

Analysis of the New Retail Offline and Online Marketing Model in the Context of the Covid-19

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Abstract. The analysis of the new retail online and offline marketing model from traditional retail to consumer experience-centred and combined with internet technology is explored against the backdrop of the coronavirus epidemic “Covid-19”, to further understand the concept and definition of new retail, and to break down the new retail marketing model, compare the platform model, the self-operated warehouse + home delivery model, the shop + home delivery model and the community group buying model. The operational flow diagram of each model is given visually, as well as the market value of the searched stocks or the profitability data of the shops. It summarises the characteristics, strengths, and weaknesses of the model make constructive suggestions and recommendations based on the results of the analysis and concludes with an outlook and forecast on the future development of new retail.

Keywords: New retail; O2O; Covid-19; Marketing models.

1. Introduction

1.1. Background

In early 2020, a sudden outbreak of the epidemic “Covid-19” swept through the global economy like a tornado and had a huge impact on people's lives. As a result of the epidemic, China decided to adopt a closed epidemic control policy to limit the spread of the epidemic through nucleic acid testing and quarantine policies. As a result of the policy impact, the retail industry entered a winter of development, especially the physical retail industry faced risks and challenges from all sides. At the same time, the community-based control also brings new opportunities to the retail industry, based on the virtual community through the computer network as a communication carrier, the use of big data logic to portray the virtual image of the user and to meet the needs of consumers with personalized and customized requirements, thus realizing the change from a single offline sales model to a new retail model that integrates online and offline.

1.2. Concept of new retail and research significance

In 1996, Japanese scholar Masao Nakanisi proposed a new “wheel of retail” theory based on the “Wheel of Retail” theory and the “Vacuum Hypothesis” theory, explaining the reasons why consumers accept new businesses, the competition between new businesses and existing businesses, and the reasons for the formation of new businesses. He explained why consumers accept new formats, the competition between new and existing ones, and the reasons for the formation of new formats [1]. In October 2016, at the Yunqi Conference, Jack Ma proposed that “in the next ten or twenty years, there will be no e-commerce, only new retail, which means that online and offline and logistics must be combined to create a true new retail.” On 11 November 2016, the General Office of the State Council of China issued the Opinions on Promoting the Innovation and Transformation of Physical Retailing (Guo Ban Fa [2016] No. 78), which clearly defined the guiding ideology and basic principles for promoting the innovation and transformation of physical retailing in China. With the iteration of the new retail concept, this model of in-depth integration between online and offline is also widely used under the background epidemic “Covid-19”. The research and exploration of this new retail model are of great significance in achieving a shift from traditional retailing to modern retailing by integrating it with modern internet technology.

1.3. Difference from traditional e-commerce

Different from traditional e-commerce, like Alibaba based on Alipay or Tmall platform user data to open Freshippo, Meituan based on itself to open Meituan Youxuan, or online applets like Missfresh and Dingdong Grocery, even the traditional Yong Hui supermarket, RT-Mart opened an online small program to provide home delivery service. The creation of these platforms has opened up a new definition of retail. This “new retail” model has broken the previously closed state of traditional e-commerce online and offline, allowing online and offline to integrate, complement each other and rely on each other [2]. The restrictive nature of offline shopping in the epidemic era has also led to the creation of these online platforms and better integration of online and offline marketing models, with online transactions, offline experiences and efficient logistics allowing consumers to form consumption habits, even in the post-epidemic era.

1.4. Overview

Based on the above, this paper focuses on the online and offline marketing models adopted by the challenging retail industry in the epidemic era and the post-epidemic era. It analyses the advantages, disadvantages and operational models of different new retail model platforms and provides a brief outlook on their future.

2. Comparative analysis of new retail online and offline models

Traditional e-commerce is to deliver products directly to consumers through the Internet using self-built logistics or third-party logistics, while the new retail model Combines online and offline models and has four main models, namely the Platform model, the Self-operated front warehouse model, the In-store + In-home model and the Community group buying model

2.1. Platform model

The platform model is to provide home delivery services to consumers through the cooperation between the established online platforms such as Jingdong and Tmall, and offline supermarkets, convenience stores and retail shops.

