

Research on the Operation Management of Hema

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Abstract

Hema is a new retail brand owned by Alibaba, specializing in fresh products, which has developed rapidly in recent years. By June 2019, it had 152 stores in 21 Chinese cities. Its service concept of freshness and 30-minute delivery are widely welcomed by consumers. Hema has become the flagship brand in the new retail industry. This paper mainly discusses the operation management of Hema, including site selection strategy and supply chain management, and analyzes its characters to look for reasons for its success. This experience can be used for reference by other enterprises.

Keywords

Operation Management; Site Selection; Supply Chain; New Retail.

1. INTRODUCTION

Hema, is Alibaba's star brand in the new retail sector, which stores integrate supermarkets, vegetable markets, restaurants. It takes fresh food as its main product and adopts online and offline forms and put forward the slogan of "Fresh. Beautiful. Life". Hema ensures the absolute freshness of the products sold as the selling point, with the characteristics of rapid distribution to attract many consumers. Since its establishment in 2015, Hema has achieved rapid development. In 2016, the turnover of a store reached 250 million, and the number of stores reached more than 20 at the beginning of 2018, more than 90 at the end of November 2018, and the current number of stores reached 152. The difference between Hema and traditional retail is that Hema utilizes big data, mobile Internet, intelligent Internet of things, automation and other technologies to achieve the optimal matching among people, goods and fields. From supply chain, storage to distribution Hema has its own complete logistics system.

As the benchmark brand in the new retail industry, Hema has its distinctive characteristics. As an offline store, its online orders exceed 50%. The free 30-minute delivery is even more attractive. The guarantee of absolute freshness also makes consumers desire to buy its product. Such an enterprise also has its own distinctive characteristics in its operation. This paper will make an in-depth discussion on Hema's operation strategy and analyzes its uniqueness in operation.

2. SITE SELECTION STRATEGY OF HEMA

2.1. Site Selection for City

At the end of February 2018, Hema had only 23 stores. But by the end of November, the number had quadrupled to 93. By June 2019, Hema had opened 152 stores in 21 cities in China, and many stores are still in preparation. Hou Yi, Hema's CEO, has said the number of Hema stores will continue to increase. It can see that Hema is expanding at a very rapid pace, and its choice of cities for stores is clearly deliberate consideration.

Figure 1 shows the distribution of Hema's stores in various cities, which can be found from [1]. It is obvious that Beijing and Shanghai are the two megacities with the largest number of Hema's stores. The two cities' stores account for a third of Hema's total stores. In addition, Hema's stores are basically distributed in provincial capital cities or relatively developed second-tier cities.



Fig 1. Distribution of Hema's stores in various cities

It can be seen from the above results that Hema prefers to choose cities with relatively developed economy or transportation and cultural centers in the region, where consumption concepts such as e-commerce and mobile payment are relatively mature and people have strong ability to accept and consume new concept things. Compared with residents in less developed areas, people in these areas are more willing to try new retail consumption patterns, and easier to accept the new brand Hema. This is especially important for Hema, which is still in the stage of rapid development.

2.2. Site Selection of Store Location

Through the location analysis of Hema's stores, we can first find an obvious characteristic, that is, Hema's stores are often not opened in the most core business district of the city. Take Beijing and Shanghai as an example. Take Beijing and Shanghai as an example, only two stores in Shanghai of Shanghai Bay and Yude Road respectively are in Lujiazui Century Avenue and Xujiahui business circle respectively. Beijing has no stores in very central business districts.

According to the conventional logic, stores location often tends to be distributed in the area where has the most developed business, large flow of people in the core business circle, why did Hema did not show favor to the core business districts?

Table 1. Hema's Stores Coverage

City	Average number of residents covered per store (unit: ten thousand)	Average housing price neighborhood of stores (unit: ten thousand Yuan per square meter)
Beijing	49.66	6.44
Shanghai	47.52	6.76

Table 1 shows the statistics of the average of Hema, which is from new first-tier cities research institute. As can be seen from the statistical results, the average population covered by a Hema store reached nearly 500,000. It's a relatively large number, and the price of the residential areas covered by it has reached 64,400 and 67,600 Yuan/m² respectively (nearly 9300 and 9762 \$/m²), which is higher than the average for the same period (58,000 in Beijing and 54,000 in Shanghai).

