Rule #1: Hang Onto Your Users!

Advice from FreshFresh's Shen Bin

"Our original goal was to bring high-quality fresh food to users."

President of FreshFresh Shen Bin was one of the 48 carefully selected participants of the 5th CEIBS Entrepreneurial Leadership Camp. Before that, he had graduated with a major in software engineering from the University of Victoria in Canada and had experience working as a system developer. Towards the end of 2010, Shen returned to China and started his own business. Three years later, he and Fang Baiyuan cofounded FreshFresh, which has now grown into one of China's leading vertical e-commerce platforms for fresh food. On September 22, during the wrap-up meeting that brought to a close an Entrepreneurship Salon organised by CEIBS E-platform, Shen shared their observations on New Retail as well as valuable lessons learnt from their interactions with almost 100 entrepreneurs. Read on for excerpts from his speech.

About FreshFresh

"FreshFresh launched in October 2014. Our original goal was to bring high-quality fresh food to users. We are focusing on Shanghai right now and we are working on the entire food production chain ranging from fruits and vegetables to meat and seafood. We are best known for our self-owned cold-chain logistics and 95% of orders we receive are delivered by our own refitted refrigerator cars. From warehouses to users' homes, product temperature is strictly monitored throughout the delivery process and every effort is made to minimise risk. This is then followed up with customers' reviews regarding the quality of delivery services. FreshFresh is convinced that when it comes to precision our standard operating procedure (SOP) is the best in the industry. Our corporate culture is 'service based on friendship.'

Over the last couple of years, FreshFresh enjoyed a compound annual growth rate (CAGR) of 291%, surpassing the e-commerce industry's 42% and the online fresh food industry's 106%. We believe opportunities abound in New Retail and FreshFresh, as a company that tends to think strategically before we move, can be seen as a jogger, meaning we do not focus on being the fastest but on the long-term quality of service we provide.

New Retail Model

Hema has shown very strong momentum in the New Retail space. Since the company began rolling out its offline retail products last January, we have also seen the emergence of many New Retail models, such as unmanned convenience store shelves in offices, Yonghui Superstore's Super Species (a combination of shopping and dining), Alibaba's purchase of 18% of Lianhua Supermarket, and unmanned convenience stores. Even traditional companies have been involved: for instance, Better Life opened Fresh Ideas. The most well-known case is Amazon's acquisition of Whole Foods in mid-2017.

New Retail has impacted the way of thinking in both the traditional and internet industries. For example, when internet traffic encounters a bottleneck, everyone starts to wonder how to use high-frequency consumption to drive traffic.

With this new model of New Retail, apart from vertical e-commerce platforms such as FreshFresh, there are also brand new supermarkets such as Hema, which use the 'supermarket plus delivery' model, as well as the 'warehouse distribution' model that has been adopted by platforms such as Urfresh and Miss Fresh. This is where a warehouse is set up in users' neighbourhoods and delivers food to their doorsteps.

We defined these three models as "high threshold", because of the relatively heavy investment needed in the early stages. They are asset heavy.

Some recently popular models have comparatively medium and low thresholds, for instance unmanned convenience stores. They are mostly driven by big data, and they have experienced a few evolutionary changes. When Bingo Box was launched this June, its main selling point was the fact that it is 'unmanned'. However, it later dawned on everyone that 'unmanned' was not necessarily the best solution, because having staff in the convenience store still adds high value to the experience. The future trend will probably be to free some staff from repetitive jobs, such as cashier. Having on-site service personnel will be more about providing value-added services.

There has been an increase in the various types of products offered through unmanned store shelves in offices and vending machines. Now they even sell fresh food. For example Sanquan (king of China's frozen foods market) has fresh food vending machines. They have box lunches sent to offices every day. The lunches are ordered one day before, and are picked up from vending machines the next day. It is very easy to copy the unmanned store shelves model, and it's very effective at attracting users. People see and use these unmanned store shelves every day and become subtly influenced by the products being sold. But as they develop a deeper understanding of brands, in the long run brands will win.

Our Customers are Spoiled

When FreshFresh entered the market, most e-commerce platforms – including fresh food stores – took orders one day and delivered the next. That was good enough. Only the giants such as JD.com could manage same day delivery.

Since 2015, some e-commerce platforms have been able to provide same day delivery. By 2016, many who serve fresh food had raised the bar and promised delivery within two or three hours after orders were placed. And this year, the norm is delivery within "29 minutes" or an hour.

What's driving customers' increased focus on speed? We have been giving a lot of thought to this question. One of the important guidelines Alibaba CEO Daniel Zhang has set is "the customer experience comes first". Then the speed of delivery counts as merely one aspect of the overall experience. As it were, our customers are spoiled. Highly-developed e-commerce companies (such as Amazon) all deliver within 2 hours, or the same day, in the US – and most Amazon members receive their deliveries the next day. However, in China, in some regions where e-commerce is growing at a dramatic pace, delivery takes less than an hour. Can you imagine the level of delivery speed we will see next?

That's why the concept of 'pick-up right away' – the unmanned store

"This year, the norm is delivery within 29 minutes."

shelves – emerged in 2017; no delivery is required, products are immediately available.

Biggest Challenge: Organisational Reform

There are so many types of New Retail that more and more capable and insightful players have been pouring into this market. The biggest challenge behind this flurry of activity is organisational reform. Over the last two years, discussions with many peers – including our competitors – have shown very clearly that people's way of thinking has fallen behind the pace with which the industry is growing. They lack not only online but offline knowhow. When you are committed to engaging in New Retail and combine both online and offline, the entire organisational structure has to get ready for change.

Consumption upgrade is a megatrend. Technological upgrade can be achieved once there are funds available, but organisational reform requires time, team spirit plus resources related to talent, the system of corporate governance, culture and financing.

The Lesson of One Yuan

I'd like to tell a story that has confirmed one of our ideas: the concept that the most important factor, to date, behind all New Retail models is the user retention rate.

We officially began to calculate the user retention rate in 2015. For the online fresh food industry and many vertical e-commerce industries, the average retention rate for the next month is about 20%. In 2015 we learnt a painful lesson. At that time, for more than 2 weeks our user retention rate for the next month was under 5%. We called it 'the lesson of one yuan'.

From the end of October to early November in 2015, we ran a marketing campaign. It was a crazy decision – two grapefruits sold for one yuan, including the shipping fee. Our total cost, including delivery, was about 20 yuan. We sold them for one yuan each since at that time we felt it was vital for us to increase traffic.

At first the results were great. We had such a huge surge in traffic that our server went down. Two days later, we had climbed to around 60th according to the App Store ranking in China. Within roughly ten days, we attracted more than 100,000 customers who placed orders – and all of them were in Shanghai.

However, it turned out that we failed to fulfil our agreement with clients, because we fell short on our deliveries and the server broke down. The customer experience was disastrous and, moreover, many customers only came for the super low price of one yuan and were not transformed to permanent customers. It wasn't their fault, it was ours and it was a very bitter lesson. Ever since then, at the very core of our operations, we have taken the opposite approach.

The latest data on our retention rates shows that we are doing well and we have a good lead in the industry. We attach great emphasis to the user activity cycle, and in terms of Customer Relationship Management (CRM), we use our own company-generated algorithm to closely track customers' behaviour – we look at things such as the date of a customer's last purchase and how much he spent. We classify our customers, use different ways to motivate different users, and this is all supported, behind the scenes, with logical decision making."