

# Differentiated Competitive Strategy in The Ready-To-Cook Food Market: A Case Study from Freshippo

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**Abstract.** In recent years, China's popularity of ready-to-cook food has been climbing, more and more capital is entering the prepared food track, and the industry is entering a stage of rapid development. The corporation must use differentiated competitive strategies and enhance its core competitive advantages to survive in the more intense competitive environment. Freshippo entered the C-end ready-to-cook food market in 2017 as the first new retail fresh food corporation. Supported by Internet technology, Freshippo shows us how to create differentiated competitive advantages. Around the four dimensions of delicious, fresh, novel, and new scenes, Freshippo explores consumer demand deeply and builds product differentiation positioning, digital supply chain, customer experience reshaping, and competitive strategy. Freshippo is a good example of how to improve the ready-to-cook food competition in the future. Therefore, this paper uses Freshippo to analyze how corporations create differentiated competitive advantages on the C-end ready-to-cook food track under the new retail model.

**Keywords:** Freshippo; Ready-to-cook food; Differentiation strategy.

## 1. Introduction

In 2022, the China Culinary Association released a group standard for prepared dishes, clarifying the three key points: raw materials of agricultural products, standardized pre-processing, and standardized pre-packaging, so consumers can enjoy them by simply cooking. China's prepared dish industry started with the introducing of KFC fast food; many prepared dish production enterprises appeared. Until the epidemic in 2020, which changed consumers' living habits, the prepared dish industry developed quickly [1]. The development of prepared vegetables follows the general trend of the market and China's rural revitalization policy. The prepared vegetable industry is a fusion of the primary, secondary, and tertiary industries, which is essentially a value-added to agricultural products, so it is conducive to the sustained high-quality development of agriculture and the revitalization of the countryside. According to data from iiMedia Research, China's prepared vegetable market will reach 345.9 billion CNY in 2021 and 107.2 billion CNY in 2026.

In recent years, many capitals have entered the prepared food circuit. Freshippo was born out of Ali, a new retail, fresh e-commerce enterprise with natural Internet technology advantages. Freshippo has used its differentiated competitive strategy and succeeded in the ready-to-cook food circuit. Therefore, this paper aims to study Freshippo's differentiated competitive strategy for ready-to-cook dishes. This paper tries to fill the gap because few studies about Freshippo's ready-to-cook food strategy exist. Hopefully, this paper can provide suggestions for some organizations about how to enter the prepared dish circuit.

The development of Freshippo's prepared dishes has gone through two stages: growth and maturity. In the period of growth, Freshippo has done three things: the first thing is to establish its brand, the Freshippo workshop in 2017 and cut into the field of prepared dishes with short-term refrigerated dishes. The second thing is to spend 10 billion dollars in 2019 to build a Freshippo supply chain operation center in eight cities across the country, which contains a central kitchen required to produce prepared vegetables. The third thing was establishing the 3R division, which stands for READYTOCOOK, READYTOHEAT, READYTOEAT. After Freshippo's prepared dish business entered a mature stage, Freshippo redefined prepared dishes and proposed to be "the first channel brand of freshly prepared dishes."; By the beginning of 2023, Freshippo's prepared dishes strategy

was upgraded, announcing that Freshippo's brands, large imports and prepared dishes were listed as first-level departments. Freshippo launched the Prefab Eco-Alliance in Shanghai in May and plans to open a 5,000-square-meter prefab experimental store in October. Once successful, it will expand across the country. Freshippo said it will focus on the four cores of delicious, fresh, novel and new scenes in the future, accelerate the development of new prefabricated dishes, and do a good job of quality and differentiation.

