, together with the inertia of the post-epidemic era, consumers has gradually accepted and used to the fresh food e-commerce that represented by "purchasing vegetables online". In 2020, Internet retail giants such as Suning, Meituan, and Pinduoduo have carried out online vegetable-purchasing businesses such as "Suning Food Market", "Meituan Maicai" app (Buying vegetables through Metuan Maicai app) and "Duoduo Maicai" (Buying vegetables through Duoduo Maicai function of Pinduoduo app), which phenomenon shows a new stage that new retail is entering. At the Linkshop conference in June 2020, the person in charge of fresh hema - new retail representative company of Alibaba - stated that New Retail 1.0 has been realized and the era of New Retail 2.0 is impending [1]. One of the main feature of New Retail 2.0 is community-based. And being the main channel for traditional way of buying vegetables, there are problems that traditional community fresh food stores need to confront directly - how to make use of the Internet to achieve transformation and upgrading, and convert challenges into opportunities.

2. Status Quo of Traditional Community Fresh Food Stores

Community fresh food store generally refers to the retail business with an area of 50 to 1,000 square meters and more than 30% of fresh food sales to serve the community basically, including fresh food enhanced community supermarkets, fresh discount stores, convenience stores + fresh food, community vegetable shops with franchise model, and many other types of businesses[2]. It has

played an indispensable role in our daily lives as the main channel of traditional way of buying vegetables. However, with the development of the times, especially in the milieu of the Internet, the younger generation has increasing demand for quality, diversification and convenience in fresh food consumption. While traditional community fresh food stores gradually disclosed their disadvantages and the living space has become further shrink.

2.1. Intensified Market Competition Brought About Squeezed Market Space

There are several operation forms in China's fresh food retail market now: traditional farmer's market, supermarket's fresh food, community specialty stores for fresh food, etc. On the other hand, with the penetration and development of e-commerce in the fresh food industry, various e-commerce fresh food retail businesses have sprouted in recent years, such as e-commerce only models, online and offline combined models, community group-buying models, and other new retail models. Still, these different operation forms ultimately serve the same consumer group - community members. The fresh food retail market has become increasingly competitive, which resulted in a further crush on living space of traditional community fresh food stores.

2.2. Difficulties in Improving the Profit Levels of the Traditional Business Model

The food of most community fresh food stores mainly come from regional farmer's wholesale markets or upper-level wholesalers. In the traditional fresh food business model with community fresh food stores being the retail terminal, fresh products often go through multiple links from the places of origin to the retail terminal, which price would be increased in this process and cause a serious proportion of freight damage due to the redundancy circulation links, and give rise to an uncompetitive terminal retail price ultimately. Also, because of the rise of various operating costs and the limitations of the business scope, it is difficult to effectively increase the profit level of traditional community fresh food stores. According to data from the China Chain Store & Franchise Association (CCFA), there are only 46.48% of the companies interviewed said they could make a profit in 2019.

2.3. Products and Services cannot Meet New Demands for Consumption

The data of the FORWARD shows that in the current age structure of fresh food consumers, the proportion of young and middle-aged people (25-34 years old) is as high as 47.6%, followed by 24.6% under the age of 25[3]. As the younger generation has gradually become the main group of fresh food consumption, new changes have taken place in the consumption demand of the fresh food market. For example, consumers have an increasing demands for the quality and buying experience. What become a key purchasing factor for fresh products are the quality, diversification, convenience, buying experience, and service, etc. Due to the limitations of business positioning, business scale and operating costs, traditional community fresh food stores are unable to meet the new market consumption demand well, which generally reduced the consumer satisfaction than other fresh food retail business.

3. Development Advantages of Traditional Community Fresh Food Stores under the Background of New Retail

Although there are many problems in the current traditional community fresh food stores, it's undeniable that they play an irreplaceable role in meeting the daily needs of the community. According to data from iiMedia Research, 62.4% of Chinese netizens spend two or three times a week in community fresh food stores, and 24.7% of netizens will make three or more purchases in

community fresh food stores [4]. And traditional community fresh food stores can provide offline support with their natural offline advantages for the development of New Retail 2.0 in the current era of e-commerce.

3.1. Extensive Development Space Lies in the Community Fresh Food Market

There is a year-by-year increasing transactions in China's fresh food. That the current traditional farmer's market is the main channel for people to buy fresh food. However, in the long run, it has been gradually unable to adapt to the consumption needs of urban residents because of the dirty and inferior environment. Setting the community fresh food store at the "vegetable market in front of the community door" can not only meets the basic needs of the community, but also improves their quality of life greatly. What's more, it has a large development space in the competitive fresh food market due to flexible purchase methods and online drainage, [5].