Take Tmall small shops¹ as an example, through the business model of joining the community around B2B small shops for transformation, commodity procurement is mainly from Alibaba's RetailTong and local suppliers to obtain, in the source of this piece of Alibaba's accumulated Tmall, Taobao brand to enhance the richness of small shop sources and have a price advantage, at the same time will give priority to online orders and offline shop inventory data connection will be distributed to the order from the user The nearest Tmall shop, with its own logistics brand Cainiao Logistics as the transport medium, can deliver products quickly in a short time, unlike online e-commerce, which needs to be shipped from the storage place after a long period.

¹ Tmall Small Shop is an offline retail shop launched by Alibaba to open up online and offline channels by way of brand licensing and franchising.

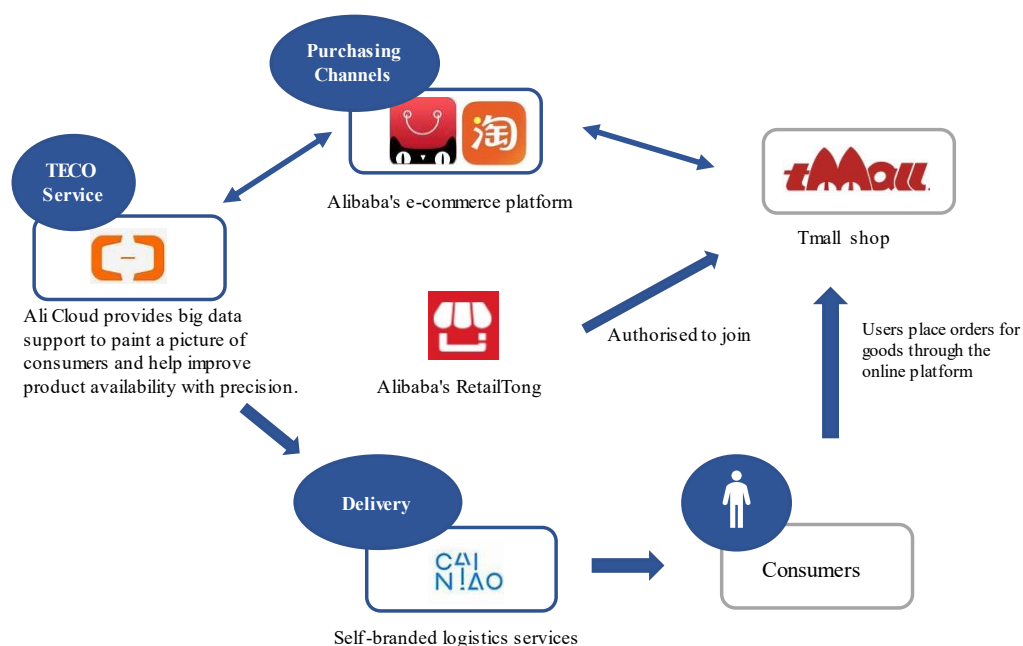


Fig. 1 Tmall small shop's Online and offline operating models

According to official statistics, Alibaba RetailTong has achieved the coverage of more than 1 million offline Tmall small shops in 17 provinces at the strategic press conference on September 3, 2018, while on August 28, 2020, this number rose to 1.3 million shops and covered 85% of the market capacity of 21 provinces exhibition. From the visual data given in the report, it is clear that Tmall small shops are continuously joining the expansion, accumulating shop resources in large numbers while also facilitating the advancement of the online model in the epidemic era, while the increased coverage enables more accurate and rapid delivery of goods. But there are also certain disadvantages, the first point is that the threshold for joining is low, and the supervision is not in place causing many small shops to operate poorly, reducing the brand reputation [3]. There is also the shop's space limited, and the category of goods cannot be as complete as the online e-commerce model, as well as the addition of shops as middlemen, which raises costs.

Advice for Tmall small shops: with a large range of shop coverage the most important thing is to improve the publicity rate of the online model so that the online and offline models are better integrated into community life, to take advantage of its convenience and speed.

2.2. Self-operated front warehouse + In-home model

Missfresh² pioneered the front warehouse model + home delivery model, by establishing an extremely fast cold chain logistics system in more than 20 major cities across the country, to provide high-quality fresh food one-hour delivery service, the number of front warehouses opened once exceeded 1500, and each front warehouse covers a 1-3 km radius around.

