Research on the New Retail System under the New Retailing Background
—— Example for The Alibaba Fresh Hema ——

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Key words：new retail, new retail system, Alibaba Fresh Hema

Contents

1．Introduction

In recent years, with the tremendous influence of explosive development of China's online shopping on traditional physical retail enterprises, China's domestic physical retail enterprises are facing great competition pressure. Retail giants as strong as Walmart are still facing the awkward situation of closing.

On the other hand, traditional e-commerce enterprises are also in a bloody fight and need to seek a new way. In 2016, the Chairman of Alibaba Group Jack Ma first put forward the concept of new retail. He said, "the era of pure e-commerce is about to end. Must online and offline (O2O) and logistics be combined can the true new retail be born in the future one to two decades of years." In November 2016, the General Office of the State Council printed and issued the *Opinions on Promoting Innovative Transformation of Physical retail*, which clarified the guiding thought and basic principle of advancing innovative transformation of China's physical retail. Premier Li Keqiang also indicates that the development of traditional retail industry needs to be promoted through new retail and multiple methods such as combination of online and offline are taken to strengthen consumers' experience and change the status quo of retail industry.

Under such background, traditional retail enterprises need to use advanced network technology to transform to new retail format. The formation of new retail system points out the direction of transformation of traditional retail

enterprises. The new retail system is centered on consumers, providing customers with commodities and services. It is the product of the new retail era with deep fusion of online, offline and logistics. Currently, every industry in China is facing the "+Internet" and "Internet+" enterprise transformation problems. In the future, those enterprises that fail transformation will be weeded out by the market.

The traditional physical retail industry is the industry that is influenced the most by online shopping. Traditional retail enterprises are faced with the major tasks: how to transform in the new retail era and how to build the new retail system. In this paper, taking the representative enterprise of China's new retail Alibaba's Fresh Hema（hereinafter referred to as Hema）as example, Hema's new retail system is illustrated from procurement management, logistics system and consumer experience. At the same time, the research results of this paper are expected to bring inspiration to transformation of China's retail enterprises and business reform of the world's other retail enterprises.

2 . Literature Review

2 . 1 Generation of new retail

From 2015, China's traditional physical retail enterprises started to exploit online sales channels and traditional e-commerce enterprises started to exploit offline sales channels. The boundary of retail activities was broken. It started to develop toward the direction of fusion of online, offline and logistics. The research of Wang（2017）puts forward the following views on the

reasons for the appearance of new retail. At first, the development of online shopping has an impact on the formation of new retail. After entering 2000, online shopping has developed rapidly and increased at an annual growth rate of more than 50%. However, it gradually reduced over the past three years. The growth rates are 19.1%, 15.6% and 13.1%, respectively. New growth approaches must be sought. Secondly, changes in online shopping formats also affect new retail. The pure online shopping sales method is gradually shifting to online and offline and turns to provide high-quality and diversified commodities and services from the price war. Compared with physical retail, online shopping has advantages of convenience, low-cost and diversification while physical retail enterprises have advantages of consumption scenario, quality guarantee and leisure. Meanwhile, online shopping also has disadvantages of constrained logistics and shortage of shopping scenario. Physical retail stores show the characteristics of time and space constraints and high cost. The mutual integration of the two's advantages and disadvantages is the requirement of modern retail. Finally, online shopping is influenced by IT, consumption demand and competition status. The in-depth fusion of "online + offline + logistics" is just the method to settle this influence.

It is also pointed out in the research of Du（2017）that due to gradual decrease of the market growth and traffic dividend brought by the popularization of Internet and mobile network, the bottleneck period of development begins to appear after the rapid development of online shopping in

recent years. At the same time, e-commerce has had an obvious disadvantage of poor consumption experience since its birth. The traditional physical retail industry has visual, audibility, touch, feeling and other direct properties while providing consumers with commodities and services. However, e-commerce has not yet found the method to provide shopping scenarios and shopping experience. Failure to meet consumers' high-quality, heterogenization and experience consumption needs is the inherent problem of e-commerce development.

