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E-GROCERY MARKET IN JAPAN: HOW SMALL NEW PLAYERS COMPETE WITH THE GIANTS

A business model analysis of Honestbee

57160509-1 NGUYEN THI ANH NGUYET
MANAGEMENT STRATEGY
AND INDUSTRY EVOLUTION

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Summary

The development of Information Communication Technology in recent years has made business transaction significantly convenient and efficient. In the digital era, people do not need to go to a physical store to buy necessary products, but just a few clicks, the shopping is finished online, customers can receive the orders at the place they want and the time they are available. Groceries are not an exception of the digitalized products. Being considered a daily necessity, demand of buying groceries online is increasing and therefore resulting in a number of ventures tapping in the market of e-grocer. Though the blue ocean of online grocery service is much vacant, how to create a business model which is able to dominate the market and win competitors is a big question.

This study introduces Osterwalde's business model that is commonly used in academic and business field in order to explain the elements forming an e-commerce business model. Based on this framework, business models of three e-grocery companies are decomposed to uncover the industry characteristics and analyze the elements of business model of each company. Finally, alteration in business model of the selected e-grocers is proposed.

<Inside Cover>

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CHAPTER 1. INTRODUCTION TO THE STUDY

Section 1. BACKGROUND OF THE STUDY

Urbanization and modernization in developing markets are changing the way people buy their groceries. During the last decade, modern grocery retail has increased from 21.7% to 30% of total grocery retail sales (DBS Asian Insights, 2017). The development of Information and Communication Technology (ICT) closes the gap between developed and developing markets, help the later one embrace modern grocery retail even more.

ICT is one of the greatest pride of Japan, where internet users account for 98% of the population. With the highest consumer spending per capita in Asia Pacific of US\$20K per capita, \$695 per capita is consumer spending online. However, among the number of consumers use online shopping service, only 7% contributes to online grocery spending (Agriculture and Agri-Food Canada, 2015). While the potential for online grocery business is high in Japan, there exists only some private, B2B and niche players operating online grocery in main cities, and none of the players has marked its brand as an e-commerce grocery provider.

Honestbee is a Singaporean e-commerce start-up joining Japan market in 2015 which provides an online platform for consumers to purchase groceries at competitive prices versus physical stores in selected areas. Similar to any other business when penetrating Japanese market, Honestbee has to encounter numerous barriers including culture differences and long establishment of Japanese companies. How Honestbee, a new entrant can win the Japanese market; and which business model distinguishes Honestbee as a winner in the field, are questions that this study is trying to answer.

Section 2. STUDY OBJECTIVES

The thesis explores the business models of e-commerce grocers in order to uncover the industrial practices to overcome common problems that e-grocery firms encounter. The industrial analysis aims to gather a collection of best practices in business model development and

implementation to be used as guidelines for future platform management. A framework used for analysis is developed by studying and integrating literature on e-business model and e-grocery market characteristics. It is then utilized as a tool to explore the business models of three case study e-grocery platforms to draw conclusions about common strategies and practices launching and operating intermediary platforms in the e-grocery field.

Section 3. SIGNIFICANCE OF THE STUDY

The burst of ICT and e-business urges researchers, financial advisers and economic analyzer to have a deeper and better understanding on this matter. The interesting case of Honestbee given its characteristics and ambition to dominate the hugely potential market of Japan requires an insightful look and critical analysis. By using this case, this study aims to fill the gap in the knowledge of e-grocery and also small-medium size e-business in Japan.

Section 4. RESEARCH APPROACH AND METHODOLOGY

This thesis is designed as a multiple-case study. It employs the business model ontology of Alexander Osterwalder to document and analyze three players in e-grocery market: Amazon Fresh, Seiyu and Honestbee. The data is collected with desk-review method through their documents, financial reports. Interviewing and surveying a number of customers are also used for better understanding on the problems.

Section 5. THE STRUCTURE OF THE RESEARCH

The first part of the thesis introduces definition about e-Business and business model in general. An overview of Japanese e-grocery is also introduced in this part in order to set up a concept about the market of the empirical study. Following, the thesis analyzes the business models of three empirical companies in order to have a comparison about the selected business models. Finally, through three case studies, an alteration of business model is suggested for Honestbee Japan.

CHAPTER 2. LITERATURE REVIEW

In this chapter, the terminologies used in this study will be defined, and the the Japanese e-grocer market will be reviewed.

Section 1. DEFINITION OF THE TERMS

2.1.1. e-Business

The term E-business is commonly defined as “doing business electronically.” To be specific, it encompasses e-commerce, e-markets, and Internet-based business and refers to firms that conduct commercial transactions with their business partners and buyers over the Internet (Mahadevan, 2000). It is E-business has been rapidly and fruitfully developed, owing to the recent advances in information and communication technologies. Among them, the emergence and swift expansion of the Internet and the rapid decline in computing and communication costs are the main factors allowing the innovation in generating and delivering value, which have offered scope for the creation of unconventional exchange mechanisms and transaction architectures (Amit & Zott, 2001) and accentuated the possibilities for the design of new boundary-spanning organizational forms (Daft & Lewin, 1993; Dunbar & Starbuck, 2006).

