



Hema stores power everything via mobile: After downloading an app, shoppers scan items — all of which have barcodes — to learn more about products and recommended items, and to pay for them.

Has Grocery's Future Already Passed 'Go'?

AMAZON'S CASHIERLESS CONCEPT IS INNOVATIVE, BUT ALIBABA'S HEMA STORES MAY SHOW GROCERY'S TRUE POTENTIAL.

By Randy Hofbauer

I t's been less than two months since Amazon debuted its Amazon Go cashierless store concept to the public, following 10 months of tweaking the location's "just walk out" system, which uses driverless car technology to detect and charge a person for a product when it's removed from the shelf and the store. What some retailers might not know, however, is that Amazon founder and CEO Jeff Bezos isn't the first retail visionary to execute such a concept.

Jack Ma, founder and executive chairman of China-based retailer and technology company Alibaba Group Holding Ltd., already has a similar concept operating in a number of small-format stores. China's BingoBox stores rely on RFID technology to detect what a person is walking out with and charge him while the items are being scanned upon exit. Although not the same technology that Amazon Go employs, it



Key Takeaways

- ▶ **Alibaba's Hema supermarket chain in China marries online with offline in a way that should make U.S. grocers take notice.**
- ▶ **Mobile needs to become the main way that customers interact with U.S. grocers.**
- ▶ **U.S. grocers should team up with large digital-format companies, seeking out opportunities to collaborate with them in areas such as voice ordering and fulfillment of online orders.**
- ▶ **They should also focus on location, and bear in mind technology's costs and inefficiencies.**

serves the same purpose — and, according to Technode, may be replaced by cameras with image-recognition technology that can scan and charge.

For those who may know the company only by name, Alibaba Group currently operates as the world's largest retailer and one of its largest internet companies. While its businesses are diverse, it's arguably best known for its three major ecommerce platforms: Taobao, a consumer-to-consumer website similar to eBay; Tmall, a business-to-consumer website for local Chinese and international businesses to sell branded products to consumers; and Alibaba.com, the world's largest online business-to-business trading platform for small businesses.

But it's also making its mark in brick-and-mortar, especially with groceries. And while BingoBox is quite the forward-thinking concept, it's a chain of supermarkets that's enabling Alibaba to really show the world what the future of retail looks like — and from which U.S. grocers can take inspiration.

Here Comes Hema

Hema — not to be confused with the Dutch retail chain of the same name — supermarkets are said to be the “purest manifestation of Alibaba's ambitions to marry online with offline,” offering shoppers a “more efficient and flexible” shopping experience, according to Alibaba's news site. Using technology and data to provide a seamless and more efficient shopping experience, Hema powers everything via mobile: After downloading an app, shoppers scan items — all of which have barcodes — to learn more about products and recommended items, and to pay for them.

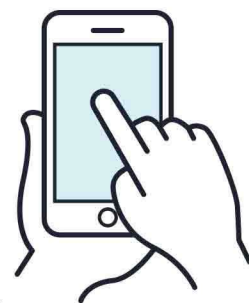
Additionally, a dining area allows patrons to eat as they shop, letting them hand-pick fresh food, including live seafood from a large aquarium. To save hassle, the in-store kitchen can cook food for eating on the spot.

For those who prefer to shop online, stores also serve as fulfillment centers, with each one serving a mile-and-a-half radius and delivering thousands of orders per day, each within 30 minutes. Customers order via the app, and orders are gathered by employees with scanners and bags sporting unique barcodes before being dropped off for delivery. Roughly 50 percent of Hema's store revenue is through these app orders that are delivered from stores, says Jack Chuang, partner in global firm OC&C Strategy Consultants.

Learning From Hema

Hema supermarkets arguably are the ultimate example of seamlessly blending online and offline shopping experiences, Alibaba Group CEO Daniel Zhang has said. And blending online and offline shopping experiences is exactly what U.S. grocers have made progress toward but not fully arrived at yet.

So if Hema is setting the standard, what must U.S. grocers do to seamlessly integrate the physical and digital?



Make Apps Central to the Experience

Creating a full picture of the customer based on his offline and online activity isn't easy. Early on, however, Alibaba invested in Alipay, an online payment account that also can be used for offline payments, particularly in grocery.