² Missfresh is a fresh O2O e-commerce platform that has established a cold chain logistics system to provide users with a 2-hour delivery service for fresh products



Fig. 2 Missfresh's Online and offline operating models

The typical characteristics of China's urban household structure have changed considerably from the past, and the age structure of Chinese Internet consumers (see Fig. 3) has seen the rise of younger consumer groups and the rapid overlap of "Internet" and "grocery" groups, which are the target groups of Daily These are the target customer groups for Missfresh. In contrast to the older age groups, the post-90s and post-00s have higher requirements for quality, variety and service of fresh produce [4].

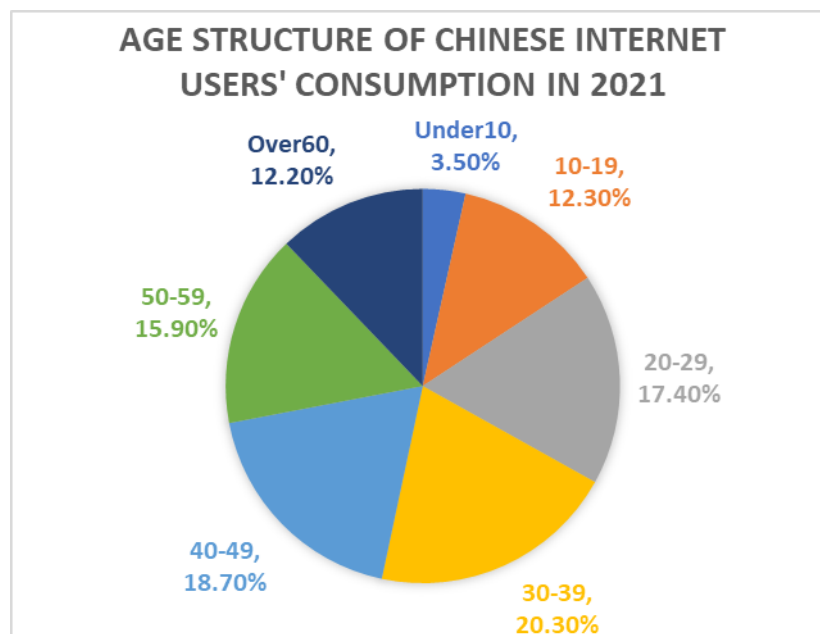


Fig. 3 Age structure of internet consumption in China in 2021 (Source: CNNIC, China Internet Network Information Centre)

The three core strengths of Missfresh: are logistics, merchandise and operations.

1. Logistics: the first to lead the front warehouse model and establish a cold chain logistics system, which reduces costs, improves the timeliness of logistics and delivery, and guarantees product quality.

2. Merchandise: a full-category selection model, which carefully selects quality products for customers, in line with the concept of young users wanting to buy quality products quickly, reduces selection costs, and improves decision-making and purchasing efficiency.

3. Operation: Through the membership system, higher membership privileges to maintain the stability of users, social sharing based on social platforms to promote user stickiness, and the membership system, help to collect consumer preferences, and accurate user profile, to achieve more effective marketing and promotion.

Missfresh, an innovative new retail marketing model, has grown rapidly and has continued to raise funds since its inception, and listed on the US stock market on 25 June 2021 (see Table 1)

Table 1. Missfresh financing [5] (investors omitted)

NO.	Time	Round	Amount
1	Dec-14	Angel round	US\$5 million
2	May-15	A	US\$10 million
3	Nov-15	B	RMB200 million
4	Jun-16	B+	RMB230 million
5	Jan-17	C	US\$100 million
6	Mar-17	C+	US\$230 million
7	Dec-17	D	US\$500 million
8	Sep-18	E and beyond	US\$450 million
9	May-20	Strategic investment	——
10	Jul-20	Strategic investment	US\$495 million
11	Dec-20	Strategic investment	RMB 2 billion

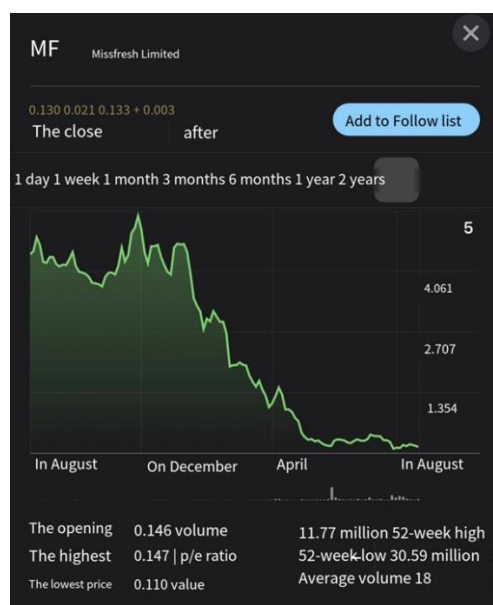


Fig. 4 Missfresh's stock quotes for the last year (Source: Apple Stock)

In terms of stock movement, it was still volatile at high levels at the end of '21, but over time in '22, the share price showed a precipitous fall.