## **2. Differentiation Strategy of Freshippo Prepared Dishes**

### **2.1. Product Differentiation Positioning**

There are four groups of core users of Freshippo prepared dishes: first, quality pursuers who always have high requirements for quality of life; Second, the "squeezed" middle class after the epidemic, their expected income is reduced, so they have more requirements for the ultimate cost performance; The third is the middle class who need to improve the quality of life; Fourth, the young Generation Z. To better cover a broader market, Freshippo for these four different groups of people, around the Freshippo three main formats: Freshippo X member store, Freshippo fresh, Freshippo neighborhood, differentiated layout of prepared dishes. Freshippo X member store mainly promotes prefabricated dishes using high-grade ingredients, which is relatively high-end; Freshippo offers restaurant-type premade dishes, such as grilled fish and lobster, mid-range; The Freshippo Neighborhood store promotes more everyday premade, more common dishes. Freshippo will be prepared food product distribution diversification so it can reach the high-end market and sinking market at the same time, to meet the needs of different levels of customers, expand the market at the same time, jointly promote the development of Freshippo prepared food products, the formation of scale effect in the upstream. Freshippo has four brands to differentiate the layout of prepared dishes: Freshippo MAX, Freshippo Original Label, Freshippo Workshop, and Freshippo NB. Freshippo MAX is mainly sold in Freshippo X member stores, and its target customers are middle and high-end consumer groups, so that it will produce high-end dishes similar to high-end cattle. At the same time, because Freshippo X member store aims at the quantity of food for families, the product packaging of Freshippo MAX will be larger. Freshippo Workshop is mainly located in the Freshippo X member and Freshippo Fresh stores. There will be an area in the store for instant cooking, and some pre-prepared dishes, including semi-finished and purified dishes, will be placed in advance for display. The original label of Freshippo is mainly sold in Freshippo Fresh, and two of its products won awards at the 2023 Prepared Vegetables Industry Conference, one of which has nearly 5 million sales per month; Freshippo NB is mainly sold in the Freshippo neighborhood, with the Freshippo neighborhood as the community positioning characteristics of Freshippo fresh, so prepared vegetable products are relatively common.

According to IImedia consulting data, the top three are convenient, delicious, and fresh experiences on the consumption scene of prepared dishes. Therefore, Freshippo is around the "delicious, fresh, novel, new scene" four-key, differentiated layout of prepared food products, including ready-to-eat, instant cooking, that is, hot, ready-mixed vegetables, that is, with pure vegetables and other types, covering frozen, refrigerated, room temperature three temperature layers. To improve the quality of prepared dishes, Freshippo builds a prepared dishes alliance to get the ability of production, learning and research, and jointly solve the pain points of stale and homogenized prepared dishes. With the gradual increase of national income, people have more requirements for the use of prepared dishes; Freshippo for these people, differentiated design of the use of prepared dishes, including five meals a day, personal food, family food, small household appliance application scenarios, New Year's Eve dinner, New Year's goods and so on. Taking the New Year's Eve dinner as an example, Freshippo has opened up special areas online and offline since 2019 so that users can directly buy New Year's food from their hometown. For urban families who do not return home, Freshippo launched the "small Family New Year's Eve Dinner," hoping that consumers can enjoy the warmth of their hometown in the city and eat a simple New Year's Eve dinner at home.

## 2.2. Digital Integrated Supply Chain

Freshippo's digital integrated supply chain refers to the use of big data, intelligent Internet of Things, automation and other technologies and advanced equipment in the supply chain operation to bring three major advantages: first, quality ingredients; second, fresh, and third, dynamic adjustment of the supply chain [2]. The supply chain of Freshippo can be divided into three layers, namely the procurement end, the center end, and the store end. At the same time, Freshippo uses digital enabling procurement end and supply chain operation center end.

The sourcing side that provides high-quality ingredients for Freshippo has three characteristics: digital production, information transparency, and precise supply. First, Freshippo has adopted the buyer system from the beginning and is committed to building high-quality direct mining bases and "Freshippo Village" around the market of Freshippo stores. This direct mining mode uses big data for standardized production, controlling individual agricultural products' variety, quality, specifications, and other aspects to achieve digital production [3]. In addition, digitalization can expand the circulation scope of products and allow the "Freshippo village," with a large correlation with the market, to break through regional restrictions and distribute more widely [4]. Second, the large amount of digital production data can realize the digital tracking and visualization of fresh agricultural products. Consumers and farmers can scan the whole process of fresh agricultural products from production to sales at any time, achieve information transparency, and open the information barriers at the purchasing and store consumption end [5]. Third, the Freshippo store side can continue to obtain consumer preferences, tastes, and other data, which reflect the real-time changing needs of consumers, will be fed back to the production side at the fastest speed, optimize the production layout of agricultural products, promote the customized production of agricultural products while standardized production, and achieve precise supply. At present, Freshippo source has built more than 550 agricultural direct mining bases and more than 100 "Freshippo villages," which is a mechanism for the digital transformation of agricultural production and sales, which is conducive to Freshippo to obtaining high-quality agricultural products while generating high-profit margins.