2 . 2 Definition of new retail

Jack Ma, Chairman of the Board of Directors of Alibaba Group, first put forward the concept of new retail at the Computing Conference in Hangzhou in October 2016. In March 2017, the *C Era New Retail－Ali Research Institute New Retail Research Report* clearly raised the concept of new retail. The Report states that new retail is a data-driven pan retail format centered on consumers. Its core is to derive a new retail format through transformation of retail business, greatly improving circulation efficiency. New retail contains three aspects of basic features. At first, it builds "people • objects • scenarios" on the basis of consumers' needs anew and realizes a sales method centered on consumers' experience. Secondly, new retail is considered from the second-dimension view of physics and data. Finally, diversified retail formats are formed and it moves toward "retail for everyone" .

Zhao(2017)'s research considers that new retail is a new type of retail format. New retail refers to the sum of all commercial activities of using advanced network thought and technology, with improvement and innovation of the traditional physical retail format, to provide consumers with commodities and services. New retail is not only pure fusion of online, offline and logistics but also further fusion of cloud computing, big data and other Internet technologies, including omni-channel and exceeding omni-channel, which breaks all past boundaries and contacts consumers with a brand-new look. The core of new retail is to return to the original point of retail industry, namely, providing consumers with the commodities and services they need in the shortest possible time. The key of smooth operation of new retail activities is the open mind and advanced scientific technology in the new era. New retail mainly contains the following three points: 1. Achieve the integrity of commodities and channels upon the integration of online, offline and logistics, 2. Provide experience services for consumers from a wider range and achieve consumption scenario, 3. Retail enterprises construct the baseplate of new retail together with upstream and downstream cooperation enterprises, namely, building a new retail omni-channel industrial ecological chain.

2 . 3 Approaches to achieve new retail

Xu(2018)'s research points out that integrating and upgrading online and offline, realizing omni-channel retail, being centered on customer experience, meeting consumers' multi-dimensional

needs of consumers with relationship marketing and service innovation and integrating and reorganizing with new technology, new resources and new finance are the basic paths of its development; Wang(2017)'s research believes that integration of online and offline, retail + experience consumption and retail + industrial ecological chain are three paths to achieve "new retail"; Zhao(2017)'s research believes that the core of "new retail" is the improvement of user experience, including synergy of online, offline and logistics, integration of commodities and logistics, improvement of experience consumption service and realization of consumption scenario, construction of an effective docking platform of the entities and omni-channel industrial ecological chain. As a whole, synergic development of online, offline and logistics and experience consumption meeting multi-dimensional needs, supply chain configuration and resource re-allocation are paths or modes that most scholars affirm.

At first, online and offline deep synergy is the core of "new retail". The synergy of the two and logistics is the guarantee of "new retail" development. "New retail" dominating enterprises represented by JD.com, Suning, etc. are laying out around the two key aspects. Secondly, the essence of retail is service. Retail formats such as department stores, chain stores, supermarkets, and e-commerce respond to differentiated service needs. The consumption upgrade trend drives the consumption to extend to two levels: the first level is multiple consumption, reflecting fragmentation of retail formats,

for example, Fresh Hema and Super Species feature "high-quality shopping + high-quality consumption + convenient service"; the second level is diversified consumption, reflecting fusion of retail industry and culture, socializing and entertainment, for example, bookstores under new retail have moved away from the single function of selling books and has become a fusion of "books + coffee (light meal) + reading (thinking) space + club socializing" and so on. Finally, dominated by consumerism and driven by data technology, "new retail" will realize the transformation and reconstruction of the supply chain, build a demand-oriented, efficient and agile supply chain system, and make full and efficient use of various resources（Han, 2018）.

3. Case Research－Alibaba Fresh Hema

3.1 Enterprise overview

The Chinese retail market has been surging in recent years. Traditional physical retail and traditional e-commerce enterprises have gradually broken their boundaries and formed a new competitive pattern in the form of online and offline integration. Enterprises that transform more slowly are gradually losing their competitiveness（Tab1）. Major e-commerce companies and traditional physical retailers have launched new retail formats, such as Tmall Store and Fresh Hema under Ali; Suning Store and Su-Fresh under Suning; Super Species launched by YH Superstores); JD Convenience Store, 7FRESH, JD Daojia, etc. launched by JD.com.