In terms of stock movement, it was still volatile at high levels at the end of '21, but over time the stock price fell off a cliff in '22. The analysis of the situation is that during the epidemic, Missfresh took on the responsibility of supplying fresh food and goods to people under the closed policy, but in the post-epidemic era, the policy was released and people gradually returned to their usual lives, so the demand for this type of consumer model was greatly reduced. The first is the low efficiency of

the end of the logistics delivery, which is the key to the whole logistics delivery, as it cannot achieve the “last mile” problem [6]. This problem can lead to a time lag in the delivery of fresh produce to consumers, increasing the risk of product markings that cannot be chosen but accepted relative to the period of epidemic containment. Secondly, a large number of front-end warehouses are set up and the cost of warehouse operations is also high, and the declining cost of orders held high will lead to the possibility of declining revenue or negative profits. The most important thing is that compared to the previous platform model, in the post-epidemic era front-end shops are no longer the first choice, and small fresh food shops or Tmall small shops have visualization features that can guarantee the quality of goods. The asset-heavy model of Missfresh cannot compete with flexible convenience stores in terms of building merchandise advantages, and the market share will be squeezed out by the competition of many new retail platforms in the same industry, which to a certain extent weakens the advantages of Missfresh after they these platforms quickly form a scale.

Some suggestions for the operational shortcomings of Missfresh: the most essential thing about fresh produce is the quality of the product, so improve product packaging standards and reduce the rate of cargo loss; in addition to this in the post-epidemic era need to maintain the existing market share, make good use of the scale of Tencent's WeChat user group, improve the conversion rate and strengthen the penetration of the fresh produce market; and relative to the user doorstep fresh produce shops can supplement the content of the community section and do a good job of community promotion.

2.3. In-store + In-home model

This model enhances the integrated consumer experience through in-store consumption + online shopping + timely delivery, of which Freshippo³ is the most typical, adopting an integrated online and offline sales channel and building a “one big, four small” commercial system based on different consumption levels and scales, i.e., a large shop of 800 square meters or more as the “one big” shop. The “big one” covers shopping malls, while the “four small ones” are the Hema market (vegetable market form e-commerce), Hema mini (light version), Hema F2 (convenience store) and Hema small station (front warehouse), covering a more refined and sunken market. The main Freshippo shop is a powerful complex of functions, and this has six main features: customer information collection, advanced logistics support, proximity distribution, shop as warehouse, online and offline integration, and the introduction of new areas.

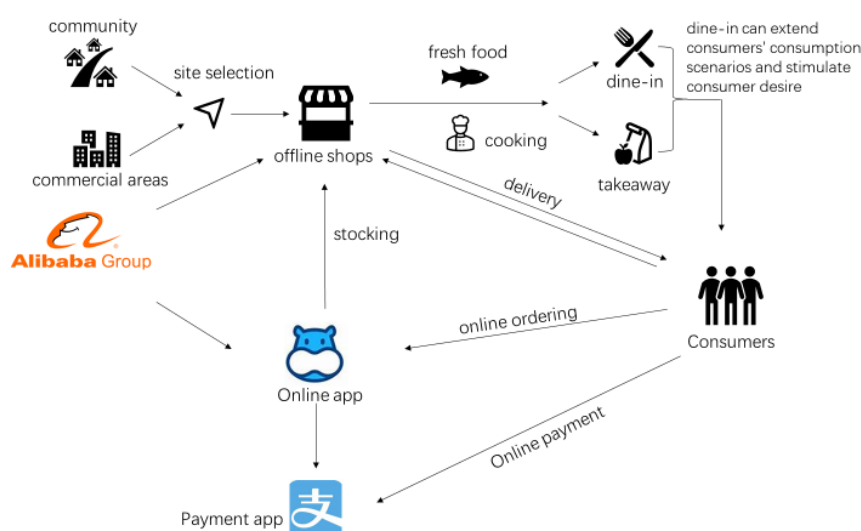


Fig. 5 Freshippo online and offline operation mode

³ Freshippo is the first new retail superstore in China, using big data, mobile Internet, intelligent Internet of Things, automation and other technologies and advanced equipment to achieve the most optimal match between people, goods and venues.