“They found a way to make loyalty not just a discount-based thing, but a benefit — a convenience,” says Tom Gehani, director of client strategy and research at New York-based business intelligence company L2 Inc.

Before shopping a Hema store, consumers download a mobile app that links to Alipay. Whether they're ordering online from home for delivery within 30 minutes or scanning barcodes in-store for product information, the customer is

empowered by the app and uses it for all points of interaction with the store, products and transactions.

And across all points of interaction, the app gives information that helps paint a full picture of the shopper, both online and offline. Data collected from transactions are used to personalize recommendations, while geographic data help plan the most efficient delivery routes, Alibaba says on its site.

“U.S. grocers need to do a lot more with mobile than just having a series of apps,” notes Bill Bishop, chief architect with Barrington, Ill.-based retail consultancy Brick Meets Click. “Mobile needs to become the main way their customers interact with them. Mobile payment is probably the biggest gap in the U.S. today; nevertheless, there’s a lot more to do to fully integrate mobile into the path to purchase.”

Test and Partner

Hema is one of Alibaba’s bigger retail tests, and its careful rollout and expansion are proof that food retailers can develop some of their most innovative ideas as small, quiet trials.

“You need to have a couple different pilots occurring at the same time,” affirms Scott Webb, president of Chicago-based digital solutions provider Avionos.

Although there have always been some rigid points of entry in grocery, the ways that people are changing their shopping habits and grocers are adjusting show the need for pilots, he notes. Even when a grocer can’t afford 18 months to introduce a new integrated POS system or develop and launch a shop-by-phone app, it can have a number of smaller pilots happening at once. This is where working with a partner can be beneficial.

Hema points to its parent company’s forward-thinking approach to the digital retail landscape, and U.S. grocers could stand to benefit from this. Amazon is a secretive and real threat, but Alibaba appears open to discussions — it’s already playing a role in helping some brick-and-mortar retailers make the digital transformation.

“Many of these retailers would be unable to achieve this transition on their own,” Bishop observes. “U.S. grocery retailers need to be

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—Gina Ashe, ThirdChannel

open to partnering with large digital-format companies, but they also need to search out new opportunities to collaborate with them in areas like voice ordering and fulfillment of online orders.”

U.S. retailers have taken note: In January, the *New York Post* reported that senior executives at the Cincinnati-based Kroger Co. held meetings with counterparts at Alibaba Group about a potential partnership to “speed up the integration of online and offline sales.”

Think About Location

It’s been said that 90 percent of the U.S. population lives within 10 miles of a Walmart store, so pickup is a good option for many of the retailer’s customers. On a similar note, Alibaba’s Hema stores are strongly location-focused for customer convenience — built for those living within a 1.5-mile radius of them.

“And they’ve been building these in very densely populated parts of Shanghai and Beijing,” L2’s Gehani says. “I think that’s something grocers in general are going to have to think through: What is a highly urban-density format going to look like versus [one for] a rural area?”

Be Aware of Costs, Inefficiencies

Hema’s model has many merits, but they bring additional costs. Alibaba has been challenged to make Hema profitable, given the stores’ massive size and many hirings for managing delivery and inventory fulfillment. Of course, this is to be expected, as, just like in any market, expanding in grocery will bring growing pains, points out Gina Ashe, CEO of Boston-based retail intelligence platform ThirdChannel.

“Hema’s challenges should serve as a lesson for grocery stores to test out new concepts and formats in stages without biting off too much, too fast,” she notes.

Sure, shoppers will love having the freedom to skip checkout lines and place orders for pickup minutes before they arrive, Ashe notes. But they won’t love arriving at a store if their order isn’t ready on time, or running into technical glitches if the technology isn’t yet ready for scale.

“It is more important for the U.S. grocer to think through an ecommerce mindset,” says OC&C’s Chuang, such as “what drives traffic, how to collect data, how to use customer data to drive better assortment and conversion, and what excites customers in-store.” **PG**

Although some consumers prefer to shop from home, amenities such as an in-store aquarium that lets patrons hand-pick seafood for home, or on-site preparation and consumption, further bring together the physical and digital.

