

# ***Fresh Hippo's New Retail Strategy to Become the Most Profitable Chinese Supermarket***

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**Abstract:** Fresh Hippo has become one of the most popular supermarkets in China since 2016, and its revenue per square meter, an indicator of retail efficiency, is the largest among Chinese supermarkets [1]. This research is to analyze and explain its success through frameworks, theories, and reasonings. The research question is how Fresh Hippo redefines the concept of retail and becomes the most profitable supermarket in China. The main content of this research is to describe and explore Fresh Hippo's strategy and to answer two related questions.. The first is how the company improves its operating efficiency to fit the definition of new retail. The second is how Fresh Hippo reinvent the retail business model. The topic of this research is about new retail strategy of Fresh Hippo. The research methodology is literature research method, in which the researcher applies several frameworks that can explain the new retail strategy of Fresh Hippo. The purpose of this research is to provide a guidance for other Chinese retailers, showing how the innovation is applied and produced. The research conclusion is that Fresh Hippo improves its efficiency by increasing the revenue per square meter through online and offline sales, and the business model changes to "Eat-Convert-Deliver". The new business model allows the company to serve customers within 3 kilometres without coming to the store, largely increasing the average order value and the shopping frequency at the same time [1].

**Keywords:** fresh hippo, new retail, people product place, revenue per square meter, operational efficiency

## **1. Introduction**

Fresh Hippo is what customers get when customers imagine a seamless blend of the online and offline shopping experience. The company belongs to the famous Alibaba Group in China. Fresh Hippo is an example of the "New Retail" model, which Alibaba has successfully incubated for the past few years [2]. "New Retail" uses technology and data to merge online and offline shopping, offering consumers a more efficient and more flexible shopping experience. The Fresh Hippo experience starts with a download of the mobile app. That links right up to a customer's Taobao or Alipay account. Customers who do not have accounts yet can easily sign up, and then the shopping begins, wherever the customer is. Fresh Hippo stores are fully mobile powered and allow customers to use Alipay. The stores' revenue per square metre is three to five times those of other supermarkets [1]. The company also cracked a key problem of how to scale local deliveries, with each store able to fulfil thousands of orders a day.

The hyper-local business allows customers to shop from the comfort of their homes, using a mobile app. They can order fresh food to cook at home or have it prepared by the Fresh Hippo chefs and delivered within 30 minutes [3]. Customers who do not prefer delivery can visit the store and select fresh seafood to have it cooked for carry-out. The stores look like normal neighbourhood grocery stores, with a selection of packaged foods, produce, beverages and other goods. Every item has a scannable bar code, which displaces price and product information, including origin and brand story. Customers scan the code and complete their purchase through the Hippo mobile application at a checkout register before leaving the store, and the user experience is enhanced through big data. The big data recommends products and discounts to customers, and it also allows the company to plan the most efficient delivery route at the same time.

This research explores how Fresh Hippo changes the business model in traditional retailing and becomes the most profitable (in terms of revenue per square metre) supermarket in China [1]. To accomplish this result, Fresh Hippo has done two things. The first one is to improve efficiency in retailing, and the second one is to create a new retail business model. The analysis section will explain the details. To support the analysis, there are a few theories applied in this case, such as 3P (people, product, place), operational efficiency, and new retail.

## **2. Methodology**

### **2.1. Revenue Per Square Metre**

In the brick-and-mortar retailing sector, performance has long been measured in terms of the revenue per square metre. It refers to the average amount of money made per square metre of retail area. Online sales may have increased this number in the era of "omnichannel" marketing, at least for major retailers. Nevertheless, it may still be a key indicator of success for a small, independent local firm.

Businesses and retail market analysts use the metric of revenue per square metre to gauge how well a store's management generates profits given the quantity of sales space at their disposal. Simply adding up sales income over time and dividing it by the entire square footage of retail space available. There is not a number that is always favourable or terrible. The management of the business is generally doing a superior job if the metric is greater. Traditional brick-and-mortar businesses will inevitably suffer as more retailers build their online presence. Retail sales per square metre are also impacted by issues such as the 2020 financial downturn [4]. Colliers International estimates that sales per square foot decreased from \$382.9 in 2019 to \$338.3 in 2020 [4]. As many as 100,000 retail outlets may disappear by 2025, economists anticipate that this will have an impact on the actual retail space [5].