1. Customer information collection: Freshippo belongs to Alibaba Group's new retail brand, which synchronises user data with information from other platforms through Ali Cloud online and collects information through face recognition and other means offline to achieve precise positioning of users' needs.

2. Advanced logistics support, through the integration of its Ele-me takeaway platform resources, put forward the slogan "Make Everything 30", the Ele-me delivery platform has the takeaway as a delivery logistics line. Online orders can be placed as fast as takeaway.

3. Proximity delivery: In the context of consumer upgrading, it targets the younger generation of consumers who are more concerned about "good" and "fast" delivery within 3km to achieve the most optimal match between people, goods and venues.

4. Store as a warehouse: The shop is not only a store for offline retailing, but also a storage centre for online shopping; at the same time, through big data-driven distribution, inventory is reduced and to a certain extent, storage space is optimised to reduce costs. The hanging devices and transmission chains in the store are the embodiment of link digitization. [7], where consumers shop for goods in the shops and the goods are transmitted directly through the suspension devices in the back warehouse, enabling intelligent services and increasing the freshness of the consumer experience.

5. Integration of online and offline: customers can buy in-store and place orders on an online app.

6. Introduction of new areas: outside the shopping area, food and beverage areas, rest areas, etc. are added. The concept of a large kitchen is promoted, with high gross margin space and fast turnover of goods. Boxing increases the consumer experience through this novel shop layout, while in-store dining allows consumers to enjoy delicious food by paying only part of the processing costs. Doing so can extend the shopping scene of consumers and stimulate their consumption.

Reverse thinking about the online and offline operation mode of Freshippo Life, this diversified O2O shops in increasing the consumer experience at the same time, the integration of multiple scenes can not do everything. In addition, the main premium seafood is not a daily necessity, and secondly, it cannot meet the needs of low- and mid-range consumers. In addition, the advantages of such offline shops cannot be brought into play in the era of the epidemic, and while other new retail models are rapidly expanding in scale, they are also crowding out the living space of Freshippo Life. Therefore, when Freshippo develops its expansion strategy, this asset-heavy and cost-intensive business model will be a huge capital problem to achieve a greater market share [8]. In addition, this front shop and back warehouse may affect the online fulfilment capacity, according to public information, Freshippo's online order processing capacity is at most no more than 5,000 orders, which is far from competitors such as Missfresh, so it can be seen that shops and online do not have the best of both worlds this will limit the shops' order processing capacity.

Some suggestions for the operational shortcomings of Freshippo.

1. expand the user base: because with the expansion of shops, specific consumer groups will constrain its development and limit profitability, with the help of the Alibaba platform to expand the user base through diversion.

2. Reduce expansion costs through multiple channels and decompose warehousing according to product demand. Cities with high demand can adopt store-warehouse integration, while cities with relatively low demand can set up central warehouses to expand the coverage of each shop.

2.4. Community group buying model

Compared to the previously mentioned models, the community group buying model sacrifices part of the shopping experience (e.g. the logistics process cannot be tracked and most consumers need to pick up at home) in exchange for the best efficiency and price under the existing supply chain capabilities.

