Supermarkets in China

Two Ma race

SHANGHAI

A contest in offline retail between online giants gets under way

THE season for the best *xiaolongxia* (“little dragon shrimp”) is just beginning, and so on a recent evening four young friends tucked into a pile of steaming-hot crayfish. But rather than sitting in a restaurant they were at a table surrounded by supermarket aisles stocked with nappies, baby formula and cooking oil. Above them, groceries and made-to-order meals, gathered by store attendants from shelves and nearby cooking stations, were wafted on aerial conveyor belts into a storeroom. There they were packaged and whisked to Shanghai homes within a 3km radius, at any hour and in under 30 minutes.

“Eat-as-you-shop” is one innovation of Hema Xiansheng, a chain of fancy supermarkets. And these shops are themselves the showiest elements of a bid by Alibaba, a Chinese e-commerce emporium that handles more transactions than Amazon and eBay combined, to master “online-to-offline”, or O2O, retailing, in which customers use digital channels to buy from physical businesses. Alibaba currently runs 40 Hema stores in ten cities. It wants to open 2,000 in the next five years.

The offline sector makes e-commerce giants salivate partly because 85% of Chinese still stubbornly buy their products from bricks-and-mortar stores, and partly because it is so fragmented. The five largest supermarket groups control 27% of the business, compared with 78% in Britain. Filling the gap are over 6m independent corner shops, which account for a combined 10trn yuan ($1.6bn) in revenue.

Alibaba is hoping to apply its online know-how to them with Ling Shou Tong, a free retail-management platform launched in 2016. Through it, shop owners can order products sourced by Alibaba from partners such as Procter & Gamble. It then uses its logistics affiliate, Cainiao, to ship them. Shops are given advice on what to stock based on Alibaba’s trove of data—plenty of dog food in pooch-loving areas, say. In return Alibaba gets valuable data on spending habits in poorer cities, especially among older shoppers who buy offline.

A clearer signal of Alibaba’s ambitions as a provider of services to other outlets came on April 2nd, when it bought the shares it did not already own in Ele.me, valuing the food-delivery platform at $9.5bn. These services span online tools for inventory management to marketing and smartphone payments. They also include labour. Ele.me’s network lets thousands of small restaurants ferry dishes to the doors of some of China’s 700m smartphone users. Through the acquisition Jack Ma, Alibaba’s founder, added 3m delivery people to the 2m of Cainiao, boosting the group’s “last-mile” delivery capabilities.

The Ele.me acquisition is a direct challenge to Tencent, a gaming-and-social-media giant owned by Pony Ma (no relation to Alibaba’s founder), which has a large stake in a rival delivery service run by Meituan-Dianping. It is just the latest offline battlefront between the two online giants. Since late 2016, each has spent about $10bn to acquire stakes in big traditional retailers. Last year Alibaba bought a large stake in Sun Art, China’s biggest private supermarket operator. In December Tencent responded with a stake in Yonghui Superstores, China’s second-largest, and is considering another in the Chinese operations of Carrefour, a French hypermarket. Tencent is making another offline foray through JD, an e-commerce rival to Alibaba in which it holds an 18% stake and with which it has teamed up on big retail investments. Last year JD announced that it would open 1m convenience stores in the next five years.

Liu Zhangming of TF Securities, a brokerage, thinks that Tencent is on the back foot, investing in bricks-and-mortar because it fears that Alibaba’s retail foray will help to promote its mobile-payment system, Alipay. That risks pushing Tencent’s WeChat Pay out of swathes of the offline market. Hema stores, for instance, accept only Alipay or cash. Independent retailers are choosing their sides: Walmart, a partner with JD since 2016, announced on March 27th that it would accept only WeChat Pay in its stores in western China.

Of the ten biggest supermarkets in China by market share, only three have yet to claim a broader allegiance to either of the Messrs Ma. Some observers argue that the sheer number of retailers means that the supermarket wars may not be won by either of the online titans. The tool-kits they are plugging may not be the ones embraced by all retailers, says Mr Liu.

Yet no firm can match these tech titans’ tentacular reach into the everyday lives of Chinese consumers. Tencent has turned its WeChat messaging system into a super app that allows its 1bn users to order food, hail taxis and make payments; JD, like Alibaba, runs a supply platform for small businesses. Wai-chan Chan of Oliver Wyman, a consultancy, expects a shake-out in the distribution sector, as the two giants become middlemen for brands and physical stores. Many of their ventures are still experiments in how to make the most of fresh reams of data they can gather. Even if they end up not owning a dominant chain of stores, ultimately, says Mr Chan, they will “own the customer”. ■

Semiconductor manufacturers

Shifting silicon

TSMC is poised to become the world’s most advanced chipmaker

MORRIS CHANG is preparing for retirement. After 30 years in the role, the founder of Taiwan Semiconductor Manufacturing Company (TSMC), the island’s largest firm, will step down as chairman in June. He will hand the reins over to the current co-CEOs, C.C. Wei and Mark Liu, the former becoming sole CEO and the latter chairman. Later that month the company will ship new semiconductors manufactured with its latest technology. For the first time the world’s most powerful chips will be made by TSMC, not by Intel, its American rival.

Intel and TSMC are different sorts of company. Intel is an integrated device manufacturer (IDM). It both designs and manufactures chips. TSMC is a “foundry”, making chips for designers without factories, or “fabs”, which cost a fortune. TSMC’s latest fab will cost $20bn. The Taiwanese company pioneered this model and is its dominant exponent. In 2017 it had 56% of the foundry market, according to Trendforce.

Intel led the pack in squeezing more computing power onto chips. The company turned Moore’s law—which states that computing power doubles every two years at the same cost—into a self-fulfilling prophecy. To do so they shrunk “nodes”, the width of the channel etched into silicon chips. The narrower the channel, the more computing power can be squeezed ▸▸