

● Retailer Dollar General will release third-quarter earnings on Dec. 7

● Cybersecurity company Palo Alto Networks holds its annual meeting in Santa Clara, Calif.

● New drugs will be discussed at the American Society of Hematology meeting in Atlanta

China Doesn't Want To Go to the Store For Groceries, Either



● Watch out, Amazon. Brick-and-mortar giant Wal-Mart already has a thriving online grocery business—in China

Amazon.com Inc. has sent a chill through the U.S. supermarket business. Its \$13.7 billion purchase of Whole Foods Markets Inc. stirred fears that it may solve one of the great puzzles of American e-commerce: how to sell fresh foods to online shoppers with the same speed and predictability that the industry has for, say, books or computers. But grocers also had better keep an eye on the world's largest brick-and-mortar retailer—Wal-Mart Stores Inc.—for some lessons on the future of online grocery shopping.

Wal-Mart has already developed a big online grocery delivery business in China, capable of transporting fresh produce from its shelves to homes within an hour. To accomplish that feat, it's created a network of chilled mini-warehouses, used artificial intelligence to tailor inventories, and employed an army of crowdsourced deliverymen to rush meat, fruits, and vegetables to customers' doorsteps. That could provide the megaretailer with plenty of insight and experience to keep tech upstarts from disrupting it out of one of its core U.S. businesses.

"Wal-Mart's fresh-delivery strategy in China is actually the smarter strategy than in the U.S.," says Jennifer Bartashus, an analyst with Bloomberg Intelligence (BI). The model "in China is something they should really look at establishing in the U.S. if they want to do home deliveries properly one day."

Fresh food is considered the last frontier of Chinese e-commerce. Internet sales account for only a tiny fraction of China's 4.6 trillion-yuan (\$695 billion) annual market for fresh foods. Wal-Mart's efforts in China, where it has more than 400 stores, revolve around trying to tap into a convenience-craving, smartphone-obsessed population that views errands such as going to the supermarket or bank as unwanted burdens. Catering to such customers helped Alibaba Group Holding Ltd. and Tencent Holdings Ltd. grow into

two of the biggest internet companies in Asia.

Yet in a country where everything from forks to forklifts are bought online and same-day merchandise delivery is commonplace, purchasers of pork, bok choy, and fresh jujube fruit remain stubbornly loyal to bricks and mortar. Only 2 percent of fresh food was bought online in China last year, according to data from Euromonitor International.

"There's no doubt that it's convenient in specific situations, but I usually don't know what I need to buy," says Jing Wang, a 24-year-old media editor in Beijing. "So I still like to go to the supermarket and look around to decide what kind of things I need."

Margins in the fresh-food industry globally are in the low single digits, BI's Bartashus says, even without considering the costs of last-mile delivery. Factor in the perishable nature of the products, and door-to-door service looks like a losing proposition.

Wal-Mart believes it's cracked the code with its partner, JD.com Inc., China's second-largest e-commerce platform, with 260 million monthly users. Wal-Mart owns 10 percent of JD.com and has invested \$50 million in its Dada app, which crowdsources deliverymen for all kinds of products on JD's website. Grocery shoppers make orders for Wal-Mart's one-hour delivery through a section of JD's app called JD Daojia, and the drivers are assigned through Dada.

At the heart of Wal-Mart's operation are what it calls "dark stores," or convenience-store-size areas in its main locations that stock 1,500 different products such as bananas, pork ribs, frozen dumplings, and fresh chicken feet. Workers grab printouts of the online orders, zip through the aisles placing items in a bag, and exit the other side, where they hit a button summoning a delivery driver. The drivers are independent contractors, such as Uber drivers, with cellphones and scooters. The time from picking up the order printout to hitting that button can't exceed 10 minutes, or else the one-hour delivery is in peril.

Shelves are stocked with products based on order patterns for the surrounding area—meaning a store in northern China may have more soup ingredients as winter comes. The company adjusts each store's online inventory every four weeks, and the added information about fresh grocery demand from web orders helps boost the accuracy of Wal-Mart's product forecasting for offline stores. ▶

◀ “The digital part of the business improves the rest of the offline business,” says Ben Hassing, Wal-Mart’s senior vice president for China e-commerce. “By offering fresh on e-commerce, there are benefits to our business that go beyond simply selling more fresh.”

By yearend, one-hour delivery to customers within a 3-kilometer (1.9-mile) radius will be available from 161 Wal-Mart supermarkets, and the company wants to expand the service. It’s also introducing free-standing dark stores that may be located farther than 3km from a Wal-Mart supermarket. That will widen the circle of customers who can get their groceries within an hour.

Wal-Mart’s efforts are bearing fruit. Third-quarter net sales in China increased 4 percent from a year earlier as one-hour delivery expanded to 140 stores, Chief Executive Officer Doug McMillon said during a Nov. 16 call with analysts. The company boosted its earnings forecast for the full year, and its share price subsequently reached an all-time high. “Investors are now much more confident in Wal-Mart’s approach to the China market,” Bartashus says. “With the JD.com partnership, there’s a sense of purposeful and considered growth.”

Wal-Mart has seen signs of pent-up demand for fresh food online, with online baskets now containing a greater percentage of such items

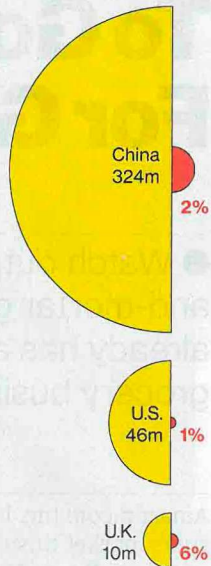
than a year ago, Hassing says. Customers buying fresh items also are twice as likely to repeat a purchase, he says.

Rivals want a piece of that growth. Alibaba’s chain of 20 Hema supermarkets already offers a range of fast delivery times upon checkout, but doesn’t guarantee them. And in November, Alibaba agreed to pay \$2.9 billion for a 36 percent stake in Sun Art Retail Group Ltd., which operates about 400 hypermarkets in China. The deal weds China’s biggest e-commerce platform with its biggest supermarket chain.

There also are startups such as Beijing Missfresh Ecommerce Co., backed by Tencent and U.S. investment firm Tiger Global Management LLC. Beijing Missfresh, which promises two-hour deliveries, has more than 1,000 mini-warehouses, and is on track to generate 3 billion yuan in revenue this year, CEO Xu Zheng says.

“Wal-Mart and JD may have a head start, but Alibaba’s reach with consumers and its mobile payments platform cannot be underestimated,” says Steven Kwok, associate partner of OC&C Strategy Consultants Ltd. “Things in China can change rapidly when Alibaba steps on the gas pedal.”
—Rachel Chang

- Fresh-food retail, 2016
- Total sold in tons
- Share sold online



THE BOTTOM LINE Wal-Mart’s net sales in China rose 4 percent in the third quarter from a year earlier as one-hour grocery delivery grew. Online sales of fresh foods kept in mini-warehouses helped.