2.1.2. Business Model

Business model has become a popular topic among both academic and business world in recent years. There are many definitions about business model with different focuses. Some of the most dominant definitions are summarized in the table below:

Author(s)	Definition
Timmers (1998:4)	Definition of a business model: (a) an architecture for the product, service and information flows, including a description of the various business actors and

	<p>their roles; and (b) a description of the potential benefits for the various business actors; and (c) a description of the sources of revenues. (p.4)</p>
Rappa (2000)	<p>A method of doing business by which a company can sustain itself - that is, generate revenue. The business model spells out how a company makes money by specifying where it is positioned in the value chain</p>
Akkermans & van Vliet (2000)	<p>The answer the question: who is offering what to whom and expects what in return.</p>
Tapscott (2001:5)	<p>A business model refers to the core architecture of a firm, specifically how it deploys all relevant resources (not just those within its corporate boundaries) to create differentiated value for customers.</p>
Osterwalder & Pigneur (2002)	<p>An architecture of a firm and its network of partners for creating, marketing and delivering value and relationships capital to one or several segments of customers in order to generate profitable and sustainable revenue streams</p>
Zott & Amit (2010:222)	<p>A business model can be viewed as a template of how a firm conducts business, how it delivers value to stakeholders (e.g., the focal firms, customers, partners, etc.), and how it links factor and product markets. The activity systems perspective addresses all these vital issues.</p>

Table 2.1: Summary of dominant definition of business models

For the purpose of this study, the definition by Osterwalder & Pigneur will be employed.

Section 2. INTRODUCTION TO JAPANESE E-GROCERY MARKET

Japan is the third biggest economy by Gross Domestic Product in the world, highly-developed and market-oriented. While it is described to be collective community with an ethnic homogeneity and a highly conserved culture, its consumer market is much often driven by changes in the society nationally and internationally; for examples, the stressful lifestyle, Western influence and the development of ICT (Moriuchi & Takahashi, 2016). This section will hereafter introduce some noteworthy characteristics of Japanese consumers and the current situation of Japanese e-grocery market.

2.2.1. Japanese consumers' habits

- Deal-hunting

Despite remaining the third largest economy in the world, Japan has been witnessing the slow growth. Japanese consumers try to be 'smarter' with their money, more considerable before purchasing and hunting for deals. It leads to an increasing popular of the co-branded credit cards, which can be seen everywhere from department stores, supermarkets to online retailers. Those cards are easy to apply, have attractive loyalty programs and low to no membership fee. Also, consumers usually utilize the Internet and some specified websites to compare prices, check for discounts and other campaigns before purchasing (Euromonitor International, 2015).

- Quality and diversity

Japan has been long known for its strict quality control. Therefore, Japanese consumers are also very critical about the quality, especially on food. They also prefer domestic products rather than imported. However, with the increasing need for international cuisine and the adoption of many dietary trends, imported food, cured meat, nuts, and other exotic food are on high demand.

- Convenience

Japanese consumers have been highly demanding on semi-prepared, processed and ready-to-eat meals. There are more than 56,000 convenient stores in Japan, accounting for approximately \$79.7 billion in annual sales (Nikkei, 2015). Supermarkets also provide ready-to-eat meals or semi-prepared food, aiming to younger families to reduce cooking time. However, convenience used to be the most influential factor in Japanese consumer lifestyle, in recent years, consumers tend to favor other factors (Mintel, 2016).

- Ethics

Belonging to a developed economy, Japanese consumers both have more choices with their products and are more cautious about social responsibility. For example, brands with good social corporate responsibilities, eco-friendly packaging, free trade products, etc. are among many reasons to purchase a product (Euromonitor, 2015).

- Internet driven:

Consumers in Japan “use diverse Internet retail shops and Internet auction sites, creating diversification of the purchasing channels available to them” (Takahashi and Fluch, 2009:158). This leads to the fact that many retailers and service providers had to develop an online platform to reach their customers. The number of internet users in Japan reached 124.1 million in 2015, and 63.7% of whom used the Internet to shop (Agriculture and Agri-Food Canada, 2016).

2.2.2. Japanese e-grocery Market

Japan is the second largest e-commerce market in the Asia-Pacific. For e-grocery, total online grocery sales reached \$1.97 billion in 2015, with edible grocery sales of \$489 million. 35% of total online grocery sales comes from women aged 35-54. One of the reasons could be the convenience of buying heavy or bulky food products with long shelf-life such as canned foods for big families, which are difficult to go and buy physically (Planet Retail, 2016). Also, as mentioned above, Internet

contributes a lot to their habits of deal hunting.

Traditional supermarkets also jumped into e-grocery markets by operating their own platform, mostly through website or mobile-phone app. Two tables below show the top grocery retailer and top e-grocery retailer in year 2014-2015.

Table 2.1. Japan's Top Grocery Retailers by Brand and Company Share Historic % Breakdown Based on Retail Value Sales (Agriculture and Agri-Food Canada, 2016)

Brand	Company name	2014	2015
7-Eleven	Seven & I Holdings Co. Ltd.	11.6	12.2
Lawson	Lawson Inc.	5.2	5.3
Family Mart	FamilyMart Co. Ltd.	4.9	5.1
MaxValu	AEON Group	2.6	2.7
Circle K	Uny Group Holdings Co. Ltd.	1.8	1.9
Life	LIFE Corp.	1.6	1.7
Yamazaki Shop	Yamazaki Baking Co. Ltd.	1.6	1.5
Seiyu	Wal-mart Stores Inc.	1.5	1.5

Note: FamilyMart and UNY will merge in 2016 as FamilyMart UNY.

