

# A Review of Instant Retailers' "O2O with Home Delivery" Strategies

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## Abstract

With the accelerated integration of online and offline consumption scenarios, the scale of instant retail market is growing rapidly. On the basis of combing existing literature, this paper discusses the current situation and characteristics of instant retail 'O2O to home' mode, and summarises and reviews the research on three important factors affecting instant retail enterprises' "O2O with home delivery" mode, so as to provide a theoretical basis for small and medium-sized retail enterprises to formulate strategies for participating in instant retail. It also summarises and reviews the research on three important factors affecting instant retailers' "O2O with home delivery", providing a theoretical basis for small and medium-sized retailers involved in instant retail to formulate strategies. By summarising and analysing the literature, we explore the shortcomings of the existing research results and point out the research directions that can be considered in the future.

## Keywords

Instant Retail; O2O With Home Delivery; Influencing Factors; Strategiesaper.

## 1. Introduction

In August 2022, the Ministry of Commerce of the People's Republic of China released the 'Report on the Development of China's E-tailing Market in the First Half of 2022', which for the first time explicitly mentioned the concept of 'instant retail' and affirmed the role played by 'instant retail' in the 'deep integration of online and offline'. The concept of 'instant retail' was explicitly mentioned for the first time in the report and the role of 'instant retail' in the 'deep integration of online and offline' was affirmed. According to the definition of Ai Rui Consulting, 'instant retail' refers to Internet retail platforms that provide consumers with instant home delivery of food and beverages, vegetables and fruits, flowers and cakes, medicines and healthcare, household products, digital and 3C products, and so on. In 'instant retail', consumers place orders through online platforms, and offline brick-and-mortar retailers carry out home delivery services through third-party or their own logistics, with a delivery timeframe of 30-120 minutes. Affected by the epidemic, new retail, with 'instant retail' as its driving force, is witnessing rapid development in the current context of stabilising the economy and promoting consumption.

## 2. Current Status of Instant Retail Development

The China Instant Retail Development Report 2022 released by the China Chain Store Management Association shows that the market scale of instant retail has grown at a rate of 81 per cent in the past five years. It is expected that in 2025, the scale of the open platform model of instant retail will break through the threshold of trillion yuan, reaching about 1.2 trillion yuan. At present, a number of large-scale supermarkets and retailers in various regions across the country have long been involved in instant retail and continue to expand their scale, while

many small and medium-sized retailers such as food and beverage shops, convenience stores, fruit shops, flower shops, grocery shops, pet supply shops, beauty and daily necessities shops, pharmaceuticals and maternal and child clothing have also been involved in instant retail. Instant retail can be divided into self-operated mode and platform mode. The instant retail business of large enterprises, such as Boxmart Fresh, RT-Mart and Yonghui Supermarket, needs to build its own shops or warehouses as well as online platforms, which belongs to the self-operated mode. However, the construction cost and operation cost of an independent platform is very high, and many small and medium-sized retail enterprises do not have the strength to build a platform independently, so the former local life service O2O (online-to-offline) platform enterprises (such as Jingdong to home), as well as the main catering take-away O2O platform enterprises (such as Meituan, Hungry Mou, etc.) have to enter the field of instant retailing, joining hands with supermarkets, Convenience stores, fruits, flowers, beauty, mother and baby, medicine, travel, entertainment, clothing and other retailers, to provide consumers with instant delivery to home, service to home and other services. Small and medium-sized retailers working together with platform enterprises to carry out instant retail business belongs to the platform model. Currently, the mainstream instant retail platform companies in the market include Meituan, HungryMall, Jingdong Jiajia, and Dianping.

### **3. Instant Retail and 'O2O with Home Delivery'**

O2O is an emerging e-commerce model that combines offline demand with the Internet, with 'online payment + offline experience' as the core. According to the different delivery scenarios of products and services, O2O mode can be subdivided into 'O2O to shop' and 'O2O to home'. 'In-store O2O' is a model in which consumers book or buy products and services online, and the consumption or experience is completed in a physical shop, which is the initial form of the budding O2O industry. The aforementioned instant retail is an upgraded version of the traditional 'O2O with home delivery' in terms of delivery timeliness, which is mainly characterised by the requirement of 'fast' delivery of orders (usually within 30-120 minutes). Sanjith (2023) pointed out that order delivery timeliness is a key indicator of the success of the online retail business, and investigated the impact of the dimensions of the sorting strategy on order delivery timeliness. on order delivery timeliness [1].Zhu et al. (2022) proposed that consumers demand higher timeliness in logistics and distribution, and investigated how consumer satisfaction with products and logistics, as well as the timeliness of sorting and delivery, affects sales performance [2].Wang et al. (2021) found that takeaway services on O2O takeaway platforms require high timeliness, and investigated order consolidation and delivery path optimisation models using simulated annealing algorithms and other order consolidation and delivery path optimisation models [3]. However, the current immediate delivery efficiency is still relatively low, which directly affects customer satisfaction. According to WJS, a typical instant delivery company, Tinkerbelle, has 16.7% of customers complaining about order delays in 2020. In current practice, the time it takes from a customer placing an online order to an online retailer fulfilling it is one hour (Box Office, 2021). Instant retailers therefore need to give due consideration to the price of goods, order delivery charges, starting price, delivery range, etc. when making operational decisions.

