

# After the Miracle: An Analysis on the Opportunity and Challenge of Freshippo

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**Abstract.** Recent years have witnessed the rapid development of society as well as the sharp changes in people's lifestyles. In China, retailing industries are facing many potential future challenges. Among many threats them, the brand Freshippo has created a miracle in marketing and promotion. This research systematically analyzes the success of Freshippo's marketing strategies by methods of STP and 4Ps. After that, its weaknesses and potential challenges are critically evaluated. Based on the thorough analysis, feasible suggestions are eventually provided. By providing special services and updating merchandise rapidly, Freshippo has successfully created its competitiveness in services as well as in its products' uniqueness and irreplaceability. Yet Freshippo is facing threats from high products prices and declining bricks-and-mortar, which are both making the brand less attractive to their targeting customers – middle-class in the society. In the future, Freshippo should better its supply chain management to provide products with more preferential prices. At the same time, Freshippo should put efforts into rejuvenating bricks-and-mortar to increase regulars' stickiness to the brand. The research provides an overview with an analysis of Freshippo's success. Effective solutions to common dilemmas of retailers are also argued in the research.

**Keywords:** Freshippo; Consumer Marketing; Consumer Psychology; Retailing Industry.

## 1. Introduction

In the post-pandemic era, more Chinese people tend to do online shopping for convenience and without taking risks of health. And this natural disruption has hit the global economy and produced a huge crisis for firms [1]. Thus, all retailers in China are facing big challenges in retaining customers and opening up future markets. In the post-pandemic era, where is the future direction for retailer brands becomes a primary question for all retailer brands. This topic is also related to the development of new shopping ways, an essential ingredient in transforming future lifestyles. One recent hitherto unstudied trend has seen online retailers establishing physical grocery store networks in the Chinese market [2].

Until now, there are already some research results about various new forms of retailer brand's success experience from the perspective of marketing and brand's promotion, including the representative brand in the post-pandemic era of China, like Sam's Club, Walmart and Freshippo. However, critical thinking about the other side of the brand's success, for instance, the future challenges and risks it faces, is limited due to the lack of official materials on the brand's real situation of operations.

Freshippo, a proprietary retail chain launched by Alibaba Group, has introduced revolutionary new forms and models of retailers into mainland of China and created a miracle in profit-increasing as a retailer brand. Targeting customers from city middle class, Freshippo makes itself unique by providing high-quality products and services, expanding purchasing places both online and offline as well as co-branding with other famous IPs to increase popularity online.

As a retailer brand, Freshippo has created a miracle both online and offline, both on product and on promotion. By researching the promotion strategies and prospects of Freshippo, it is benefit for people to have a deeper understanding about the fundamental logic of why Freshippo succeeded.

Besides, people can look at the success of Freshippo in a comprehensive, rational and objective way. Even though Freshippo is currently showing a positive and sharp growing trend, there are still



potential risk factors that could change the brand's dominant position in the retail commodity marketplace.

What is more, through this research, the research gaps in areas related to the marketing strategies of new retailer brands such as Freshippo, and the direction of innovation and transformation of retailer brands in the post-pandemic era would be filled to a certain degree. And thus, it is a useful reminder to all retailers including Freshippo itself to be self-awarded and cautious, to keep being innovative and transforming.

Information about Freshippo from many reliable sources is adopted in the research. An overview of this brand based on related statistic data is firstly presented. After looking back to the history and development of Freshippo, STP model is adopted to analyze the targeting market of Freshippo. Then 4Ps model is used to describe and sort out Freshippo's current situation from product, price, promotion and place these four angles. From the holistic analysis, the challenges and thorns Freshippo is facing are gradually revealing. Critical analysis about Freshippo is thus following up. The shortcomings and room for progress as well as possible directions for improvement will be presented in this part. In the end, analysis wrapped up into innovative conclusions of retailers' transforming process.