Table 2.2. Japan's Top E-grocers by Brand and Historic Online Edible Grocery Sales In US Millions (Agriculture and Agri-Food Canada, 2016)

Retailer	Brand	Store Format	2014	2015
Walmart	The-seiyu.com	Grocery merchandise e-commerce	201.2	195.8
Amazon	Amazon	Grocery merchandise e-commerce	157.2	158.8
FamilyMart	Famima.com	Grocery e-commerce	N/A	73.9
UNY	APITA NET SUPER	Grocery e-commerce	28.2	33.9
H2O Retailing	Hankyu/Hanshin online shopping	Grocery e-commerce	14.9	13.3
Life	Life Net Super	Grocery e-commerce	8.0	7.7

Izumi	Youme Shop	Grocery e-commerce	4.8	4.2
QVC	QVC.jp	Grocery merchandise e-commerce	1.5	1.4

Note: FamilyMart and UNY will merge in 2016 as FamilyMart UNY.

Players in this market share some characteristics: onmi-channel strategy, social networking integration, private label launch and senior-friendly marketing. These help bring a rather new kind of running business to a more diverse customer base.

For better understanding of the matter, Amazon and Seiyu will be analyzed in the next chapter.

CHAPTER 3. DESIGN AND METHODOLOGIES OF THE STUDY

Section 1. RESEARCH DESIGN: MULTIPLE-CASE STUDIES

For the purpose of this study, a comparative study is employed with the multiple-case. Multiple-case (or multicase) is considered the most important and dominant qualitative research method in international business research (Werner 2002; Andersen & Skaates, 2002). As the term ‘case’ often associates with either geographic location (countries, cities, etc.) or communities or institutions, a case-study can be understood as ‘a study of the setting’ (Bryman, 2012:67). By comparing two or more cases, researchers could validate a theory (Bryman, 2012), and a replicability across cases (Yin, 2003).

This study is designed with the architecture of Four Pillars and A Roof¹³ proposed by Pauwels and Matthyssens (2004). This method consisted of four pillars – theoretical sampling, triangulation, analytical pattern-matching logic, and analytical generalization – and one roof – validation through juxtaposition and iteration. The lack of any pillars would lead to the collapse of the roof. It could be summarized as follows:

- Pillar one - Theoretical sampling: it is not necessary to have many cases, but sampling should have a theoretical basis.
- Pillar two - Triangulation: aims at the integration of multiple data sources in a multi-method design as the weaknesses in each single data collection method/source are compensated by the counter-balancing strengths of another method/source (Jick, 1979 as cited in Pauwels & Matthyssens, 2004).
- Pillar three - analytical pattern-matching logic: pattern that emerges from one case are compared with other cases by comparing ‘an empirical based pattern [of events] with a predicted one (or with several alternative predictions)’ (Yin 1994:106 as cited in Pauwels & Matthyssens, 2004).

- Pillar four - Analytical Generalization: aims to validate of theory and may show to the incompatibility with existed literature, leading additional researches.
- A roof - Validation by Juxtaposition and Iteration: acts as the quality controller of the research, identifies the source of (in)validity.

(Adapted from Pauwels and Matthyssens, 2004)

Section 2. RESEARCH FRAMEWORK: BUSINESS MODEL ONTOLOGY

The goal of this section is to introduce the E-business ontology by Osterwalder to create an adapted framework to analyze the business models of empirical companies. The E-business model ontology covering both activity systems and financial aspects is founded on four main pillars, which are product innovation, customer relationship, infrastructure management, and financial aspects (Figure 2.1).

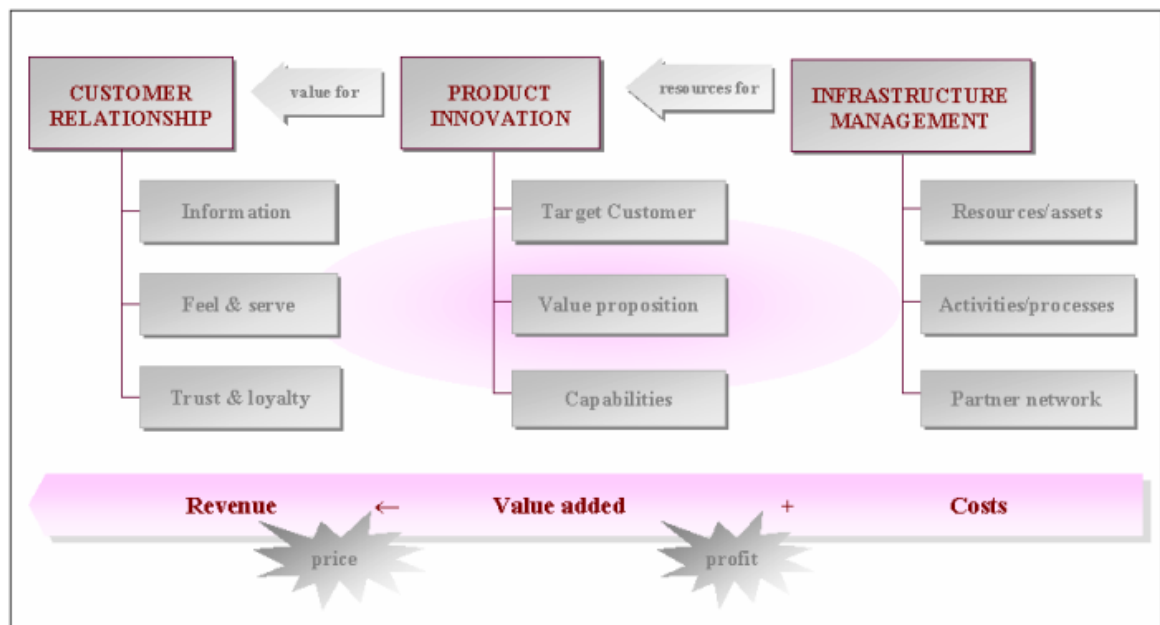


Figure 2.1: E-business model framework (Osterwalder, 2002)

- (i) The *products and services* a firm offers, representing a substantial value to the customer, and for which the customer is willing to pay.

