

Digital to drive the future of groceries in China

Article

China is ahead of the ecommerce pack, whether it is sales, marketing tactics, or logistics. And the grocery category is no different. By the end of 2020, digital grocery had already become a **RMB 458.5 billion (\$66.43 billion)** market in China, growing at **64.0%** while accounting for **14.6%** of total grocery sales (well ahead of our estimate of **8.7%** for the US), according to iResearch Consulting Group.

In China, the earliest online grocer (Yiguo Fresh Foods) was founded in 2005, but the industry didn't enter the spotlight until 2013 when ecommerce giants **Alibaba** and **JD.com**—which

viewed digital grocery as the next big opportunity—moved into the vertical aggressively by launching their respective businesses.

Before the pandemic changed retail forever, many people were already buying groceries online thanks to China's sophisticated omnichannel retail ecosystem across urbanities, but COVID-19 provided further impetus for people not to dine out, but to cook their meals at home—one of the fastest growing is the ready-to-eat category, which is projected by business intelligence firm Askci to expand around **20% CAGR** within the next six to seven years.

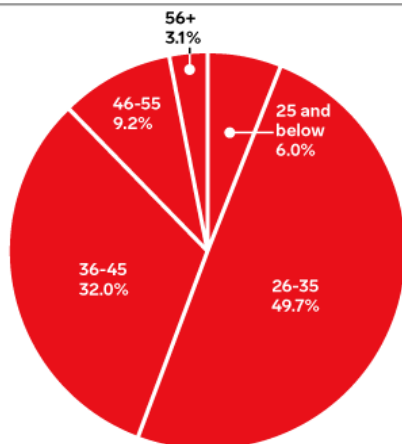
Today, consumers in China can enjoy shopping for food on a variety of platforms, including offerings from ecommerce titans Alibaba, JD.com, **Pinduoduo**, and **Meituan**; startups like **Missfresh** or **Dingdong, Maicai**; or even ride-hailing giant **Didi**. Each one employing some, or all, of the following models addressing specific market needs:

- **Front warehouse:** Smaller warehouses are set up near customers' addresses, which helps lower delivery time and cost.
- **Retail and warehouse integration:** A full-fledge omnichannel retail model where stores also double as procurement centers. Consumers can buy in-person or online and get express delivery to their homes.
- **Online-to-offline (O2O) platform:** A type of partnership between an online platform and brick-and-mortar grocers or convenience stores to have online orders delivered to consumers.
- **Local community group buying:** A business model that takes advantage of bulk pricing. Orders are distributed to local procurement centers, where group organizers coordinate end-customers' pickups. This model is particularly popular in lower-tier cities where consumers tend to be more price sensitive and focuses on more essential produces.

Nearly 9 out of 10 digital shoppers in China are ages 45 or younger, per iResearch. Because online grocery shopping is second nature to these digital natives, they are likely to continue doing so in the future. For marketers, the challenge is to entice older demographics to do the same, which will require a different marketing approach.

Grocery Digital Buyer Share in China, by Age, Feb 2021

% of total



Note: n=1,761

Source: iResearch Consulting Group, "2021 China Grocery Ecommerce Industry Research Report," May 18, 2021

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When digital and food intersect, all types of innovation can be brewed up; digital grocery buyers in China crave an ever-greater variety of food and are hungry for new experiences—live seafood has proven popular. But young consumers in China want to indulge themselves in information, and this is where livestreaming commerce can fill that void. To deliver freshness, companies are forming direct relationships with local farms—and innovating in cold-chain efficiency. Farmers are livestreaming on short-video platforms, such as **Kuaishou**, to engage with and sell to consumers directly.