Hema is a new retail format under

Tab1　2018 China's Top 100 Retailers（ten thousand yuan）

Ranking	Enterprise name	Main format	Sales
1	Tmall	E- Business	245200000
2	JD.com	E-Business	167690000
3	Pinduoduo	E-Business	47160000
4	Suning	Household Appliances	33675700
5	Dashang Group	Department Store	30029186
6	GOME	Household Appliances	13818365
7	CR Vanguard	SM	10125379
8	RT-Mart	SM	9590000
9	Vipshop	E-Business	8450000
10	Walmart（China）	SM	8048950
11	YH Superstores	SM	7676773
12	CGTG	Department Store	6748882
13	Hefei Department	Department Store	5092900
14	Lianhua Supermarket	SM	4922938
15	Wu-Mart	SM	4834371
16	Carrefour（China）	SM	4746375
51	AEON（China）	GMS	1493246
88	7-11（China）	CVS	584731
93	Chengdu Ito Yokado	GMS	552977

Source: published by CNCIC in July 2019

Alibaba Group that completely restructures offline supermarkets. CEO Hou Yi is the former chief logistics planner of JD.com. Hema is a new retail platform driven by data and technology. It is a supermarket, a restaurant and a vegetable market. The innovative O2O fresh food model is considered to be the first new retail enterprise that "subverts traditional retail formats" and "changes the competitive pattern of the fresh food industry." Since Hema opened its first physical store in January 2016, it has now opened over 150 offline stores in 13 cities, including Shanghai, Beijing, and Shenzhen. It has opened up different online and offline combined retail business combining fresh, catering, take-out, supermarket, etc.（Tab 2）.

Different from the traditional fresh

Tab2　List of Stores of Fresh Hema

Region	Quantity of stores
Shanghai	29
Beijing	26
Shenzhen	13
Guangzhou	9
Chengdu	12
Suzhou	9
Wuhan	13
Xi'an	10
Other	31
Total	154

Source: Fresh Hema HP till December 2019

supermarket, Hema provides customers with more than 3,000 kinds of products from 103 countries. Whether you place an order on the APP or an experience store, you can enjoy the logistics delivery of "within three kilometers, half an hour delivery"; it also provides on-site processing services, allowing customers to sit down and taste the products they have purchased, and truly achieve the composite function of "APP + supermarket + catering + convenience store + logistics". The unique new retail model of "APP + physical experience store" surpasses traditional e-commerce and retail enterprises in social effects, artificial effects, logistics effects, and economic effects. Compared with traditional retail enterprises, the innovation of Hema's management system lies in further experiential consumption. The ratio of fresh and food products in Hema store is very high (the food reaches 50%). Not only the semi-finished products of fresh food that consumers need, customers can also directly choose the relevant ingredients (such as seafood) for processing at the store. They can be eat directly at the store or take home. This brand-new experiential consumption has solved the eating problem of young white-collar workers and is a revolution to the "family kitchen". Compared with B2C's fresh food e-commerce enterprises, Hema relies on mobile stores'online shopping APP for fast delivery, providing consumers with fresher commodities and more convenient consumption methods.

Even though Hema uses a new retail model of online and offline integration, the online and offline functions are different; the SKU of various products is increased online to solve the problem of richness of articles, and offline must provide consumers with a good consumption experience, and drain to online. In short terms, offline is responsible for "experiencing life", while online is "discovering life". Hema's product portfolio starts from the specific needs of consumers and meets their immediate purchase needs, always providing consumers with good "content", paying attention to product quality, and providing consumers with high-quality product portfolios. At offline stores, Hema relies on cost-effective seafood such as king crab to attract customers, and relies on multi-scenario integration to extend customers' stay at the store as much as possible, and then makes profits by selling other mid-to-high-end commodities. Hema stores have nearly 5,000 SKUs, with an integrated gross margin of 18%-23%. On the online App, Hema has tens of thousands of SKU, and uses rich categories to meet all consumption demand of users, while offline physical stores focus on mid-to-high-end best-sellers meet users' immediate shopping needs and drain to online. At present, Hema's online sales account for 70%, far exceeding offline sales.

Hema's target market is mainly concentrated in middle-and high-income young people aged 30-40. They pursue fashion, have higher requirements for the quality of home and life, and are frequent users of mobile networks. The common feature of this type of consumption is that it has relatively strong purchasing power, and has achieved comprehensive financial

freedom and consumption freedom. What the most important is that they are more likely to accept new lifestyles and consumption patterns. Hema provides these consumers with a one-stop shopping method, namely, one-stop purchase of required commodities, one-stop food processing, and one-stop food service. These consumers do not like to bring the ingredients home for tedious processing and cooking. The fast delivery service and food processing of Hema just meet the consumption habits of such consumers. Hema meets consumer needs through four sides: multiple (with food as the core, while covering commodities frequently used daily), fast (30 minutes delivery for store food and online ordering), good (high-quality seafood and fresh vegetables) and economic (the price ratio of seafood is cheaper than that of restaurants, free delivery).