## **4. Key Factors Affecting Instant Retailers' O2O with Home Delivery**

### **4.1. Consumer Preference**

With the rapid development of instant retail, both enterprises and platforms are facing increasingly fierce competition. How to increase revenue in the face of fierce competition is a key concern for SMEs involved in the instant retail business. Research on instant retail platforms reveals that there are many similar SMEs on the same platform. Although they sell

the same type and quality of goods, there is a clear difference in consumer preference for different companies. For example, the 'Supermarket and Convenience' channel on HungryMall or Meituan platforms labels businesses as 'branded', 'preferred', '24-hour', etc.; the two platforms also label their products with 'branded', 'preferred' and '24-hour' labels. 'The 'Takeaway' channels of the two platforms classify merchants according to different dimensions, such as delivery time, merchant characteristics, product quality, and preferential activities, so that users can select merchants according to their own preferences, and thus satisfy the differences in consumers' preferences for merchants.

Since consumers have different needs for products (e.g., in terms of product quality, product price, product greenness, product appearance, etc.), they have heterogeneous preferences for different retailers and it is an important factor that influences consumer behaviour. For example, Tariq et al. (2020) found that the key to reliably predicting the mode choice of self-driving car (AV) technology lies in understanding end-users' preferences, and reveals the key factors influencing consumers' preferences [4]. Yu et al. (2020), in their study on decision analysis of rural e-commerce development level, emphasised that the preference information of experts cannot be ignored [5]. Yasri et al. (2021) used a structured questionnaire survey method to collect data and found that consumers' brand experience and brand preference affects their willingness to repurchase [6].

Vigorously advocating a low-carbon economy and building an ecological civilisation has become the main theme of this period. With the emphasis of the policy, the public's environmental awareness and green preference are also increasing. Nowadays, more and more consumers are willing to buy green products, and there has been more literature considering consumers' green preferences, such as Xie et al. (2021) [7], Xiang and H.M (2023) [8], respectively, explored the promotion of green products and subsidies, carbon emissions and freshness of fresh products, green preference and reference price effect, carbon tax and carbon cap, and government intervention on supply chain performance. Fan et al. (2022) investigated the impact of consumer green preference and relevant government policies on the diffusion of new energy vehicle R&D [9]. Yang et al. (2019) identified the intrinsic relationship between corporate innovation performance indicators and consumer green preference and study methods to improve corporate innovation performance [10].

Based on the understanding that consumers have heterogeneous preferences, many scholars have found that consumer preferences have a significant impact on supply chain, pricing, and profit. There are literatures based on consumer's channel preference. Yu et al. (2019) investigated the optimal dual-channel decision of manufacturers by considering consumers' channel preferences between direct and indirect channels [11]. There is also literature on the optimal decision making of supply chain members based on heterogeneous consumer preferences, e.g., Cheng et al. (2022) investigated the impact of consumers' product quality, and price preferences on retailers' and manufacturers' profits and pricing, and explored the optimal pricing decision of a dual-channel supply chain under decentralised versus centralised decision making scenarios [12]. Pan (2021) explored the impact of consumer salience preferences on the pricing strategies and profits of monopolistic bilateral platform firms based on salience theory [13]. Choi et al. (2020) explored the extent to which specific attributes of a mobile payment service influence consumers' choice of service [14]. Ni et al. (2020) introduced consumer preferences for e-commerce brand value and product quality to study the optimal pricing decisions of mixed sales channels under different power structures [15]. Therefore, retailers should not ignore the degree of consumer preference when making operational decisions for instant retail business.

## 4.2. Online and Offline Dual-channel Cost Differences

In addition, enterprises involved in instant retailing provide services to both online and offline consumers based on O2O platforms and offline shops. Apart from the cost of ordering goods, there is a significant difference in the cost of providing services to consumers online and offline. For example, in offline shops, companies have to bear costs from site leasing, shop renovation, utilities and staff salaries, etc., while in providing 'home O2O' services to consumers based on instant retail platforms, the costs mainly include O2O platform commissions and distribution costs, etc. Compared to fixed costs from offline site leasing, shop renovation and staff recruitment, online services incur platform commissions, and online services incur platform commissions and distribution costs. Compared to fixed costs such as offline space rental, store renovation, and staff recruitment, the platform commission and delivery costs incurred by online services are variable costs and more flexible. When there is no online demand, retailers do not need to pay variable costs. Usually, the unit cost of online services is lower than that of offline services for retailers and it is precisely because of the cost difference between online and offline services that many small and medium-sized merchants are attracted to participate in instant retailing. Among the online-offline dual-channel problems, there are numerous scholars who have conducted research on pricing.

