

A Study on Differentiation Strategies Adopted by Hema Fresh Under the Impact of Community Group Buying

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Abstract: In recent years, the emerging retail model-community group buying is rapidly rising, relying on the “pre-sale + self-pickup” low-cost mode of operation to expand the market, gradually posing a threat to traditional retail enterprises. This paper takes Hema Fresh, a representative of the new retail industry, as the research object, and discusses how it can maintain market competitiveness through a differentiation strategy under the impact of community group buying. This study combines case study and comparative research methods to compare the differences between Hema Fresh and community group buying in terms of business model, user positioning, and cost structure. It is found that Hema Fresh has built a unique supply chain through the business model of “fresh food + catering”, scenario-based layout of commodity services, global direct picking and order agriculture, as well as precise operation and membership grading system relying on big data, which has effectively improved user stickiness and brand value, and avoided the dilemma of price war. This paper provides feasible strategy suggestions for the adjustment of the business model of new retail enterprises in the new industry environment.

1 INTRODUCTION

Under the background of the retail industry entering into deep digital operation and consumer upgrading, the traditional retail model industry is undergoing a profound structural reform. Since Alibaba first put forward the concept of “new retail” in 2016, China's retail market has begun a new exploration of the deep integration of O2O online and offline, a comprehensive layout of the supply chain, and the scenarioization of user experience in offline stores (Zhang, 2016). At the same time, with the continuous differentiation of public consumption demand and the rise of the sinking market, a new retail model based on community-wide, Internet-based group ordering - community group buying has rapidly risen in China, becoming an important part of the current retail consumption. Community group buying greatly compresses the cost of sales through the form of “pre-sale + self-pickup” and relies on the community group leader model to obtain users with low-priced goods, which has rapidly captured the market in third tier cities and especially ushered in an exponential

growth during the COVID-19 epidemic (Zhang and Luo, 2023).

However, the rise in community group buying has not only brought about the diversification of retail channels but also posed a huge impact on traditional new retail brands. As a representative of Alibaba's new retail brands, Hema Fresh has been established in first- and second-tier cities since 2016, creating a new era of fresh food supermarkets with the model of “fresh food supermarket + in-store catering + high-speed delivery”. In the face of the low price of community group buying platforms and wide coverage of marketing weapons, Hema Fresh how to maintain its own market share and brand value through differentiation strategy, has become a question worth exploring in depth. In this paper, under the title of “Research on Differentiation Strategy of Hema Fresh under the Impact of Community Group Buying”, we analyze Hema Fresh's coping strategies in terms of supply chain mastery, user experience development, and data-driven operation by using a case study and comparative study method. At the same time, this

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study analyze the differentiation strategies of famous global retail brands such as Whole Foods in the United States and Aldi in Germany in the context of overseas markets, and discuss the transformation logic of traditional retail enterprises in the new wave of consumption.

Looking around the world, differentiation strategy is a must for every retail enterprise. Differentiation is an important means for enterprises to cope with the challenges of price wars and increasingly diversified consumption patterns. Take Whole Foods in the US as an example, the brand targeted its sales at the organic and healthy food market, strengthened its supply chain control and customer experience, and successfully established a high-end supermarket brand image, which was eventually acquired by Amazon to strengthen its fresh food distribution network (Kumar and Steenkamp, 2022). German discount retailer Aldi has gained significant market share globally through its minimalist SKUs, efficient supply chain synergies, and seldom-experienced low-price strategy, and has developed solid brand loyalty, especially among price-sensitive groups. In the Chinese market, Hema Fresh has chosen a differentiated path of not directly participating in price competition in the face of a community group buying model with significant price advantages and lower selling costs. The essence of new retail is to reconstruct “people, goods, field”, Hema Fresh is precisely through the scenario-based consumer experience (such as “ready to buy, ready to process and consume” dine-in dining area, parent-child interactive experience), self-built supply chain, and global direct sourcing (such as the “Hema Village”), Hema Fresh has become the most popular brand in China. “Hema Village” model and direct sourcing of Norwegian salmon and Thai durian, etc.), and data-driven accurate membership grading system, to establish a strong consumer barrier (Zhang, 2016). Meanwhile, in order to cope with the sinking market, Hema Fresh has explored a variety of business layouts, such as “Hema mini”, which covers the community, and “Hema X”, a warehouse-type members' supermarket, to flexibly cover different consumption levels and living radii.

