China’s Fresh Produce Industry (2)

E-commerce Business Models

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Management Theories and Business Models

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Business models of fresh produce e-commerce

Source: compiled by Fung Business intelligence Centre
1 Integrated B2C e-commerce marketplace

Features:
- Invite food brands and fresh produce manufacturers to be online sellers of their marketplace

Major categories of fresh produce:
- Fresh food, seafood
- Fresh vegetable and fruit
- Grain and oil
- Organic food

Logistics:
- Provide minimal logistics support
- Logistics distribution handled by the online sellers

Revenue model:
- Registration fee and commission

Source: compiled by Fung Business intelligence Centre
2 Vertical B2C e-commerce platform

Features:
- Focus on food and fresh produce online selling
- Full control on the entire cold chain logistics from farm to fork
- Serve selected regions in China

Major categories of fresh produce:
- Fresh food, seafood
- Fresh vegetable and fruit
- Organic food

Logistics:
- Hybrid model of self operated and using third party logistics companies
- Last mile door-to-door delivery is available in selected areas

Revenue model:
- Product markup

Source: compiled by Fung Business intelligence Centre
3 E-commerce platform operated by logistics company

Features:
- Strong in entire cold chain logistics and last mile delivery

Major categories of fresh produce & services:
- Fresh food, seafood
- Fresh vegetable and fruit
- Cold chain logistics services

Logistics:
- Self-operated logistics and last mile delivery for the goods sold by Sfbest.com
- Logistics distribution handled by the online sellers, if the goods are sold by online sellers

Revenue model:
- Product markup

Source: compiled by Fung Business intelligence Centre
4 O2O model operated by supermarket

Features:
- Extensive number of offline stores network in China
- Develop O2O model

Major categories of fresh produce:
- Fresh food, seafood
- Fresh vegetable and fruit
- Grain and oil

Logistics:
- Hybrid model of self-operated and using express delivery companies
- Self-pick up service at offline stores

Revenue model:
- Product markup

Source: compiled by Fung Business intelligence Centre
Community O2O model

Features:
- Targets on white collar market or university students (Xuxian.com)
- Serves selected communities in certain cities (Bee Quick/ Dmall)
- Direct sourcing (Bee Quick/ Xuxian.com)
- Pick goods from the nearest supermarket (Dmall)/ convenience stores or mom-and-pop stores (Bee Quick), based on LBS positioning of the online shopper, and deliver the goods to the designated location within one hour

Major categories of fresh produce:
- Cooked food (Bee Quick/ Dmall)
- Fresh food (Bee Quick/ Dmall)
- Fresh fruit (Bee Quick/ Dmall and Unique category for xuxian.com)

Logistics:

<table>
<thead>
<tr>
<th>Last mile door-to-door delivery</th>
<th>Bee Quick</th>
<th>Dmall</th>
<th>Xuxian.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crowd-sourced</td>
<td></td>
<td>Self-operated</td>
<td>No offer</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Self-pick up</th>
<th>Convenience stores/ mom-and-pop stores</th>
<th>Supermarkets</th>
<th>Depots</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Revenue model:
- Bee Quick, Xuxian.com: Product markup
- Dmall: Commission

Source: compiled by Fung Business intelligence Centre
Market share, 2015

<table>
<thead>
<tr>
<th>Platform</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>JD.COM (Fresh food channel)</td>
<td>27.4%</td>
</tr>
<tr>
<td>miao.tmall.com</td>
<td>22.0%</td>
</tr>
<tr>
<td>1号店 (天天果园)</td>
<td>14.2%</td>
</tr>
<tr>
<td>Sfbest.com (顺丰优选)</td>
<td>8.3%</td>
</tr>
<tr>
<td>Benlai.com (本来生活)</td>
<td>2.6%</td>
</tr>
<tr>
<td>Xuxian.com (许鲜)</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Sample size: Office workers and others = 2,645 Students = 355

Source: iresearch, online survey conducted in August 2015; compiled by Fung Business intelligence Centre
Profit or loss in fresh produce e-commerce?

- There are nearly 30,000 fresh produce e-commerce players in China. HOWEVER, 99% of them recorded an operating LOSS.

Why?

- Fail to response to the market
- Expensive sourcing costs
- Expensive logistics costs
- High rotten rate of fresh produce
- Heavy expenses on promotion
- Expensive cost of handling return goods
- High maintenance cost
- Loan interest
Challenges facing fresh produce e-commerce

- Seasonal orders with tremendous product mix
- Food safety issue

High rotten rate of China’s fresh food distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Europe &amp; USA</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetable &amp; fruit</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>Seafood</td>
<td>5%</td>
<td>12%</td>
</tr>
<tr>
<td>Meat</td>
<td>5%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: China Association of Warehouses and Storage (2015) compiled by Fung Business intelligence Centre
Challenges facing fresh produce e-commerce

- Keen competition and fail to differentiate from one another
- High costs and long lead time incurred in the complex agricultural supply chain
- Lack of temperature control along the cold chain: the first mile processing, in-transit and last mile delivery

### Cold chain logistics requirement of various fresh produce e-commerce

<table>
<thead>
<tr>
<th>Requirement of</th>
<th>Imported seafood, meat</th>
<th>Festive fruit</th>
<th>Daily fresh food</th>
<th>Grocery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cold storage</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Cold chain delivery</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Time sensitivity</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Logistics cost</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: www.analysis.cn, compiled by Fung Business intelligence Centre
Challenges facing fresh produce e-commerce

- Low standardization
- Immature regulatory system and hard to execute the regulation
- Complicate procedures for setting up cross-border e-commerce business

Who should take responsibility for fresh produces?

- Ministry of agriculture
- Ministry of commerce
- General administration of quality supervision, inspection and quarantine
- National health and family planning commission
- Ministry of environmental protection
- Ministry of public security
- Ministry of transport
Critical success factors of fresh produce e-commerce

- Identify a self-sustainable business model
- Closely engage with stakeholders in the supply chain and the end consumers to develop unique products
- Monitor the entire cold chain
Critical success factors of fresh produce e-commerce

- Offer scalable first mile and last mile delivery solutions
- Enhance consumers’ experience by serving them via offline depots (self-established stores or allying with other offline store operators)
- Foster user stickiness by interacting with shoppers through the use of social media
Contacts

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