## **2. Overview of Freshippo**

### **2.1. History and Development**

Born in 2016, Freshippo is a young and vigorous proprietary retailer brand under the group of Alibaba. In 2016, Freshippo launched its first brick-and-mortar store in Shanghai. The original mode of "store and warehouse in the same space" attracts attention in the industry. In 2016, the Alibaba group came up with the concept of "5 NEW", which are new technology, new power, new finance, new producing and new retailing. Freshippo is the leader in the new retailing part. In 2017, Freshippo online store was unveiled in the Double 11 Event. Focusing on the fresh food market, Freshippo created a "new retail" format by integrating physical retail with O2O (online to offline) model [3]. Except for that, Freshippo expanded the "mail to home" B2C (Business to Customer) business model. In 2018, Freshippo started to deepen the upstream supply chain. Freshippo launched its new retailer system, which empowers many different business scenes like high-tech restaurants with intelligent supply chains and digitalization of stores. In 2023, Freshippo officially announced the launch of its "1 Hour Delivery" service, which will provide the fastest 1-hour delivery service to areas within about 3 to 5 kilometers from the store, with the delivery fee and free shipping threshold remaining the same as within 3 kilometers. Bricks-and-mortar of Freshippo leverages its existing logistics structures to fulfill online orders [4].

The amount and scale of Freshippo bricks-and-mortar developed and expanded sharply. As of March 31, 2022, there are 273 self-operated Freshippo stores in Mainland China, mainly located in tier-one and tier-two cities. In 2021, Freshippo started to explore the sinking market and communities. Freshippo also keeps launching innovative services. The "X membership plan" expanded the pool of regular customers. By co-branding with vigorous brands and classic brands, the Freshippo workshop made many creative and meaningful products, like traditional biscuits, become popular in a wider market again. In 2017, Freshippo launched its brand series "daily fresh". Fresh produces like meat and vegetables are packaged into small amount, each bag is suitable for a family to use in one day. All products in "daily fresh" are picked and sold in one day. This "daily fresh" is proper for workers who live a busy life pace. Thus, it won a relatively high repurchase rate.

### **2.2. STP-Analysis**

For retailers, the targeting market can be segmented by variables such as ages, income scales, locations, shopping habits and shopping values. Young people from the middle class in society are more likely to have the habit of online shopping than the elders, and most of them consider products'

qualities much more important than their prices. Also, young people are more accessible to internet than the elders and thus are easier to follow the online hit trend to buy something.

For Freshippo, targeting customers are from the middle class in the society. Most of them are commuters, living in tier-one and tier-two cities. They mainly shopping online, but they sometimes go to offline stores in their spare time. They consider shopping offline as a relaxing activity. They value products' qualities as well as services in shopping process, and they are more likely to follow the online popular trend to try new products.

With the analysis of target customers, Freshippo positioned itself as a high-end retail brand. Putting efforts to turn offline shopping into a new popular trend as well as a fashioned lifestyle, Freshippo successfully developed a large and powerful regular customers' base.

### **3. Freshippo's Marketing Strategies**

#### **3.1. 4Ps: product**

Freshippo provides products with two main features.

##### **3.1.1. Variety**

Compared with common supermarket brands in mainland China like Wumart Stores, Freshippo provides various type of products to customers. For instance, products like confectionery, which are rarely seen in traditional supermarkets, are available in Freshippo chains. This makes customers more convenient -- they can buy all they want in Freshippo at once. Many vegetables and fruits from different regions are also only provided in Freshippo chains, which gives many customers access to new products and amazing experience.

##### **3.1.2. Freshness**

Freshippo provides fresh products like flowers, confectionery and fresh produce. This is because its target customers pursue high products' quality. Fresh produce like seafood can be self-selected and cooked immediately in stores, and customers are free to sit in stores to have fine dining there. Many customers are attracted to bricks-and-mortar for this novel but affordable experience. Besides, Freshippo enables 30-minute delivery to customers living within three kilometers to a Freshippo brick-and mortar retailer. This makes sure products can be delivered to customers from online stores with its best qualities.

#### **3.2. 4Ps: Price**

Prices of products in Freshippo are averagely a little bit higher than the same categories in other stores. Yet to its target customers, it is still in a reasonable and acceptable range, with good quality products and satisfying services like cooking immediately with low fees. The price also helps to create the "common luxury" image of the brand, matching with their target customers better.

Unlike competitive brands like Sam's Club, customers can purchase things in Freshippo without paying membership fees and becoming a member. Besides, compared to Sam's Club whose bricks-and-mortars are usually in suburban areas, it is easy to find Freshippo stores in urban areas, where the transportation is much more convenient. Thus, the threshold to form the shopping habit in Freshippo is much lower than Sam's Club and many other retailer brands.

However, due to the limited shelf life of perishable products and the limited opportunity of price changes, Freshippo is difficult to predict sales of a product at a counterfactual price, and therefore it is hard for Freshippo to determine the optimal discount price to control inventory and to maximize future revenue [5].