So, an obvious factor for the location of Hema store is the coverage of the store, which aims to cover more people as far as possible, also has certain requirements on the consumption level and business level nearby. In other words, Hema's store location is to pursue the residents with sufficient consumption ability and willingness to consume as much as possible. This is why Hema is not particularly keen on the core business district, which has a high level of business and a large floating population (but non-resident).

What is the reason behind this? In fact, it has to do with Hema's important selling point: delivery. "30-minute delivery" and "free delivery" are featured prominently on Hema's official website. Therefore, Hema's store location must ensure delivery as a very important factor. This is the reason why Hema set up fewer stores in the core business circle, and widely distributed in the second-line business circle.

3. SUPPLY CHAIN RESEARCH

3.1. Traditional O2O Fresh Product Supply Chain Model

Fresh products are indispensable necessities for residents' life. Trading platforms are gradually shifting from wholesale markets, farmers' trade centers and large supermarkets to e-commerce platforms. Fresh products include fruits and vegetables, meat, eggs and milk and other consumer products, which have the characteristics of fresh activity, easy consumption and high transportation cost. According to [2], the loss rate of fresh products in circulation in China is as high as 20%, mainly because of long circulation distance, long time, insufficient insurance level and other reasons.

However, O2O mode (Online to Offline) refers to the combination of online shortcut mode and Offline resources to achieve Online and Offline integration. Research shows that in the O2O framework, the supply chain model of "drainage -- transformation -- consumption -- feedback -- retention" is adopted to support the operation of fresh O2O with information technology. However, the traditional O2O fresh supply chain has the following problems:

1) High storage cost: due to the high requirements of fresh products on storage equipment and environment, traditional offline warehouse storage costs a lot, and because of the uncertain demand and supply, there is likely to be a large number of product losses;

2) Large losses in the process of transportation: traditional O2O fresh food industry mainly covers a large area with a large base, so the logistics distance is long and the transportation time is long. Moreover, due to the special requirements of fresh food products on the preservation time, the loss of products in this process may be as high as 30%.

3) Non-standard packaging;

4) Difficulty to break through the "last kilometer" problem [3], temporary storage trouble: for long-distance distribution, it is difficult to achieve "door to door", direct product distribution to consumers' homes. The delivery service level of most traditional O2O fresh products remains at the level of "online ordering and offline picking up". For consumers, the distance between picking up at the pick up point and nearby supermarkets and farmers' markets is not large. However, if fresh product logistics adopts door-to-door services, it needs a large number of deliverymen and costs a lot.

3.2. Supply Chain of Hema

In order to meet customers' requirements on the freshness of products, Hema has launched the "daily fresh" plan. This section studies the supply process steps of "daily fresh" to reflect the characteristics of Hema's supply chain which includes procurement sharing, storage and logistics sharing, automatic logistics, online and offline combination.

Procurement sharing. The "daily fresh" plan will send the sales plan of the next day to the cooperative farm base at around 4 PM every day, based on the sales situation of each product of the day. Farmers will pick, pack and send the cold chain to stores according to the plan, and conduct unified packaging and pricing. This B2B cold chain supply model avoids the transportation cost of 30 yuan per order of other fresh product stores, and avoids the traditional loss of 20-30% of fresh e-commerce to the greatest extent, enabling Hema to realize "fresh every day" with a gross profit of only 10% [4].

Storage and logistics sharing. Hema's storage and logistics sharing is also one of the highlights of its supply chain. From the replenishment system, Hema's workers in charge of picking up goods can directly take products from the shelves of stores, regardless of online or offline orders, without arranging extra storage areas. The inventory is just the goods left on the shelves. When the quantity of goods is less than a certain percentage, the system will automatically notify the supplier of replenishment. The efficient supply process makes it unnecessary for Hema fresh products to have excessive inventory and reduces storage costs.

Automatic logistics mode. The online order delivery process of Hema is shown in figure 2. Hema sets up a merge area in the back of the store, while the front desk uses an automated transmission system. The logistics belt is set above the store, and the goods are delivered from the front to the back through the logistics belt. According to the categories of goods in the store, the areas were divided. The sorting staff were arranged in each area. Each area was responsible for sorting goods with POS machine. Online orders are broken up into multiple parts and sent to staff in different areas. At the same time, the color of shopping bags needed for picking goods is divided into different colors according to the characteristics of goods according to temperature and storage conditions.