- (ii) The *infrastructure and the network of partners* that are necessary to create value and maintain a good customer relationship.
- (iii) The *relationship capital* the firm creates and maintains with the customer, to satisfy the customer and to generate sustainable revenues.
- (iv) The *financial aspects*, which are transversal and can be found throughout the three former components, such as cost and revenue structures. (Osterwalder, 2002)

The four pillars of E-business model are further decomposed and explained in details in the following section.

A. Product innovation

Product innovation is the first pillar of the framework covering all product-related aspects, which includes the *value proposition* a firm wants to offer to specific *target customers* and the *capabilities* a firm needs in order to deliver this value (Osterwalder, 2002).

Value proposition

Due to the development of Information and Communication Technologies (ICT), e-commerce firms enjoy a wider range of opportunities to create and deliver value to targeted customers than traditional brick and mortar businesses. In his research, Osterwalder addressed three main trajectories that e-businesses can differentiate themselves from competitors, which are: (i) innovation through new, complementary or customized offerings; (ii) lower price than competitors resulting from cost savings opportunities; (iii) a premium customer service and relationship gained from accumulative value of the core offering.

Target customer

A business generally creates value to satisfy the needs of a specific group of customers, that can be either businesses (business to business – B2B) or individuals (business to consumer – B2C). With the presence of ICT, the businesses operating on internet can tap into their target customers

despite the notion of time or geography. Though the opportunities for the e-businesses are ample, competition threats are high since market entry barriers are low (Porter 2001).

Capabilities

To deliver the value proposition to a broad degree of customers, a firm has to possess necessary capabilities, which can be defined as “repeatable patterns of action in the use of assets to create, produce, and/or offer products and services to a market” (Wallin, 2000). In the case of digital grocery market, the firm has to possess technical capabilities to not only ensure the platform to function properly, but also facilitate all the transactions smoothly.

B. Infrastructure Management

Infrastructure management is defined as “the value configuration necessary for a firm to create and deliver the value proposition to its customers” (Gordijn et al., 2000). According to Osterwalder (2002), infrastructure management comprises the firm’s *activity configuration, resources and assets, and partner network*. The details of each element are decomposed in the following parts.

Activity configuration

Activity configuration is a set of internal and external activities and the processes that the firm applies to create and deliver value to customers. Activity configuration is different amongst several types of business, but in most cases, it contains value creation process, brokering and intermediary activities.

Partner network

The partner network outlines the distribution of a set of doings to different partners in the activity configuration. According to Gulati et al. (2000), the stable interorganizational ties between the firm and its partners, who can be the firm’s alliances, joint-ventures, long-term buyers-suppliers,

and other collaborators, are strategically important. As no firm can have dominance in all stages of its activity configuration, disintegrating and rearranging non-core competencies to network partners allows the firm to focus completely on its core competencies.

Resources and assets

Resources and assets are necessary in the firm's process to create and deliver value proposition to its target customers. According to Grant (1995), resources exist in three forms, which are tangible, intangible and human assets. Tangible resources are physical properties that have value, including plants, equipment and cash reserves. Oppositely, "an identifiable non-monetary asset without physical substance" is described as intangible resource (IAS 38), containing patents, copyrights, reputation, brands and trade secrets. Human resources are people a firm needs to create value with tangible and intangible resources.

C. Customer relationship

The emergence of new channels and technologies is significantly altering how companies interface with their customers (Atul Parvatiyar and Jagdish N. Sheth, 2001). Through the use of ICT, firm no longer needs to meet face-to-face to have knowledge of its customers but can adopt multiple channels to expand reach to them with a viable information strategy. While getting new customers is vital for the business development, maintaining customers' trust and loyalty is considered one of the most important elements in doing businesses.

Information strategy

The objective of ***information strategy*** is to answer three questions: how to collect customer information, how to excel customer relationship by using collected information, and how to discover new business opportunities and improve customer satisfaction by this information exploitation. In the digital era, data warehousing, data mining and business intelligence are important tools for the company to devise a coherent information strategy.

Feel and serve (Distribution channels)

To deliver its value proposition to the target customer, the firm needs to devise its distribution strategy, either through direct or indirect channels, operated by the firm or provided by a third party. This element refers to the way a firm “goes to market” and how it actually “reaches” its customers (Hamel, 2000). While ICT technologies can expand the range of channels that firm communicates with customers, possibilities of channel conflicts also increase. Therefore, a close look into channel interaction is required for the firm to better manage its distribution network.