The procurement side of Freshippo is linked to Freshippo's supply chain operations center, which solves the "fresh" problem in prepared dishes. Freshippo has built supply chain operation centers in eight cities across the country. Three have been put into operation in Wuhan, Chengdu and Shanghai, where the central kitchen is adapted to the 3R of prepared dish business. The main task of the central kitchen is to process raw materials into semi-finished products or final products and send them to the end of each sale as a cold chain or hot chain. The sales end carries out secondary heating and sales combinations and distributes sales to customers [6]. The essence of prepared dishes is industrialized products, higher requirements for standardized production, and the central kitchen has the characteristics of standardization, specialization, intensification, and industrialization, so it has advantages in improving product quality and safety over traditional technology [7]. The processing process control is more accurate, and the degree of automation is higher. The central kitchen of Freshippo is coordinated with the fresh processing of Freshippo. The efficiency of research and development of new products is greatly improved. The strong supply chain system will radiate the latest production of prepared vegetables to the surrounding city, providing a short range of temperature layers of prepared vegetables.

## 2.3. Customer Experience Reconstruction

When reinventing the customer experience, Freshippo differentiates itself in three areas. First, the reconstruction of consumption patterns. Freshippo uses a new retail model, opens up online and offline channels, and derives a new consumption model: the experience economy with the characteristics of casual consumption. Under this consumption mode, Freshippo breaks the traditional retail model and adopts the "offline Freshippo experience store + online timely home" mode [8]. Consumers can use Freshippo stores as experience stores and the supermarket + catering mode to eat while shopping. When they encounter goods, they want to buy home, they can order directly on the online APP and deliver them to their homes. This consumption model can meet the dual needs of

consumers' on-site experience and convenient home service, saving consumers' time and increasing customer experience and service quality [9]. Second, electronic payment. Freshippo stores only support Freshippo APP transactions. Freshippo can rely on Ali Group's powerful data processing capacity and payment system to master user data, obtain consumers' dynamic and differentiated needs, timely adjust the number of various products on the supply side, and reduce product losses. Third, Freshippo stores use hanging conveyor chains and information technology to improve the picking process and share the picking information with consumers, improving the consumer experience in logistics [10].

## 2.4. Competitive Strategy

Freshippo's prepared dish business is currently geared toward C-end users, and competitors can be divided into two categories. One is fresh electricity business enterprises, such as Yonghui supermarket, Ding Dong buy food. One is Internet platform enterprises, such as Meituan and Jingdong. Yonghui Supermarket has more than 1,000 stores, covering more than 500 cities and the number of offline stores is sufficient, and the coverage is large enough. Freshippo currently has only nearly 400 stores in nearly 22 cities. In addition to facing C-side customers, Ding Dong Buy Food also launched an independent brand of "vibrant fresh food" for B-side prefabricated dishes, mainly layout distribution, agents, terminal customers, and other C-side channels, compared with Freshippo, it faces a broader market [11]. And platform-type enterprises like Meituan and Jingdong naturally have the advantage of dimensionality reduction for retail enterprises. On one side, the platform relates to various prepared dish suppliers; on the other, it is connected with a broader consumer group. Consumers will have more choices of dishes and lower prices of prepared dishes, so the order volume will be more than that of retail enterprises such as Freshippo. Large order volume will form a scale effect, and the online platform will better cover the performance cost and improve profits.

Given competitors' advantages, Freshippo can consider adopting competitors' strategies while enhancing its core competitiveness. Freshippo's brand is the core competitiveness of Freshippo, so Freshippo needs to explore more scenarios for the use of prepared dishes. According to Magic Mirror market intelligence data, the scenes worth digging are daily after-work, camping, and dormitory scenes. Therefore, Freshippo can not only grasp the established competitive advantages of prepared dishes for the New Year's Eve dinner but also develop prepared dishes for daily workers. For the camping scene, the box can introduce prepared dishes suitable for camping scenes that do not require complex kitchenware and can also be eaten, and it may be better with some small designs to protect the environment. For groups living in dormitories, such as students or workers, they often have limited kitchen conditions, so they need easy-to-cook, store, and affordable prepared dishes. In terms of channels, because Freshippo's supply chain operation center has been completed in three places, Freshippo can consider entering the B-end prepared food and beverage market, especially the group meal market, docking with some enterprises to provide them with prepared food business meal services. For the platform's competition, Freshippo can increase the proportion of self-owned brands of prepared dishes. Compared with non-self-owned brands, consumers will trust the platform's self-owned brands to a certain extent, especially after-sales links such as fresh products return and exchange [12].