3.2. Traditional Community Fresh Food Stores Are Close to Consumers

Generally, community fresh food stores are located in residential areas, where close to consumers, making it convenient to purchase and greatly saving purchasing time. It is easy to fix consumer groups so that obtain a fixed consumer group. Also, they can get consumers' preferences based on their purchasing records, so as to formulate marketing strategies more accurately. Under the new retail model, it is easy to solve the last-mile storage, delivery and after-sales problems of fresh food retail if using community fresh food stores as terminals or lead warehouses.

3.3. Better Shopping Experience could Find in Traditional Community Fresh Food Stores

Looking at the current development trend of the fresh food e-commerce industry, we can figure out that the pure fresh food e-commerce is difficult to sustainably develop. Because consumers not only want to enjoy the convenience of shopping, but also want to possess the sufficient sense of experience, and community fresh food stores can meet this demand. Consumers can choose and buy in the store nearby, experience the joy of shopping, and enhance the sense of experience. In addition, it is necessary for fresh food e-commerce platforms to complete the offline layout through the carriers such as community fresh food stores with the development of fresh food retail.

4. Difficulties in the Development of New Retail of Traditional Community Fresh Food Stores

New retail of fresh food has become the main growth driver of the fresh food retail market in the future. Under the circumstances of year-by-year rising acquisition cost of online customer, community fresh food stores serve as offline traffic entrance has pushed forward the omni-channel layout of fresh food retail. Yet in the process of traditional community fresh food stores access to the Internet, the following problems still remain to be resolved.

4.1. Online Operation and Promotion Capabilities Need to be Improved

Traditional offline companies often lack online operation thinking and systematic online marketing and promotion capabilities in the process of being online, and cannot effectively carry out online drainage work. According to 2020 China Fresh Food Retail Report survey from the Business Observer, on the focus of developing online business, there are 65.85% of enterprises prefer to build their own apps and mini programs, 19.51% of enterprises prefer to cooperate with the third-party

platforms, and 12.2% of enterprises prefer to cooperate with community group buying platforms [6]. Most companies lack professional operation and promotion capabilities to build their own apps and small programs for developing online businesses, and unable to counterweight with industry giants. Most of them stopped the operation in terms of poor input-output rate after a period of time as well.

4.2. Products and Positioning Are not Conducive to Online Operations

Traditional offline community fresh food stores regard providing residents with popular fresh products as the solution, which target customers are traditional offline fresh food consumers, mainly middle-aged and elderly women over 35 years old who are married and have children. The structure is rely mainly on low-end products with fair price. There are more product categories often so as to respond to meet the different demands of different residents at any time and leads to lower gross profit rate and customer unit price ultimately. Data shows that the unit price is between 20 – 30yuan in nearly half of the community fresh food stores, with the average unit price of 23yuan [7]. Lower customer unit prices and gross profit rate cannot form effective economies of scale, coupled with the characteristics of target customer groups proved the unfavorable factors of community fresh food stores to operate online in terms of products and positioning.

4.3. Supply Chain Is the Biggest Restrictive Factor

Fresh products are vulnerable, difficult to store, and non-standardized. The supply chain is the main restrictive factor in the traditional offline fresh food sales process. According to the survey by KAIYUAN Securities, the average rate of waste of fresh food in the domestic industry is about 30% nowadays because it is not easy to store, and the loss is serious during long-distance multi-level transportation. In the process of online sales of fresh food, supply chain problems still exist and become more prominent due to the feature of Internet shopping. When it comes to the most difficult part of online fresh food business in the 2020 China Fresh Food Retail Report of Business Observer, the answer is relatively concentrated. There are 63.41% of the companies believe that it is the shortcoming of the supply chain, ranking first among all the answers [8].

5. The Transformation and Upgrading Strategy of Traditional Community Fresh Food Stores under the Background of New Retail 2.0

The characteristics of future consumption consists of socialization, localization, mobility, and personalization. There is no systematic and clear concept of New Retail 2.0 in the industry at present, but one thing is basically clear, that is, New Retail 2.0 transforms from goods-centered to people-centered. One of its characteristics is community-based, with offline stores as a unit to meet the demands of local community residents with more target. Therefore, while Meituan, Pinduoduo and other fresh food e-commerce giants are exploiting community offline stores, traditional community fresh food store should give full play to the offline advantages of deepening the community, actively develop online operations, and promote new retail 2.0 [9].

5.1. Customer: People-centered, Build Relationships with Customers

New Retail 2.0 takes people as the core. From goods-centered to people-centered, traditional community fresh food stores should give full play to their advantages of being close to consumers in the community, combining feedback of online platform data and offline collection of information to figure out what are the consumers really need. It is necessary to push the information they need in time, further establish an emotional connection with community residents, and make clear their inner

need with the method by content, entertainment, public welfare, and interactive marketing, etc. Then combining online platforms and offline stores as well as public domain traffic and private domain traffic to build a continuous and stable customer resource, and accomplish the design of the incentive system so as to improve customer retention rate and repurchase rates.