Trust and loyalty

With the emergence of internet-based businesses, *trust* is essentially important when stakeholders no longer need to know each other before doing business. According to Osterwalder, there exists a number of mechanisms to build trust in e-business environments, such as virtual communities (Hagel et al., 1997) performance history, mediation services or insurance, third party verification and authorization, privacy policy (Friedman, 2000; Dimitrakos, 2001).

Customer *loyalty* is the outcome of the customer’s trust and satisfaction. Though acquiring new customers is vital for the business growth, in most cases, establishing and maintaining customer loyalty is much cheaper to repeat business than attracting new ones. According to Hamel (2000), creating positive relationship dynamics, where emotional (such as e-branding), and transactional elements between firm and customer plays an important role to establish loyalty and relationship capital.

D. Financial aspect

The financial aspect is the last pillar of e-business model framework and has the effect on all remaining elements. Financial aspect consists of revenue model and cost structure, which determines the firm’s profit model as well as its ability to survive to other competitors.

Revenue model

Revenue model is the element that measures the firm's ability to translate its value proposition offered to customers into monetary value and therefore to generate income revenue (Osterwalder, 2002). A firm's revenue model can encompass various revenue streams with different pricing models. As internet has had an important impact on pricing and has created a whole range of pricing mechanisms (Klein et al., 2000), the new pricing mechanisms enabled by ICT should be used in order to maximize revenues.

Cost structure

The cost element measures all the expenses the firm incurs while creating, marketing and delivering value to customers. With the use of ICT technologies, firm can focus on its core competencies and outsource its partner networks for non-core competencies in order to enjoy cost savings opportunities when creating value proposition.

Profit model

The ***profit model*** is the outcome of the difference between revenue model and cost structure and can be seen as an expression of the whole e-business ontology. While Product Innovation and Customer Relationship can maximize revenue, an effective Infrastructure Management shall minimize costs and optimize the profit model (Osterwalder, 2002).

Section 3. DATA COLLECTION

Sampling method

Purposive sampling method is employed in this study. Purposive sampling refers to ‘a non-probability sampling form in which the researcher takes the decisions to include individuals into the research based on a certain set of criteria’ (Jupp, 2006:244).

In this study, three cases are selected: one big player in the United States of America (Amazon Fresh), one big player in Japan (Seiyu) and a newcomer to the field (Honestbee).

For the interview/survey method, the researcher had the opportunity to distribute a survey of 15 questions through the customer network of Honestbee. The interviews were also conducted with Honestbee’s customers.

CHAPTER 4. CASE STUDIES OF THE ‘GIANTS’ IN E-GROCERY

Section 1. E-GROCER IN THE UNITED STATES OF AMERICA: AMAZON FRESH

4.1.1. Introduction to Amazon Fresh

Amazon Fresh is a subsidiary of the e-commerce company named Amazon based in America that provides fresh groceries to consumers through mobile application and online website. The service first started out in the United States in 2006, then took a movement to other territories such as England, Germany and later stepped into Japan market in April 2017. At the first launch, Amazon Fresh operated both as an online marketplace where suppliers could sell their products on Amazon site, and as a retailer where Amazon bought goods from suppliers and resold to end-users. Starting from May 2018, Amazon Fresh has stopped its marketplace side, and operated purely as an online grocery retailer.

Customers who want to use Amazon Fresh site first need to register to be a Prime member with a fee of \$12.99 per month and Fresh Add-on billed at \$14.99 per month, total cost of \$27.98 per month. Annual Prime members will be billed at \$119 per year and \$14.99 per month for Fresh Add-on. Fresh Add-on will be billed separately from Prime membership, but customers can choose same payment method for both services.

Figure 4.1. describes three ways that customers can choose delivery type at Amazon Fresh. Both Pre-dawn delivery and Daytime delivery are zero charged if the orders over \$50 (excluding tax). Orders under \$50 will be charged \$9.99 per each bill.



Figure 4.1: Amazon Fresh’s service (Source: Wall Street Journal, 2014)

Pre-dawn delivery or Doorstep delivery is available in all cities where Amazon Fresh is available. Customers can choose 2 or 3-hour time slot that fits their schedule, the orders can be left at doorstep in temperature-controlled totes in case the customers are not at home. Doorstep delivery is not available in case the building has secure entry or limited access.

Day time delivery or Attended delivery is available in all cities where Amazon Fresh is presented. Customers can choose a one-hour time slot to receive the order at their availability and deliverer will hand over the order to them at the set time. As the receiving time is fixed before the goods leave warehouse, customers’ orders are put in paper bag instead of temperature - controlled bags. If the customers are not available at their preferred delivery time, they can instruct delivery team to leave their orders with a doorman or security guard.

Local Pickup is available for Prime members in some designated areas at no cost. Prime members in the selected cities will choose a pickup location and reserve a pickup time when placing order. The orders are prepared readily for customers to pick up as soon as 15 minutes after customers click order placement.

In order to better understand Amazon Fresh's business, the business model of Amazon Fresh is explained in more details in the next part.

4.1.2. Amazon Fresh's Business Model

A. Product innovation

Although Amazon is the biggest platform selling products online in the United States, Amazon Fresh is still not yet the biggest player in the e-grocery market. In order to compete and thrive in the e-grocery market, Amazon has to set itself apart by product innovation that gives the users high convenience, customized offerings and premium service.

Value proposition

Wide range of product selection, competitive prices, ease of ordering, convenience and speed of delivery are core values that customers enjoy by experiencing Amazon Fresh service.