### **3.3. 4Ps: Promotion**

Freshippo makes efforts in original brand manufacturer. In Freshippo stores, over 35% of the selling products are from the generic brand. Freshippo updates new products of generic brands in a rapid speed, which makes it unique from other competitive brands like Costco and Sam's Club. This also increases customers' stickiness to Freshippo.

Besides, Co-branding with other popular brands actively, Freshippo aims to create an IPs family from its IP—Mr. Hippo. Co-branding is a marketing arrangement to utilize multiple brand names on a single product or service [6].

Freshippo has launched traditional Chinese biscuit with cartoon shapes in collaboration with the well-known international IP of Disney. It has also launched hotpot flavor tart with famous hotpot brand in China named XIAOLONGKAN, attracting many customers followings suit to try this creative yet kind of weird combination. In Freshippo, Co-branded products are used as a form of brand management [7].

Co-branding activities help increase the online popularity of Freshippo on social media, attracting different types of new customers to become frequenters of Freshippo.

### **3.4. 4Ps: Place**

Freshippo is unique, for both online and offline places are available for customers. Customers can choose to gain different purchasing experiences according to themselves.

Customers can buy products from Freshippo from various online channels like the official app of Freshippo and e-commerce platforms like Tmall and ELEME. The official app of Freshippo is well-designed and actively promoted in bricks-and mortar of Freshippo. Everyday there will be discounts for buying certain products on app. And customers can always gain coupons once they log in and become members. Freshippo app contains almost all the products in its bricks-and mortar. And to reduce customers' concerns about products' qualities of online shopping, unconditional return of goods is promised by Freshippo. In this way, Freshippo makes its online app to be more and more customers' first choice to buying fresh products online.

For offline places, Freshippo has launched over 200 brick-and-mortar stores in China until now, primarily located in tier-one and tier-two cities. The stores are mostly in central areas of cities and are near neighborhoods, where transportation is convenient and easy to access. With unique services like cooking and dining in stores, Freshippo bricks-and-mortar has attracted many customers to experience the new mode of offline shopping.

## **4. Critical Analysis of Freshippo**

### **4.1. Future Opportunities**

Freshippo has two aspects of opportunity in the future. Both of them are related to Freshippo's core competitiveness.

#### **4.1.1. Competitiveness in Services**

Freshippo has put many efforts into providing good services. From the unconditional return of all goods to the expanding concept of new retailers as a business complex, the quality and uniqueness of the services of Freshippo are unparalleled. At the same time, more customers, especially those from middle-class, are likely to pay more attention to the retailers' services, for it is related to the shopping experience. Thus, Freshippo is competitive in its service, which is helpful to win flows of passengers from the city middle-class in the future, which is closely matched to its target regulars.

#### **4.1.2. Competitiveness in Uniqueness**

Freshippo has shown an outstanding performance in creating uniqueness.

For products, Freshippo constantly updates its merchandise at a very fast pace and consistently expanding the range and the portion of products of its brands in the store. The high quality and creative products from its brands make the brand different and irreplaceable from other retailers in products. This helps provoke customers' a certain degree of reliance on Freshippo.

For services, both online and offline places are available for customers to buy things from Freshippo. Yet to encourage more customers to form the habit of regularly going shopping in the bricks-and-mortar, Freshippo provides customers with special offline shopping services. Customers can buy, cook and eat inside the store, this also extends the average time customers stay in the store, which is effective in increasing consumers' stickiness to the store. Online retailers must consider the speed to deliver the product to customers whereas a traditional retailer must decide how much inventory to keep so that the costs of stockout and overstock are balanced [8]. Freshippo has achieved these two standards.

In a nutshell, the uniqueness Freshippo successfully built in many aspects is the major core competitiveness of this brand. Depends on that, Freshippo has become the leader of the trend of retailers' transformation. In the future, Freshippo should keep developing this core competitiveness as well as its core benefit and keep the leading role in the trend of transformation, rather than following up with others.

## **4.2. Potential Threats**

Even though Freshippo is certainly in the rapidly growing phase of business, some potential threats are needed to be aware.

### **4.2.1. Less Competitive Prices**

Compared to competitors like Sam's Club and Walmart, the average products' prices of Freshippo are higher. Yet, in the post-pandemic era, more and more people are sensitive to prices. Customers attracted by novel shopping experiences are temporarily. Only a small portion could be transferred into regulars. The generalized consumer downgrading turned the main and most important aspect in the competition of retailers into prices. If Freshippo does not respond to customers' concerns and worries about its products' prices, its portfolio concept of new retailers will end up being battled down by traditional retailers, which do not need to pay as much capital as Freshippo for have good services but provides customers with a cheap and satisfying price.