The explosive growth of community group buying after the epidemic shows that consumers' demand for convenience and price sensitivity has risen, while also exposing problems such as difficulty in controlling the quality of goods and unstable fulfillment experience (Zhang and Luo, 2023). This provides room for Hema Fresh, which takes advantage of high-quality goods and an efficient supply chain, to differentiate itself from the

competition. Hema Fresh has further strengthened user stickiness and repurchase rate through full supply chain control, differentiated SKU creation and digital inventory management (Zhang et al., 2024).

In summary, this paper will focus on the development status of community group buying, the competitive environment and challenges faced by Hema Fresh, analyze the implementation of its differentiation strategy, and put forward strategic recommendations for the sustainable development of future-oriented new retail enterprises.

2 DEVELOPMENT STATUS OF COMMUNITY GROUP BUYING

With the rapid development of mobile internet and social media, as well as the continuous advancement of supply chain management technology, China's retail industry has experienced radical changes in the past decade. In this process, community group buying has rapidly emerged as an emerging retail model and become an important force in retail channel innovation. Community group buying is mediated by microblogging groups and social networking tools, with “group leaders” acting as nodes, organizing community residents to make collective reservations, and greatly compressing the logistics and distribution costs of traditional retailing through centralized purchasing, distribution, and self-pickup modes (Zhang and Luo, 2023). This model not only improves supply chain efficiency and reduces operational costs but also has high customer acquisition efficiency and stickiness through word-of-mouth effects.

Community group buying has shown strong penetration especially in China's third- and fourth-tier cities. Because of the relatively weak traditional retail infrastructure in these areas, high price sensitivity of consumers, and close community relations, community group buying has quickly won a wide range of user groups by virtue of low prices, convenience, and acquaintance economy. The essence of this model is the redefinition of the relationship between “people, goods and venues” - consumers no longer rely on traditional shopping malls, but through social networks to achieve online daily consumption and go to the store.

According to the data released by Avery Consulting (2023), China's community group buying market scale has exceeded RMB 100 billion in 2021, with 646 million users and an annual growth rate of over 37%. Especially during the COVID-19

epidemic, community group buying achieved explosive growth due to the unique advantage of “no-touch delivery” as offline consumption was restricted and residents' demand for no-touch shopping surged (Zhao et al., 2021). At the peak of the epidemic, some leading community group buying platforms, such as Meituan Youxuan and DuoDuo Grocery, once exceeded 10 million orders in a single day, dramatically changing people's shopping habits and lifestyles.

However, despite the strong potential and growth of community group buying, it has also revealed a series of structural problems. First, due to the fierce competition in the market, major platforms have seized users through price subsidies and promotions, resulting in a profitability model that relies heavily on capital transfusions and questionable long-term sustainability (Chen and Huang, 2022). Many small or emerging platforms were eliminated from the market in a short period of time because they could not afford the high customer acquisition and operating costs. In addition, for the sake of rapid expansion, some platforms have insufficient ability to control the quality of goods and lose supply chain management, resulting in problems such as fresh goods not being fresh and unclear sources of goods, which weakened the trust of some users.

Secondly, community group buying is highly dependent on the organization and mobilization ability of the group leader. As an important intermediary linking platforms and consumers, group leaders' service quality and personal credibility directly affect user experience (Xu and Deng, 2022). Once the leader is replaced or his or her service ability decreases, it is very easy to lose users. Therefore, platforms have invested heavily in managing, training and motivating tour leaders, but it is still difficult to completely solve the contradiction between standardization and scale expansion. This reliance on individual group leaders makes community group buying always have the hidden problems of low management efficiency and quality fluctuation in the process of development.

Overall, although community group buying has gained a large number of users and transaction scale in a short period of time through the ultimate price and convenient experience, there are still obvious shortcomings in supply chain stability, commodity traceability and safety, brand building and user loyalty. This provides a strategic opportunity for traditional retailers, especially the representatives of new retailers, such as Hema Fresh, who have advantages in quality, experience and supply chain

control, to realize a breakthrough through differentiated competition.