### **2.2. 3P (People, Product, Place)**

The 5P model of marketing is where the idea of 3P (people, product, and place) originated. People refer to the employees, salespeople, people who work for the company, and most importantly customers [6]. The term product refers to the goods and services that a company provides. Performance, packaging, aesthetics, guarantee, and product quality are all factors to consider [6]. Customers must be aware of the features, perks, and advantages associated with purchasing goods and services. Place describes the location of the business's production, distribution, and sale of its goods and services [6]. In essence, location choices have an impact on how a product is distributed and how to reach certain target clients. It is crucial to take availability into account and make sure that clients can discover the business quickly.

### 2.3. New Retail

Consumers, manufacturers, wholesalers, and retailers will experience new dynamics thanks to New Retail, which expands the potential of digitalization and big data beyond its existing uses in e-commerce. Supply chain and logistics for distribution, value-added services for manufacturers and retailers, and integrated shopping experiences for consumers all come into play. In 2016, Jack Ma, the former executive chairman of Alibaba, promoted the idea of "New Retail" as a crucial strategic objective for e-commerce companies [1]. A year later, Jack Ma developed the notion by declaring that modern Retail is an integrated retail delivery model where offline, online, logistics, and data all come together to improve the consumer experience. To provide more outlets for transactions, including app stores, online shops, marketplaces, and physical stores, brands have been trying consistently to shift from single channel to multi-channel and omnichannel business models.

### 2.4. Research Design

The core methodology is the literature research method, using the theories and concepts to logically analyze Fresh Hippo's new retail strategy. To achieve this goal, the first step is to find and use the appropriate literature that is relevant to the research question. To better understand the research question, a company's background information is necessary to be included in the research. There are three main theories for the research, and they are revenue per square meter, 3P (people, product, place), and new retail. For example, the theory on revenue per square metre helps to understand the efficiency improvement by Fresh Hippo. The 3P is a framework used to redesign the customer shopping experience and the retail business model. The last step is to review the logical reasoning process to check whether any step is incorrect and make appreciative adjustment.

## 3. Analysis

An example of "new retail" in the 19th century was Sears, which was the most famous and successful retail company in the world, at least in the United States [1]. It is successful because it invented a new retail business model, mail order. This model had never been used in the past. There was no infrastructure to support mail orders in the US before the 19th century. However, in the 19th century, a new technology, the railway, had been in operation since then. With the help of the railway, transportation efficiency has been greatly improved, and mail order has never been possible. The mail order model sounds very outdated today, but it was indeed the most advanced retail model at that time.

Walmart is an example of "new retail" in the 20th century. The business model invented by Walmart is called supermarket. Before Walmart, the whole United States did not have the fundamental infrastructure for the establishment of large supermarkets, similar to Sears' situation in the 19th century [7]. However, the establishment of highways and automobiles had made it possible. Walmart has changed the shopping experience in the United States ever since. In the past, customers would shop for groceries near home at small shops or markets, but after Walmart, people would drive to the suburbs to shop at the one-stop-shop, supermarkets. After purchasing a large amount of food, they would store things in their fridges, and the next week they would repeat the process. The consumption behaviour in the United States has changed from daily shopping to weekly shopping [7].

Today, in the 21st century, new retail in China has been redefined by Fresh Hippo. Some scholars argue that there is no such concept as "new retail", but history has proven that each era of business has its retail model. In essence, retail connects brands with customers, and the methods of connection change in each century, so retail also change. "New retail" not only existed in the 19th century but also in the 20th and the 21st centuries.

### 3.1. How Fresh Hippo Improves Efficiency in Retailing

In the field of traditional retail, since the rent of stores is one of the most important costs of traditional retail, "floor efficiency" is usually used to measure operational efficiency [8]. The "floor efficiency" is measured by the revenue per square meter. It is expressed by a formula as revenue per square meter equals the total store revenue divided by the total area of the store [8].

According to the Research Report of Huatai Securities, the floor area efficiency of retail stores in China is about 15,000 yuan [9]. However, the annual turnover of the Fresh Hippo Shanghai Jinqiao store in 2016 was about 250 million yuan, and the revenue per square meter was about 56,000 yuan, about 3.7 times higher than the average [1]. This is a fantastic result given the industry environment. The company uses the top-down level design to achieve this result. To improve "floor efficiency", there are two ways to achieve it. The first method is to increase revenue and the second method is to decrease floor area. However, the floor area is fixed once the store is built. The founder believes that the traditional "floor efficiency" is incomplete because the revenue does not include online sales. Therefore, the new retail revenue per square meter should be total online and offline sales divided by the total area of the store. Then, the floor efficiency limit will be qualitatively broken.