### **4.2.2. Declining Bricks-and-mortar**

Until 2023, Freshippo has launched over 300 bricks-and-mortar in China. At first, most of the brick-and-mortar stores of Freshippo attracted many consumers to experience a new way of offline shopping. Yet with the rapid development of the online shopping platform of Freshippo, as well as the fading trend of Freshippo way of offline shopping, many Freshippo brick-and-mortar stores go into decline, some are even shut down because of the serious loss. Especially those Freshippo stores located in medium or small-scale cities.

## **4.3. Suggestions**

### **4.3.1. Supply Chain Management**

Supply chain management is defined as the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, to improve the long-term performance of the individual companies and the supply chain as a whole [9].

For firms, approaching problems with systems views and a sound supply chain methodology can lead to great savings [10]. Collaborative information management is the key to improving the creativity and competitiveness of the whole supply chain [11]. The logic is, expanding profits by skipping the middleman and going directly to the manufacturer to produce specialty and quality products.

For instance, using Walmart's global supply chain sources, Sam's Club successfully reduced middlemen's links and obtained more cost-effective high-quality products, like Gucci scarves with a lower market price of more than 1000 Yuan (RMB).

Freshippo has committed to building an exclusive supply chain for a long time. This provides Freshippo with a unique way to increase its competitiveness in prices by reconstructing its supply chain.

#### **4.3.2. Rejuvenating Bricks-and-mortar**

To expand regular pool, Freshippo should take full benefit of those built bricks-and-mortar. There is no doubt that it is much more effective and easier to reach new customers as well as increase customers' stickiness through offline events.

In the beginning, Freshippo develops a whole new form of shopping style in its bricks-and-mortar. Customers can find fresh and unique products like handmade biscuits and snacks like roasted chestnuts there, which are not usual to be seen in other markets. Besides, in bricks-and-mortar of Freshippo, customers can not only buy fresh produce like meat and seafood, but also taste it immediately, for they can pay for the chef's cooking directly inside the market. All of these innovative ideas help to offer unique and precious offline shopping experiences to customers, and many of its current regulars are attracted by their delightful experience in bricks-and-mortar.

However, because of the fast-paced lifestyles and the development of online channel, regulars of Freshippo usually prefer shopping online. This makes expanding customers' pool more difficult.

In the future, Freshippo should hold more creative and innovative events or some offline-only welfare to evoke customers' curiosity in offline stores, and to maintain a stable number of customers, so that at least bricks-and-mortar are profitable.

### **5. Conclusion**

All in all, by introducing new concepts of retailing and doing marketing in an innovative way, Freshippo has accomplished a great goal in the past few years. many unique co-branding foods are only supplied in Freshippo's market, so people can experience the interesting process of immediately cooking and having the food they had just bought in Freshippo bricks-and-mortar, etc. All of these unique strategies made Freshippo outstanding and relatively popular among all retailing brands.

However, with customers' sensitivity to prices growing and their lifestyles changing, more consumers are likely to choose to shop in a market where products are cheaper, and few of them will shop offline. This makes Freshippo facing difficulties in operation. Freshippo is losing attractiveness to its targeting customers of middle-class in the society. And the decrease in profit in Freshippo's bricks-and-mortar made its finances face heavy stress.

Thus, it is time for Freshippo to transform its brand's image and change its marketing strategies, showing its sincerity in products' prices and increasing regulars' stickiness to the brand in bricks-and-mortar. These two goals could be achieved by bettering supply chain management and creating a more delightful and unique offline shopping experience.

As one of the most well-known retail brands in China, the experience of Freshippo's success is precious for other retail brands to reference. Opportunities and challenges Freshippo faces are also representative. Thus, to some degree, solutions to Freshippo's dilemma are universal in retailing industries.

However, there still have room for progress in this research. Because of the lack accessible to detailed statistical data, many arguments do not have very powerful proof. That weakened the universality of the suggestions mentioned in the research. To gain a better understanding of this topic in the future, more official and reliable data should be adopted to analyze quantitatively. Also, more types of

retailing brands in China should be included in the analysis, so that results will be more scalable and feasible through comparisons between different brands.

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