With hundreds of thousands available products ranging from fresh vegetables, food, beverages, alcohol, daily necessities and miscellaneous goods displayed on their website, Amazon Fresh not only provides more selections of fresh grocery to customers than its existed products on its former sites such as Amazon.com and Amazon pantry, but also offers a favorable price to customers. According to a survey on price comparison amongst online grocery businesses, out of 15 most common grocery items, Amazon Fresh offers a 4 percent cheaper rate compared with local stores in most of its active regions (Amazon Fresh's customers are required to pay \$99 annually for Amazon Prime membership and \$14.95 monthly for Amazon Fresh service).

Average price for six metro areas: Chicago, Dallas, New York, San Francisco, Seattle and D.C.



Figure 4.2: Cost for basket of 15 common items (Source: Basket, February 2018)

Furthermore, the process of placing order at Amazon Fresh is also simplified by using zip code system. When registering to be Amazon Fresh members, customers fill in the postal code of their living areas, Amazon Fresh will suggest a nearby warehouse with available products for customers to select. Among 12 people being asked about their experience in shopping on Amazon Fresh site, 66% said the service use was easier or as easy as they had expected, no respondent answered “harder than expected” or “much harder than expected” (Field Agent, Amazon Fresh delivery report, 2018).

At Amazon Fresh, customers can either reserve the delivery at doorstep or pick up the parcels at daily commute Amazon Fresh Pickup Center. Orders are received 24 hours per day and delivery can be 2 hours from order placement between 8 AM and midnight.

Target customer

Amazon Fresh's target customers are Amazon’s existing customers who already have Amazon membership cards. Though online grocery shoppers can fall on all demographic groups, men aged from 18 to 44 who want to avoid physical trips to stores and young adults who favor using internet for all types of purchases are the main stream of customers. As of April 2018, Amazon Fresh has reached 18% of US population, after Walmart Grocery 83%, Instacart 60%, Kroger 45%, and SHIPT 33% (Basketful, Reaching 18% of US population, Amazon Fresh faces uphill battle in grocery, 2018).

Capabilities

To be able to deliver the value proposition to its target customers, Amazon Fresh has the capabilities to build its own digital platform that connects and handles the transaction between consumers and suppliers. Amazon Fresh owns different platforms, one platform is for customer order on site, the others for the back-end office and partnership management.

B. Infrastructure management

Activity configuration

In order to create and deliver the service's value proposition to customers, Amazon Fresh has implemented several activities. Amazon Fresh packing works in the delivery system so that products are kept at proper temperature and good quality. Various packing options are used to improve and update the packaging experience. Also, the way of stocking and transporting is also deliberately controlled in order to keep the products in good condition until the orders are distributed to the customers.

Partner network

Amazon Fresh has various types of network partners, who are vendors, transporters and influencers. Vendors on Amazon.com site are only for selling on Amazon.com site and does not include vendors on Amazon Fresh. Because of the characteristics of fresh products, Amazon Fresh has listed out strict requirements for the vendors to follow before signing in Amazon Fresh's partner network, such as e-commerce friendly packaged products, net weighed pre-packed meat/ seafood, FDA or USDA licensed food, etc. Until May 2018, these vendors are able to use Amazon Fresh platform to sell their products online. At present, Amazon Fresh works with vendors as the role of a retailer.

Amazon Fresh has also set up partnership with several food influencing companies, such as Allrecipes. This will allow consumers to purchase a recipe's ingredients from Allrecipes site and have them delivered through Amazon Fresh delivery service.

Resources

Acting both as an online platform provider and a retailer, the big platform can be seen as Amazon Fresh's intangible assets, whereas its physical warehouses are its tangible assets.

C. Customer relationship

Information strategy

As all of the customer at Amazon Fresh are Prime members who already register their information on site. Amazon Fresh rely on this source to collect basic information of the customers. Moreover, the site also traces customers' purchase history so that it can have better insights about customers' purchasing behavior.

Distribution channel

Amazon's distribution channel ranges from website to physical pick up centers.

Trust and loyalty

As a big online retailer in US, Amazon Fresh takes advantage of its well-known Amazon brand to gain and maintain customers' trust and loyalty. In addition, Amazon Fresh creates a community network where customers can share reviews as well as star-rate products and services

Financial aspect

While Amazon Fresh has to cover IT maintenance cost, labor cost, marketing cost..., main streams in Amazon Fresh revenue that make the company gain profit are membership fee, vendors fee, and advertisement.

To summarize, Amazon Fresh's business model is illustrated in Figure 4.3.