Hema was originally defined as an offline experience store for the members of Alipay under Alibaba. Consumers can choose to browse products on mobile phones and experience at physical stores. The physical stores will require and guide customers to scan the code to install the Hema APP, register members, and complete the payment through Alipay in the final payment link. This model greatly increases customer viscosity of shopping and improves convenience. After users are satisfied, they will repurchase on the APP. Unified and efficient supply chain logistics delivery is provided, and after-sales service can be enjoyed. Hema uses Alipay to make full use of the marketing value of its big data management center to better grasp users' personal purchase intention. After

the O2O process is completed, the data is collected and member data is established; service information in line with the geographic location is provided to users for marketing.

3.2 New retail system
3.2.1 Procurement management

Hema's supply chain is mainly based on the three major models of "global direct procurement, localized direct procurement and PB commodities". Global direct procurement is the transportation of fresh fruits, vegetables and seafood products from Europe, America and Southeast Asia through air containers while the main business form of localized direct procurement is "Day day fresh", i.e., the professional procurement team directly arrives at the production site, especially the domestic agricultural product production base directly supply to the Hema processing center for subcontracting, and even unified procurement with Tmall (an e-commerce platform under Alibaba) is partially achieved. This model achieves optimal cost and quality solutions through constant extension to upstream enterprises. The biggest cost of this procurement model is the cost of trust. When providing "Day day fresh" services, Hema can formulate relevant planting standards for farmers to guarantee source quality. At the same time, packaging processing is conducted in the first step to reduce transportation losses. And the procurement quantity of its meat products is determined through the precise link design reversed through cooperation with COFCO (China's largest grain, oil and food enterprise), to cope

with the integration of terminal orders and reduce procurement costs.

In terms of replenishment, consumers are very sensitive to stockout, and if they cannot replenish in a timely manner, it will have a great influence on sales. For operators, goods control is the key link. SKU control determines the operating costs of a store. Hema online and offline unify real-time inventory; inventory and front-end traffic are linked real-time. "Day day fresh" brand products are available at 7 am, but the sales plan inventory has been formulated the previous day. Once stockout is found, an alarm will be issued in front end and the system will automatically replenish.

3 . 2 . 2 Logistics delivery

Hema uses an intelligent fulfillment order collection system. It can determine the optimal solution in a short time by combining customer location, order time, offline delivery staff's location, and traffic congestion, etc. to reduce delivery and operating costs. Through the distribution system, the information and location of the delivery personnel are intuitively visible, and orders and packages can be fully tracked. At a physical store, pickers can pick goods based on the store's APP orders. A confluence area of more than 300 square meters is set in the backstage of the store. The front stage and backstage adopt an automated transmission system. From the front-end store to packaging in the back-end warehouse, the goods are transmitted by the logistics belt. In the store, consumers can see parcels flying around on a conveyor belt overhead. After receiving the APP order, sort and pick up

the goods in the store, put them in special insulation bags, directly transfer the goods to the backstage confluence area through the automatic transmission system, put them into special distribution boxes, and send them to the first floor for shipment by vertical lift system. It only takes ten minutes from receipt of an order to encasement. The whole process is smooth and complete, and all information is uploaded to the enterprise cloud.

Orders can be placed on Hema's online APP at any time of 7 * 24 hours. From 7 am to 10 pm, goods are delivered every half an hour. On the way to work, place an order through the APP, and after you return home, the fresh vegetables and fruits you buy and the processed seafood and fish meat can be delivered simultaneously. With a little processing, a rich dinner is completed. In terms of such delivery speed and convenience, traditional e-commerce is too far behind to catch up with.