## 3. Freshippo's Competitive Advantage

### 3.1. User Loyalty

Freshippo's differentiation strategy of "fresh and prepared dishes" effectively distinguishes the differences between itself and its competitors and brings strong user loyalty. In Freshippo, fresh prefabricated dishes refer to refrigerated short-life prefabricated dishes stored at 0-4 degrees Celsius with a shelf life of about 4 days. From the beginning to enter the precast food track, grasp the Freshippo of the future development direction of precast food, the line is the road of "fresh precast food," and the focus is on how to use the differentiation of precast food to enhance user loyalty. Since

2017, Freshippo has launched hand-made fresh wontons. In 2018, seasonal prefabricated products such as chestnuts, eight treasures rice, green balls and zongzi were launched. In 2019, the first refrigerated baked fish semi-finished product was launched, with annual sales exceeding 25 million yuan and increasing user loyalty to Freshippo. Freshippo's New Year's Eve dinner series has also attracted loyal consumers. In 2022, the sales of pre-made Chinese New Year dishes increased by 345% compared with that of the 2021 Spring Festival. The most popular Chinese New Year dishes are mainly time-consuming and laborious, "big dishes" and "hard dishes," the mainstream consumer groups like to eat high-quality Chinese New Year's Eve meals but lack cooking skills or time.

### 3.2. Financial and R&D Efficiency

Freshippo's supply chain integration is the vertical integration of Freshippo's supply chain and logistics, which is conducive to improving operational and financial efficiency [13]. From the operational efficiency perspective, the freshly prepared dishes proposed by Freshippo have high requirements on the supply chain. Because of the freshness, the products often take only one or two days from production and processing to the hands of consumers, which requires the central kitchen of Freshippo to the Freshippo stores, and the supply chain of Freshippo stores to the hands of consumers must be efficient. After the central kitchen is put into operation, the marketing promotion of a product can be shortened from half a month to three days, greatly reducing the time and process required to launch new products. In addition, a regional research and development center has been set up in the central kitchen to research and develop local specialty-prepared dishes, and the workflow has introduced digital solutions. Each station has a tablet computer to control the processing process at any time, achieving full traceability and improving worker efficiency. At present, Freshippo omnichannel prepared dishes are sold more than 1,000 kinds per month, and more than 2,500 prepared dishes can be launched nationwide in a year to meet the changing tastes of consumers. From the perspective of financial efficiency, the integrated supply chain can form a monopoly supply in some agricultural markets, and the unique product categories can give Freshippo a greater price advantage [14]. In addition, the scale effect of the central kitchen will further reduce costs and promote the continuous development and innovation of prepared dishes, making it the core competitiveness of the Freshippo prepared dishes business.

In addition, the innovative introduction of the air suspension handling system in the Freshippo store, combined with the offline store logistics distribution center, fully ensures the timeliness of logistics distribution, from responding to orders, the distance from the best pick to unified shipment, the entire process takes only 10 minutes, can reach the goal of "3km 30 minutes", "5km 1 hour" [15]. During this 3-5 km delivery process, Freshippo's positioning technology provides real-time order logistics location sharing. This online and offline omnichannel sales method covers a certain range of consumers and improves consumption stickiness within the range.

## 4. Conclusion

The success of Freshippo in the prefabricated food circuit comes from the continuous improvement of its differentiated competitive strategy. In the face of the increasingly fierce competitive environment, if enterprises want to obtain the final victory, they must first do an excellent job of product differentiation positioning and use big data technology to grasp the real needs of consumers. Secondly, superior-quality prefabricated dishes usually have a short shelf life, so a fast supply chain is needed, and enterprises need to control the operation of the supply chain in terms of efficiency and cost. In addition, enterprises need to use new retail to reshape the retail logic of man goods and fields and enrich consumers' retail experience. Finally, in the face of a variety of competitors, enterprises should be good at learning their advantages and improving according to the actual situation of their enterprises. In this way, companies that meet consumer demand and cost control will continue to increase user loyalty, revenue, and efficiency and succeed on the prefabricated food circuit.

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