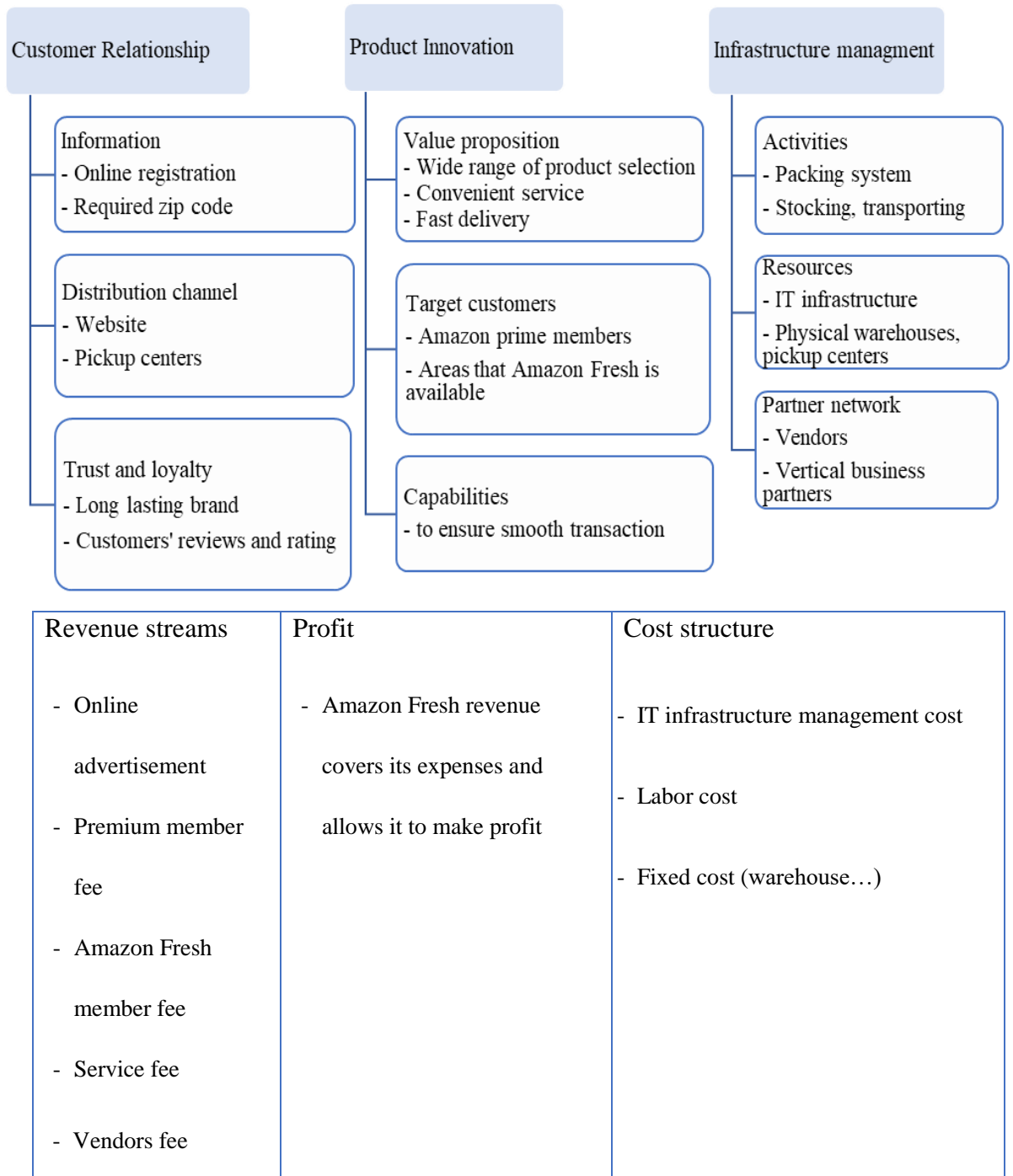


Figure 4.3. Business model of Amazon Fresh

Section 2. E-GROCER IN JAPAN: SEIYU

4.2.1. An overview of Seiyu's business

Seiyu is one of the largest supermarket chains established in Japan that operates retail chain

stores nationwide from Hokkaido to Kyushu, selling food, apparel, general merchandise and other products.

Seiyu has three store formats, which are supermarket, hypermarket and wakana.




Store format	Store banner	Overviews
Super market		<ul style="list-style-type: none"> • Full assortment of foods and consumables with some general merchandise • Average store 25,000 sq ft
Hyper market		<ul style="list-style-type: none"> • Full range of products: food, consumables, general merchandise, apparel • One-stop shopping experience • Average store size 155,000 sq ft
Wakana		<ul style="list-style-type: none"> • Roadside deli with take away meal solutions. Wakana products also offered in most supermarkets and hypermarkets • Average store 740 sq ft

Table 4.1: Seiyu store format (Source: Walmart, International Meeting for the Investment Community, 2013)

In 2002, Walmart, an American multinational retail corporation operating a chain of hypermarkets, department stores, and grocery stores acquired 6.1% stake in Seiyu, later made it be a Walmart subsidiary in 2005, and in the end acquired all Seiyu in 2008. In 2013, Seiyu launched its online grocery business under the site seiyu.com.