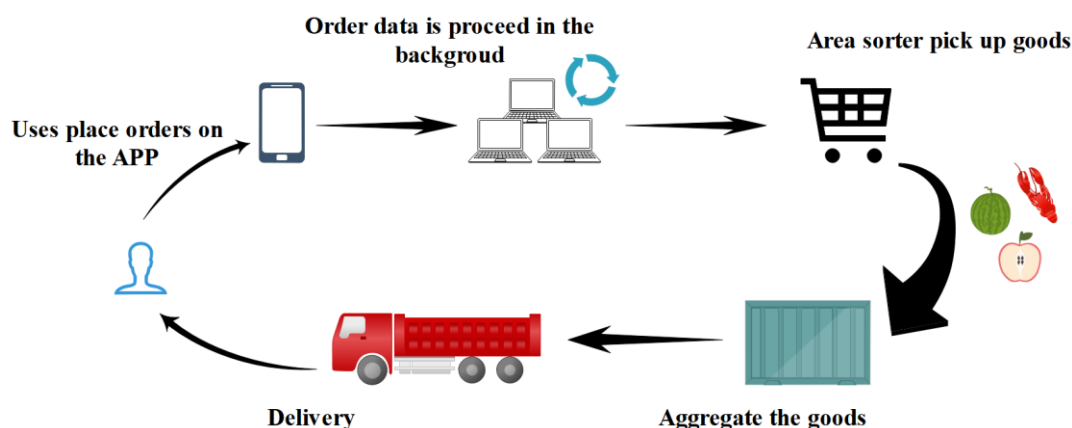


Fig 2. Hema's delivery flow chart

3.3. Comparison Between Traditional Supply Chain and Hema

Based on the above analysis, we can summarize the following attribute characteristics of the traditional supply chain and the new supply chain mode in the new retail context represented by Hema in terms of the degree of informatization, timely response, synergy and the operation mode [5] as figure 3.

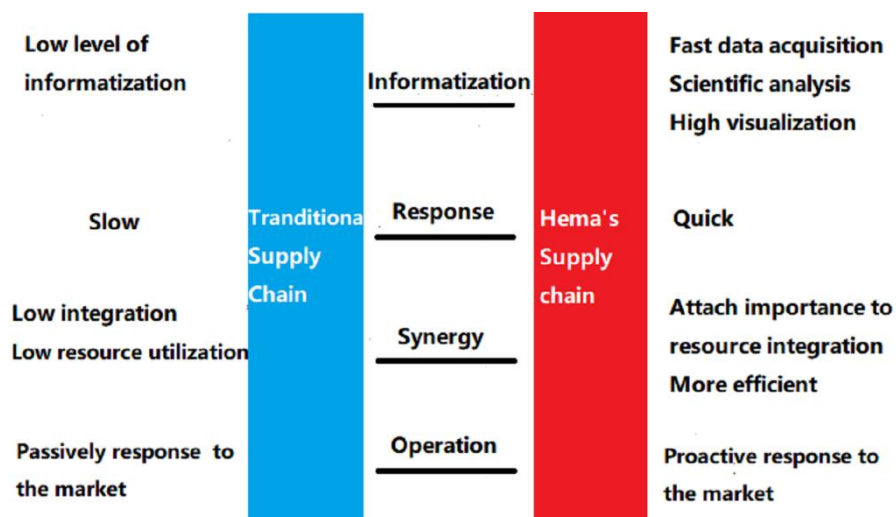


Fig 3. Comparison between traditional supply chain and Hema

4. CONCLUSION

This paper discusses Hema's operation management, including its location and supply chain management. In the strategy of location selection, the paper discusses the characteristics of Hema's city location and store location. The reasons and effects of its site selection are studied too. Then, the supply chain management of Hema is also discussed. This paper analyzes its characteristics and advantages compared with traditional supply chain in detail. Through the discussion of the above two aspects, the management characteristics of Hema under the rapid expansion are studied. This research has reference value for other enterprises.

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