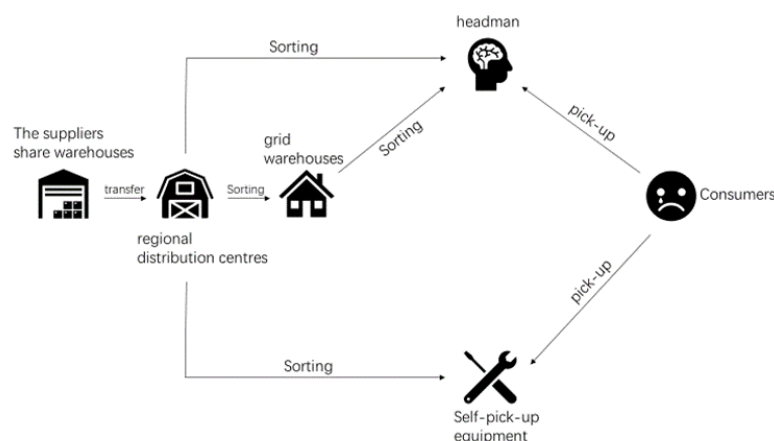


Fig. 6 Meituan Youxuan online and offline operating model

In the case of Meituan Youxuan⁴, for example, the shared warehouse prepares and packs the goods, then transfers them to the regional distribution centre after receiving the order and is responsible for delivery. This community group-buying model attracts consumers through the head of the group's initial attraction, and new users of Meituan Youxuan are fully rewarded when they complete their first order [9]. Another major advantage over other models is the reduction of intermediaries, saving high costs such as shop labour and rental time, and a lighter operating model, which not only reduces process costs but also reduces operational difficulties, making it suitable for full expansion [10]. And it can quickly penetrate residential communities from the sunken market and expand the consumer base in the early stages. However, the disadvantages are obvious: the initial cost of subsidies is high, and in addition to this, the efficiency of shopping requires that orders are placed online in advance and delivered the next day. Consumers cannot track the logistics and have to pick up the goods at the pick-up point, which reduces the consumer experience.

This community group buying model had a “hundred group war” in 2018 to the time of the epidemic to seize customers and markets, constantly setting the lowest prices, almost vicious competition, in a vain attempt to achieve monopoly, which shows how much competition this module has. But Meituan Youxuan can keep financing with the support of Meituan and has other businesses as a source of profit, and the platform that sticks to the end is the ultimate winner.

3. Conclusion and Outlook

3.1. Conclusion

Overall, each of the four operational models of new retail has its advantages and disadvantages. In terms of market share, Meituan Youxuan can be said to have an absolute advantage, as it has high retention in third and fourth-tier cities or universities and communities by focusing on the sinking market. This is similar to viral marketing, which increases the spread of the Meituan Youxuan platform through word-of-mouth, making the community more receptive to this new retail model. In contrast, Tmall small shops, with its branded background, lack the publicity of an online platform leading to its function of dispatching and distributing goods mainly through Alibaba's online e-commerce platform, which is more unrecognised by the general public. Freshippo targets consumers in first and second-tier cities with high clustering, making it easy to leverage the advantages of its store-warehouse model, which can quickly improve delivery services in nearby shopping districts while also refreshing the user experience with a diversified offline model and increasing brand favorability. However, it has to be said that this offline model is not useful in the era of the epidemic,

⁴ Meituan Youxuan is Meituan's community e-commerce business, which adopts a "pre-order + pick-up" model to enter the community e-commerce circuit, further explore the community fresh food retail format, meet differentiated consumer demand, and promote the accelerated integration of fresh food retail online and offline.

but rather limits the development of the company, which can only watch other companies seize the market as other platforms expand through the online model. When it comes to expansion, the cost of setting up an asset-heavy model like Missfresh with its front warehouse is high. Even with the cold chain logistics to ensure the freshness of the products, there is not much difference with the small community shops in the next comparison, so the advantages are relatively narrow. This is why this type of model can lead to a decline in profitability, failure to make ends meet or suspension of stores. In terms of logistics and delivery, Meituan Youxuan reduces operating costs by sacrificing the user experience, but this is also more convenient compared to small community shops. Therefore, on the whole, the community group buying model of Meituan Preferred stands out for its low cost, high efficiency and high coverage, and even if it costs money in subsidies, it can sustain its development and expansion with the support of Meituan Capital's other businesses.

3.2. Outlook

New retail itself is the application of new Internet technologies and new thinking to improve and innovate traditional retail methods, integrating cloud computing, big data and other sophisticated integration between online and offline as well as logistics, in such a way that a new look to engaging with consumers, breaking the traditional boundaries and enhancing the user experience. Especially in the epidemic phase, it has improved convenient and efficient commodity supply services for Chinese residents, which can play a residual role even in the post-epidemic era. The exploration of new retail models continues to evolve, each with its characteristics but also with flaws. Companies like Alibaba and Meituan are gradually building their new retail circles, using new retail to reduce customer acquisition costs. But there is no standard answer to the question of what new retail is, and no one can say what the barriers to this business are. On the other hand, new retailers are currently burning money to capture the market, ignoring cost management and lacking substantial technological breakthroughs. Let's hope that the road to new retailing will go further and further in the future.

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