Furthermore, to maximize efficiency according to the new "floor efficiency" formula, Fresh Hippo sets four business objectives. The first is that online revenue must be greater than offline revenue. This defines that the main revenue model is the integration of online and offline, and preferably online sales are greater than offline sales. The second objective is that the online daily orders need be more than 5000 [7]. This defines that a business model must have an economy of scale. The reasoning is that the online model has basic operational costs and will not be valuable if the scale is small. The third objective is to achieve 30-minute delivery within a radius of 3 kilometres, which can cover an area of 28 square kilometres and 300,000 households [1]. This range does not need to build a fresh food supply chain, a way to reduce costs, and deliver food in a timely manner, and a way to build customer trust. The fourth objective is the seamless integration of online and offline operations. For example, customers can shop in-store on weekends and purchase online on weekdays. Starting from the top-level design, Fresh Hippo upgrades the definition of "floor efficiency" in retail which combines online and offline revenue, thus improving the efficiency of retail and realizing the significance of new retail.

### 3.2. How Fresh Hippo Designs Its Retail Business Model

With the new definition of "floor efficiency", the next task is to create online sales from a traditional business model. The founder reinvented the retail model by achieving the following three steps: eat, convert, and deliver. This model has been the core methodology for the success of Fresh Hippo.

"Eat" can be explained by two dimensions in the new business model, freshness and taste. Freshness is a major concern when Chinese customers purchase seafood at the local markets because this issue has existed for decades. Fresh Hippo established a strong logistic chain and screening standard for suppliers to maintain a high level of quality in freshness. However, the customers would not trust the supermarkets regardless of what the company has done on the backend. Therefore, Fresh Hippo offers a large dining area in the store and allows customers to select their seafood and cook on the spot. They can choose to eat right away or take it to go. The essence of this step is to build trust with customers, proving that Fresh Hippo only supplies high-quality food. Through the human five senses, the company establishes a brand image of freshness in the mind of customers, thus they would trust the company more than others. The other dimension, taste, is also a pain point in the traditional supermarket where the cooked food sold in stores are not tasty. Fresh Hippo has shown that by hiring professional chefs, they can provide seafood that is not only fresh but also tasty. Once the trust is secure, the "Convert" stage emerges.

"Convert" means customers would be using the Fresh Hippo mobile application to pay for their purchases. There is no other application allowed in the store, including Alipay, cash, or credit card. The purpose of this decision is to provide a seamless shopping experience in the long term. The customer's shopping data is stored in the system and used to provide shopping recommendations in the application. This decision is made without no backfire. Some criticize that the company rejects to accept cash, and Fresh Hippo allows store staff to accept cash but customers still need to show the QR payment code [7].

The last step of the model is "Deliver". After the previous two steps, customers trusted the quality of the food at Fresh Hippo and provide shopping preferences to the company. They are able to shop from their smartphones in the comfort of their homes. In each Fresh Hippo store, there are shop assistants with POS guns running around to pick up products. After the shop assistants pick up the goods in the area, put them in bags and hang them on the hanging chains, they will be transported to the storage room for pickup. The whole process should not exceed 10 minutes [7]. After receiving the package, the delivery staff will deliver the goods to customers within 20 minutes. It takes 10 minutes for processing and 20 minutes for delivery, a total of 30 minutes [1]. In summary, the company creates online sales by establishing customer trust in stores first, then collecting customer data in order to generate a better customer experience. Finally, customers can make an order online without checking the food quality in-store because of trust.

#### 4. Conclusion

The success of Fresh Hippo does not depend on how much capital they acquired but on the understanding of the concept of new retail. It improves the operational efficiency, shown by the revenue per square meter, and redesigns the business model so that it could serve more people with more purchases. The company believes that the revenue should consist of both online and offline sales, which contradicts the traditional retail view. To achieve this, Fresh Hippo invented a new business model which is "eat-convert-deliver". In the first step, customers come to the store and try to select and eat fresh seafood. It helps to build a trusting relationship with customers. In the second step, when they check out at the store, they must use the Hippo application to pay. The reason is that the customer preferences would be stored in the system, the fuel to cultivate customer relationships. The third step is to deliver goods once customers order their food online within 3 kilometres range. In this way, the company would successfully acquire a consistent number of online orders, a new way to increase revenue per square meter. The physical place is never a bottleneck anymore. The limitation of this research is that the research does not include the quantitative analysis in the form of primary data. The complementary research could include customer interviews and questionnaire that indicates the accuracy of the research conclusion. For future analysis, researchers could focus on new retail strategies that are applied in other countries which are similar to the Chinese market in terms of technology development and application.

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