Hema not only breaks through the limitations of ordinary supermarkets, highly integrates online + offline operations, but also pioneers the versatility of ordinary warehouses. It is a new logistics system integrating "warehousing + sorting + delivery + sales" . Each store of Hema is equivalent to a DC warehouse, and its intelligence is much higher than that of ordinary DC warehouses. Hema's most important core advantage is 30-minute delivery. One of the secrets behind being able to deliver goods within 30 minutes is the short order route. The store only delivers goods to customers within 5 kilometers of the store as the center. Hema has two different logistics sys-

tems in front of and behind the store. In front of the store, Hema is a B2C logistics system from the warehouse (DC) to Hema Store (FDC); behind the store, Hema is a take-out logistics system, 30 minutes near scenario delivery. A breakthrough in Hema's logistics system is not to be centered on DC warehouse, but to choose Hema stores as the key axis of logistics supply, and then form a logistics delivery network. The advantage of this is that it plays the dual role of the store, making the store not only play the ordinary display product experience and other functions, but also achieve the warehousing function. For online orders, delivery is directly conducted from the store without the need to set up a separate warehouse. At the same time, it is flexible and convenient, and realizes low-cost storage at the same time, which greatly reduces costs.

The high intelligence of Hema logistics system is much higher than that of general logistics enterprises, which is mainly shown in three aspects. First, the store mobilization intelligence. As mentioned earlier, Hema stores not only have the basic functions of stores, but also have the warehousing function. Therefore, the information such as the goods location and inventory of Hema store can be sent back and dispatched in real time. In this way, Hema store is a standard store operation model from an offline perspective, but a standard warehousing operation model from an online perspective.

Besides, because of its mobilization intelligence, it can realize the cooperation between store operations and warehousing operations, which can both reduce

operating costs and improve operating efficiency. Secondly, delivery mobilization intelligence. Hema's delivery is not simply store delivery, and then the delivery by the delivery staff to the customer, but after receiving the order, the system will give the best match according to the specific location of the delivery staff (store, delivery journey, customer's home, delivery return journey), the delivery area most familiar to the delivery staff, the order sequence and product category (normal temperature or cold chain), quality, etc., to achieve high efficiency and low cost. Finally, commodity ordering intelligence. Hema is different from DC warehouse. As a store cannot completely finish the workload of a DC warehouse, so in terms of ordering, Hema will achieve the best solution of ordering and inventory based on the historical data of shipment and Alibaba big data. Excellent solution. This not only satisfies customers' needs to the greatest extent, but also improves the inventory turnover rate of the commodities.

3.2.3 Consumption experience

Hema provides novel experiential consumption and convenient delivery services, so that customers within at least five kilometers have a high degree of trust in it. Most of their consumption needs can be met in Hema. In addition, most of these users have visited Hema's physical stores, and they have intuitive feelings about the environment, hygiene and product quality at the stores. They will be more assured when shopping online and will not have the same concerns as other fresh food e-commerce enterprises.

Hema's first store (Jinqiao International Plaza store) has an average of 4,000 online orders per day with the ATV of 70 yuan; an average of 2,000 orders per day offline with the ATV of 120 yuan. In terms of attracting consumers, seafood is the hot product of Hema. Customers entering Hema are like walking into a small aquarium. There are not only are a variety of common seafood such as shellfish, fish, and lobster, but also rare and fresh seafood such as Boston lobster, Canadian Dungeness Crab, and Russian king crab. After watching and taking photos, customers can personally select, salve and carry fresh products to the counter, pay low processing fees, and enjoy fresh seafood dishes. Cost-effective seafood dishes and novel dining styles attract a lot of customers. The close combination of catering and retail first greatly increases the profit margin (the gross profit margin of the catering industry is high); secondly, it also attracts a large number of passenger flow, thereby draining for supermarkets; and because most of the catering is a joint venture, outsourcing the catering area can reduce operating costs; at last, cooperation with catering can reduce the loss of fresh commodities, and some fresh products facing expiration can be sold to catering businesses.

In order to stimulate consumers to consume, Hema has used the big data of consumption to launch "raising Hema to receive welfare" and "purchase amount weekly list", which are similar to entertainment ranking lists, to show the overall ranking and consumption amounts of consumers and their friends. Some

customers will regard these ranking lists as a kind of consumption competition, while other consumers will continue to find reasons for consumption because of herd mentality, believing that they are too "frugal" and can't keep up with the trend.

In addition, Hema does not accept cash payments in store services and only accepts APP and Alipay checkout. When a customer consumers at the store for the first time, the waiter will guide the consumer to install the APP, register as a member, and finally complete the payment through the APP or Alipay. Big data information such as consumer preferences and consumption power formed by online payment enables Hema to accurately control from suppliers to consumers and forms an efficient supply chain network. Hema pushes the QR code through APP and guides through posters, and sets up the QR code at the entrance of the mall, the entrance of the supermarket, the poster next to the shelf, and the electronic price tag. At least five people are arranged to use Wi-Fi devices to support traffic-free downloading for pushing a new store.