3 THE CURRENT SITUATION AND CHALLENGES OF HEMA FRESH

Since its creation in 2016, Hema Fresh, as an important layout of Alibaba Group's “new retail” concept, has quickly become an important representative of China's new retail transformation. The core of new retail is to break the traditional online and offline split model, using big data, artificial intelligence and other new technological means to reconstruct the relationship between “people, goods and field”, in order to achieve a more efficient and better quality of consumer experience (Li and Wang, 2021). In this context, Hema Fresh innovatively integrates fresh food supermarkets, catering experience and instant delivery service, creating a full chain consumption scene integrating shopping, catering and delivery, which greatly improves user experience and shopping efficiency.

By the end of 2022, Hema had 329 stores in 27 major cities across the country (Alibaba Group, 2022), with store locations mainly in the core business districts and communities of first tier and new first-tier cities, forming a network system of 30-minute high-speed delivery within a radius of 3 kilometers.

Hema's core competitiveness is centered on three major aspects. The first is the global fresh food direct supply chain, which ensures the freshness and quality of fresh goods by establishing direct supply relationships with overseas farms, fisheries, orchards, etc.; the second is the highly efficient digital operation system, which relies on Alibaba's cloud computing and big data capabilities to achieve accurate inventory management and intelligent replenishment; the third is the scenario-based and diversified consumer experience design, which breaks the limitations of a single shopping scenario of traditional supermarkets and makes shopping a unique experience that combines dining, socializing, experience, and entertainment. It has become a lifestyle that combines dining, socializing and experiencing.

However, in the context of the strong rise of community group buying, the development of Hema Fresh has gradually exposed a series of serious challenges.

The first is cost pressure. Hema adheres to the instant delivery service, which it greatly improves the customer experience, but it also brings much higher fulfillment costs than traditional retail and community group buying platforms. According to statistics, Hema's instant delivery and scene operation-related costs account for more than 15% of its total revenue (Chen and Huang, 2022), while the fulfillment cost of community group buying is only about one-third of that of Hema's, thanks to its "pre-sale + self-pickup" model. This high-cost structure creates a huge contradiction between scale expansion and profit balance, exacerbating Hema Fresh's response pressure.

Second is the risk of user loss. As community group buying platforms have attracted a large number of price-sensitive users through large-scale subsidies and low price strategies, some low- and mid-range consumers have begun to flow to group buying platforms, leading to a slowdown in the user growth rate of Hema Fresh in the first- and second-tier city markets where it was originally rooted (Deng and Ma, 2022). Community group buying meets users' high demand for cost-effectiveness, while Hema is positioned in the mid-to-high-end market with a high customer unit price, which to a certain extent undermines its attractiveness to price-sensitive consumers and poses the risk of potential user diversion.

The third is the lack of penetration of the sinking market. Community group buying has expanded rapidly in third- and fourth-tier cities and the following cities with a flexible social network penetration model, quickly filling the traditional retail gap area. On the other hand, Hema Fresh, due to its more asset-heavy model (which requires standardized store construction and cold chain distribution system), stores are mainly laid out in Tier 1, Tier 2 and new Tier 1 cities, resulting in its low coverage in the sinking market (Xu and Deng, 2022). In the face of the huge consumption potential and growth space in the sinking markets, Hema has not yet established an effective localized operation system and lightweight expansion mode.

Finally, the profit model is limited. Hema sells high-quality fresh food and instant service, but the "three highs" structure of high rent, high labor costs, and high fulfillment costs has put long-term pressure on its overall profitability (Zhu and Li, 2023). During the epidemic, consumers' willingness to consume declined and the fluctuation of offline traffic increased, further increasing the difficulty of Hema's store operations in terms of break-even. Although Hema attempted to reduce costs and increase

efficiency by launching a variety of formats such as Hema mini and Hema X member stores, the overall profitability model needs to be further optimized and validated.

Although Hema Fresh has achieved initial success in the field of new retail, creating a new model of online and offline integration and experiential consumption, in the face of a new round of price wars brought about by community group buying and the trend of market sinking, Hema still needs to further strengthen its own differentiated competitive advantages through strategic adjustments and innovative exploration, in order to achieve sustainable development in the future competition.

4 HEMA FRESH'S DIFFERENTIATION STRATEGY

4.1 Scene Experience Innovation: Enhancing User Stickiness

Hema Fresh has shifted from a single-store format to a lifestyle experience by constructing consumption scenarios, creating multiple services such as a seafood cooking area, a live baking area, and a parent-child interactive space (Zhang et al., 2024). This experience-centered strategy effectively raises the customer unit price and repurchase frequency, forming a competitive barrier that is difficult to replicate by community group buying.