There has been more literature such as Xu et al. (2022) [16], Zhang et al. (2021) [17], Reza et al. (2021) [18], Yu et al. (2019) [19], which have studied from the supply chain perspective on the retailer's dual-channel or multichannel pricing problems, which include member-optimal pricing of dual or multichannel, sales effort level decision, and profit. There is also literature that considers different influencing factors to study the dual-channel pricing problem, e.g., Sarin et al. (2023) [20], Chai et al. (2021) [21] studied the effects of delivery time, commission rate, power structure, inventory strategy, return agreement, online and offline service model or service level on retailers' dual-channel pricing decisions, respectively. Li et al. (2019) considered the strategic effect of the return policy to investigate the effect of a dual-channel supply chain consisting of manufacturers and retailers in a dual-channel supply chain consisting of firms' optimal pricing and return strategies [22].

In addition, some scholars have also studied dual-channel pricing from the perspectives of retailers and consumer behaviour perception, such as Wu et al. (2022) [23], Zheng et al. (2022) [24], Wan et al. (2020) [25], and Yan et al. (2021) [26], respectively, studied dual-channel pricing from the perspective of retailers' fairness concern behaviours, consumers' perceptions of online reviews and goods' greenness, and consumers' switching behaviour, etc. Zhang et al. (2023) established a price game model for a dual-channel supply chain consisting of a manufacturer and a retailer based on the theory of finite rationality, and investigated the dynamic evolution process under the parameters of price adjustment speed and retailer's service inputs [27]. By comparing the research of many scholars in the dual-channel aspect, it can be found that most of the commodities online and offline favour different pricing strategies, and in the future research, it can be considered that enterprises in the 'home to O2O' mode will set the uniform retail price online and offline. In addition, there is not much literature on the pricing of dual-channel retailers based on the cost differences between online and offline, so instant retailers can make their operational decisions based on the consideration of many factors, such as the differences in service costs between online and offline.

## 4.3. Online Order Delivery Fee

When a company participates in the instant retail business and joins hands with a platform to sell online, the delivery fee of its orders is a decision-making issue that cannot be ignored. There are various ways to charge delivery fee, such as fixed fee, charging according to the proportion of the amount or weight of the order, or charging according to different regions and different distances. Distribution fee is a common business operation means, which is widely used in e-

commerce, catering, express delivery and other fields. In the literature related to the study of distribution services in retail enterprises, a part of scholars focus on the issue of distribution fee or cost minimisation. For example, Xin et al. (2020) [28] studied how to reduce the distribution cost of enterprises based on the factors of distribution network, distribution path, and order splitting, respectively. Another part of scholars explored the effect of order delivery cost and order delivery distance on consumers' consumption intention to participate in online purchasing. For example, Nguyen et al. (2019) proposed that the most important factor affecting consumer preference is delivery cost by investigating consumers' willingness to shop online [29]. Wu et al. (2022) found that delivery cost negatively affects consumers' choice of online takeout by establishing a logistic regression model [30]. Teng et al. (2020) constructed a model and verified the 'inverted U-shaped' relationship between delivery distance and order volume based on more than 65,000 takeaway orders on the Hummingbird delivery platform of HungryMall [31]. Based on the existing literature, it is known that the order delivery cost will have an important impact on consumers' willingness to participate in the "home delivery O2O" mode. When retailers join hands with platforms to participate in the 'home-to-home O2O' model, they should not ignore the issue of delivery costs, and should consider various factors to make optimal decisions on retail prices and order delivery costs.

## 5. Conclusion

As an important part of O2O (Online to Offline) home delivery business, instant retail with high convenience and timeliness has become one of the main engines of new retail in recent years, and is also regarded as a key track of new retail and a 'wind mouth' that is blowing up. In the rapidly developing market environment of instant retail, retailers need to consider whether to join the 'O2O with home delivery', and retailers' pricing decision has been paid more attention by scholars, which has gradually become a popular research field. This paper focuses on the application and research progress of different stages of instant retailing from both practical and theoretical aspects, and analyses the main factors affecting instant retailers' "O2O with home delivery", including consumers' preference, the difference between online and offline service costs, and the order delivery fee. Through a large number of literature studies, it is found that instant retailers need to comprehensively consider multiple important factors when making decisions on adopting the 'O2O with home delivery' model.

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