"Day day fresh" branded commodities and "unconditional returns" pushed by Hema eliminate users'online fresh consumption doubts and increase users' online stickiness. "Day day fresh" commodities are only sold on the same day, and the remaining goods are destroyed that night to meet users' core need to enjoy fresh products. "Unconditional returns" provide delivery staff door-to-door pick-up services to completely transfer the freshness quality risk to Hema. At present, the average user retention rate of fresh food e-commerce is

about 10%, and Hema has remained at 55%-60% for a long time, which is much higher than the industry average.

3.3 Summary

Through the above case analysis, it is not difficult to discover some features of the new retail system. (1) Online and offline combination. Hema orders and pays through online APP, and carries out experience consumption and delivery at offline stores, and integrates with specialty catering, which gives consumers a completely new usage experience. An offline store is not only a shopping place, but also a place for experience and exchange, which can better serve the gathering and social needs of residents in surrounding communities. (2) Application of big data. Realize a close data loop of precise procurement, accurate push and accurate logistics through big data. The APP membership system is used to integrate Hema's user data with Alipay users. Online purchasing directly records consumer preferences and hobbies. Both online and offline purchases are unified data collection methods, which can gather to form a complete consumer image. Big data, through the analysis of product data to which consumers are enthusiastic or indifferent, determines product stock and procurement quantity, digs out new launched products, forms precise purchases, and accurately pushes personal prefered products on APP. Through the full-link digital system, pick-up of goods is completed within 3 minutes after an order is placed by a consumer. Real-time matching of the destination and delivery staff's position and the optimal path

analysis are realized through big data in order to achieve delivery to home within 30 minutes. Big data is the core of Hema's new retail strategy. Hema's ERP systems, including the store's POS system, logistics system, delivery system and APP system, are constructed on Alibaba Cloud system, ensuring unification of online traffic and offline stock data, unification of online and office prices, unification of marketing methods, unification of payment techniques, and achieving unified online and offline operations with the perfect close data loop. (3) Application of mobile Internet technology. The first is that consumers can be free from time and space limits; the second is fast response. The distributed network layout achieves order pick-up and delivery without time difference, and achieves a timely response between the store and the customer, instead of the customer service single response of traditional e-commerce enterprises, which avoids the problem of disconnection between production and sales, and directly improves the service experience of consumers; the third is to achieve accurate marketing of targeted population based on the geographical location, and firmly focus on customers within five kilometers of sales and well serve specific crowd. The APP membership binding system plays an important role in fixing consumer groups and forming consumption habits. (4) Intelligent logistics. Hema's logistics system restructures the retail system from commodities to the supply chain. It uses the method of local direct procurement + direct procurement at the origin, uses the method of docking with agricultural supermarkets to reduce the circulation

links and guarantees quality control while reducing the loss of agricultural products.

4 . Conclusions

Hema is one of the first practitioners of China's new retail format. Through the three perspectives of Hema's procurement, logistics, and consumption experience, this paper depicts the specific features of the new retail format. The nature of competition is always about efficiency and cost. Position young groups, focus on user experience, and rely on Alibaba's capital and digital technology resources. It is difficult to copy Hema's retail system, which creates its unique competitive advantage. Hema's retail system has reconstructed the fresh food retail format. Position the "eating" scene, integrate the catering supermarket, and achieve "warm" delivery through a fully digital commodity closed loop and omni-channel membership system.

As a new O2O fresh food retail platform, whether it can continue the current development trend and impact on traditional supermarkets and B2C fresh food e-commerce enterprises and become the leader in the industry depends on whether it can solve its own shortcomings and development difficulties. In order to realize Alibaba's ambitions for the retail industry, occupy a larger market share and subvert the pattern of traditional fresh food industry, Hema which only delivers within five kilometers will inevitably continue to set up new outlets and expand its coverage network. With the expansion of Hema toward second-and third-tier cities, limited by population

density and consumption capacity in second-and third-tier cities, logistics, warehousing, personnel and other cost pressures are bound to increase. Besides, Hema's complicated retail system has high requirements on the automated logistics system, operation process, team management, quality control and other links. Hema also needs to solve the problem of replication of the new store retail system.

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