Whole Foods in the U.S. has successfully shaped its image as a high-end supermarket by strengthening its consumer experience and lifestyle culture, focusing on its organic and sustainable food supply chain, creating a "healthy and environmentally friendly" consumer atmosphere, and enhancing the user's sense of belonging by means of on-site cooking and community activities (Kumar and Steenkamp, 2024). Kumar and Steenkamp, 2022). Hema Fresh's experience innovation is similar to Whole Foods' differentiation path.

4.2 Global Supply Chain Integration: Ensuring Commodity Power

In order to ensure the quality of commodities and supply chain stability, Hema Fresh has built a global direct sourcing system, establishing direct cooperation with more than 100 countries, such as Norwegian salmon, Thai durian, etc., to realize efficient supply chain control (Alibaba Group, 2022).

Meanwhile, Hema has built its own “Hema Village” order agriculture base to promote the standardization of agricultural products and reduce intermediate circulation losses.

Similarly, Germany's Aldi supermarket has achieved both high quality and low cost through global sourcing and extreme supply chain streamlining, which has greatly improved operational efficiency and profit margins by controlling the number of SKUs (usually about 1,400 items) and long-term stable supply chain partnerships (Gielens and Steenkamp, 2019). Hema Fresh is taking a path to its own efficient commodity strategy through supply chain innovation.

4.3 Data-Driven Operation: Precision Marketing and Inventory Optimization

Relying on Alibaba's powerful big data capabilities, Hema Fresh has achieved precise analysis of user consumption behavior, dynamic pricing, intelligent replenishment and personalized management of membership rights (Deng and Ma, 2022). By predicting demand fluctuations through AI, it adjusts prices and promotional strategies in real time and discounts in the evening, increasing inventory turnover by more than 20% and effectively reducing operational risks.

In addition, the membership grading system is also the key to its differentiated competition. Launching programs such as Black Gold Membership and Hema X Membership Store, giving members exclusive rights and benefits (e.g., customized goods, free delivery, and exclusive discounts), effectively increasing the consumption frequency of high-value customers (Sun and Zhou, 2023).

4.4 Multi-format Layout: Adapting to Segmented Market Demands

Hema has flexibly laid out Hema mini (small community stores) and Hema X member stores (high-end warehousing supermarkets) for different cities and consumption levels, forming a multi-level and wide-coverage retail network (Li and Wang, 2021). This strategy helps to capture the opportunities in the sinking market of community group buying, while holding on to the mid-to-high-end customer base in Tier 1 and Tier 2 cities. In the sinking market, community group buying is expanding rapidly due to its low-price strategy and convenient community pick-up mode, which is impacting the traditional fresh food retail. Hema Fresh has keenly captured the

consumption characteristics and needs of the sinking market and launched Hema mini, a small community store format. Hema mini is characterized by “small and precise”, with a store area of about 300-500 square meters, and its location is close to the community and deep into the residents' living circle, which greatly shortens the distance to consumers and meets the high demand for convenience in the sinking market (Tian et al., 2024a). Facing the middle- and high-end customers in first- and second-tier cities, Hema X member stores provide consumers with high-quality and cost-effective shopping experience by positioning themselves as high-end warehousing supermarkets, effectively holding on to the middle- and high-end market share. Hema X member stores are large in size, usually over 10,000 square meters, with spacious shopping space and sufficient merchandise stock, creating a comfortable shopping environment (Song et al., 2023).

5 CONCLUSION

To summarize, under the market environment of explosive expansion of community group buying and intensified price war, Hema Fresh has successfully avoided direct low-price competition with community group buying platforms through scene experience innovation, global supply chain integration, data-driven precise operation and multi-industry layout, and established a composite competitive strategy centered on quality, experience, technology and brand. Drawing on the successful experience of Whole Foods and Aldi and other international retail giants in differentiation strategy, Hema's practice shows that traditional retail enterprises in the process of new retail transformation, the only way to be invincible in the competition is to adhere to the simultaneous improvement of commodity power, experience and digital capabilities.

In the future, Hema Fresh needs to further deepen the layout of the sinking market, strengthen the supply chain traceability system, enhance the stickiness of the membership system, and explore the new mode of retail + technology + service deep integration, in order to continue to lead the change in the evolving retail ecology.

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