5.2. Foods: Optimize the Category structure, Focus on High-frequency Products with Rigid Demand

Fresh foods are difficult to store and have a short expiration date, which makes it difficult to stock in a large quantity in the business process, so the turnover period needs to be controlled within one day. In the process of new fresh food retail 2.0, community fresh food stores need to be based on the consumption habits of residents in the market so that reduce the quantity of SKU. There is a need to mainly sale high-frequency and just-needed products to make the product categories be more concentrated, so as to serve consumers at lower costs and improve their own profitability. And it is very important to combine online platforms, introduce online retail thinking and models, attracting consumers with "hot product" in to the store for consumption while ensuring product quality at the right time. In addition, in combination with the impendency of consumer demand, further enriched the content of products and services.

5.3. Market: Build Omni-channel Capabilities and All-season Market

Fresh Food New Retail 2.0 has two online and offline consumption scenarios. The online consumption scene can be built by connecting to third-party e-commerce platforms, self-built APPs, WeChat mini programs, communities and other methods. Offline community fresh food stores should try their best to choose online methods with sufficient traffic, good online marketing and promotion capabilities and experience; offline consumption scene need to be combined with the consumption characteristics of New Retail 2.0 to further upgrade its quality and enhance the consumer experience. Focusing on socialization and mobility of consumer groups, creating omni-channel scenario capabilities, connecting consumers from physical stores, self-operated e-commerce, platform e-commerce, social spaces, short videos and other omni-channels, creating all-season and new consumption scenarios.

5.4. Supply Chain: Reduce Intermediate Links and Increase Response Speed

Under the background of New Retail 2.0, there is a higher requirement that put forward for the rapid response of the supply chain in order to timely and accurately meet the needs of consumers anytime and anywhere, and improve customer satisfaction. On the one hand, offline community fresh food stores require further understanding of the state and law of consumption demand in the region, and improve the accuracy of forecasts to achieve early stocking; on the other hand, it is indispensable that make full use of the convenience of the Internet to adopt online order, advance sale, and drop shipping and other flexible methods to alleviate the imbalance between supply and demand. And adopted online procurement, procurement from origin, and centralized and unified procurement to reduce intermediate links in the supply chain. While improving efficiency, the intermediate cost savings are passed on to customers to improve their satisfaction.

6. Solid Evidence on the Transformation of Traditional Community Fresh Food Stores under the Background of New Retail 2.0

Xiaobaiyang Trading Co., Ltd. (Guangdong) currently operates a number of community fresh food

stores in Dongguan. Take the D store in a certain community as an example, with the business area of about 180 square meters, mainly serve fresh food for circa 5,000 residents of 3 surrounding communities. Before launching the new retail transformation, it mainly sell vegetables, meat, seafood, fruits, grains and oils, condiments and other commodities. The quantity of SKU reached more than 1,000, and the average sales was about 15,000 yuan per day. In 2019, they carried out new retail transformation attempts through online platforms, self-built mini programs, WeChat communities, etc. According to the consumption habits of community residents, they reduced product categories, and focus on vegetables and fruits that are the rigid demand of local community residents, and meat and seafood products are outsourced in consideration of operating costs, which brought about decrease in quantity of SKU into less than 800. In terms of promotion, they used multiple platforms to carry out all-season and multi-scenario marketing and promotion, and upgraded the physical store to improve the quality of experience. In terms of delivery, combined with the work and rest habits of community residents, many methods were adopted such as scheduled delivery, temporary delivery and self-collection. In addition, they has further introduced the supply chain management system to realize a procurement model that combines centralized and unified delivery by suppliers and self-purchasing by stores, which model improved the response speed of the supply chain. After the transformation, the average daily sales of the store has increased to more than 20,000 yuan, with an increase of 25%. The satisfaction of consumers in the community has greatly improved, and more branches will be opened in the surrounding communities after 5 months.

7. Conclusion

The main consumer market for fresh products exists in the community. But Internet e-commerce platforms cannot reach the community effectively due to its inherent characteristics. Therefore, a new retail model combining online and offline has emerged. With the changes of consumer structure in the market and the upgrading of consumption levels, consumption concepts and consumption habits have further changed. New Retail 2.0 enables stores and products to actively access to the community, instead of attracting consumers to experience in stores like the Retail 1.0. Traditional community fresh food stores need to seize the opportunities brought by this change in consumption pattern in time, give full play to their own advantages to close to the consumers, and guide by using the Internet to meet consumer demands to reconstruct the connection among consumers, foods and markets, and improve the stickiness, thereby enhancing their own competitiveness.

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