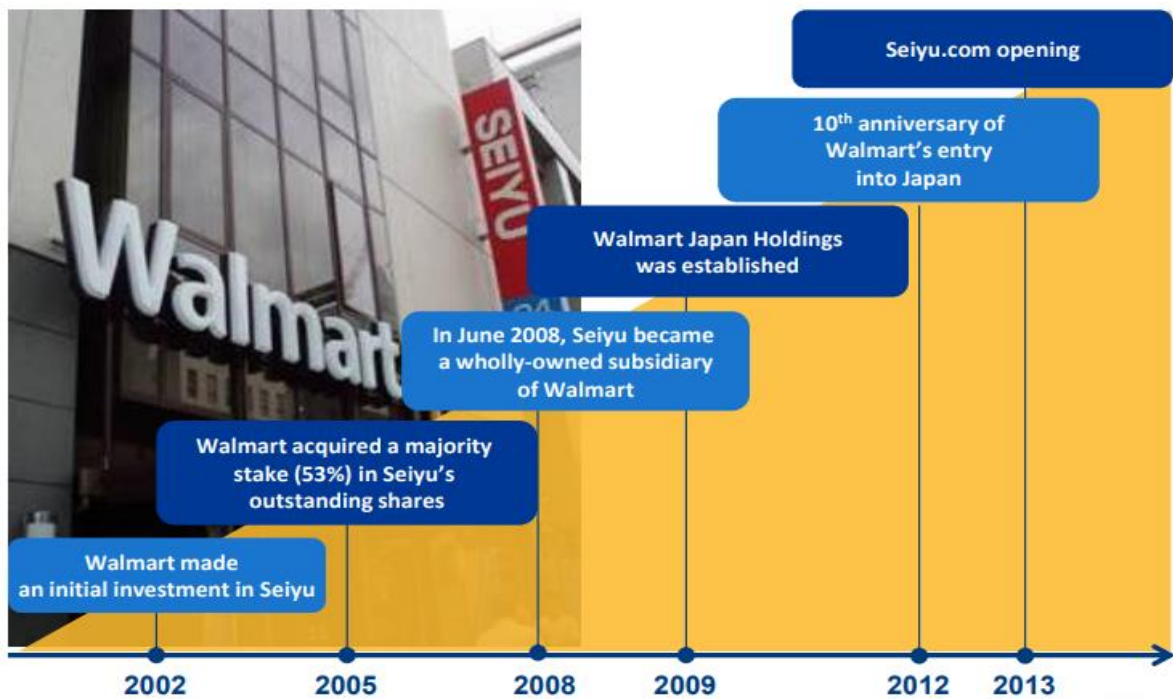


Figure 4.4. Seiyu.com establishment (Source: Walmart Japan, International Meeting for the Investment Community, 2013)

Seiyu online store was first purely to sell Seiyu's products in store. Customers who want to buy Seiyu's products need to register to get a Seiyu account member. Though the membership is free, customers have to pay delivery fee on each order.

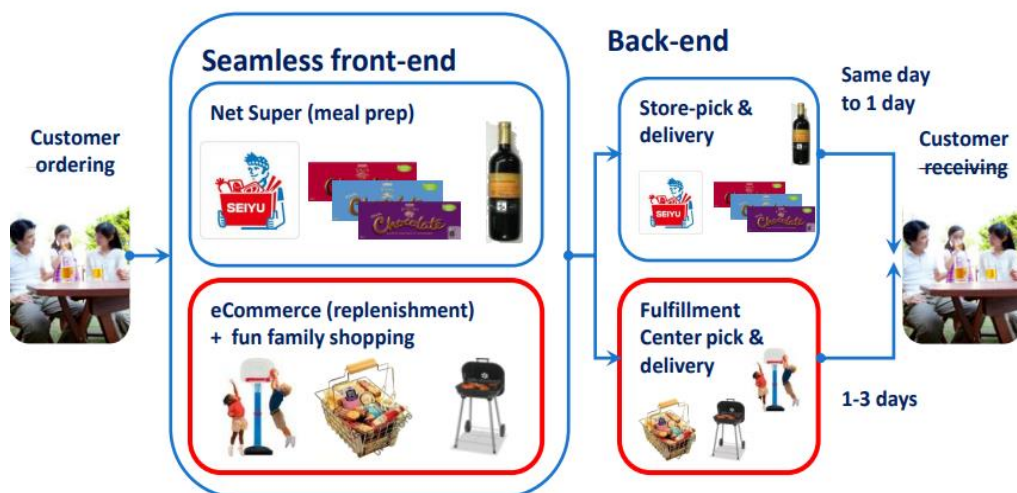


Figure 4.5: Seiyu's online business (Source: Walmart store, International meeting for the investment community, 2013)

Seiyu's philosophy is to save people's money; therefore, low price is the company's key strategy.

4.2.2. Seiyu's business model

A. Product innovation

Value proposition

Specialty, low price and fast delivery are the value proposition that Seiyu offers its customers. Customers shopping at Seiyu online store can enjoy the specialty and uniqueness of various categories of products. "Recommended fresh, seasonal products" are offered according to each season, whereas "Private Brand" are the unique products of the affiliated partners that are only displayed at Seiyu store. Moreover, Seiyu offers discount for customers who buy in big quantity. Delivery is available from 10:00 am to 22:00 pm.

Target customer

Seiyu's target customers are "2 persons or less" households with income of less than 3 million per year. At present, Seiyu online store covers 4 areas including Tokyo, Kanagawa, Saitama and Chiba prefecture.

Capabilities

Seiyu has capabilities to leverage its physical stores as pick-up and delivery centers. Its online warehouses are located in the same building with the traditional stores to maximize the inventory turnover and minimize the service expenditures. Except from the items that are stocked at the back warehouses, fresh goods such as produce and meat can also be picked from front physical supermarkets.

B. Infrastructure management

Activity configuration

Seiyu has launched several programs to adapt to the customers requirement of freshness and convenience. In 2014, the company invested heavily in introducing more versatile cooking and

processing equipment in the deli manufacturing facilities of Wakana – Seiyu’s subsidiary to improve overall product quality and production capabilities. In addition, in 2015 Seiyu set up the Quality Control (QC) facilities and teams at all distribution centers to ensure comprehensive inspections on all main products, meat and fish categories. The inspection results then are shared with suppliers to improve the goods’ quality as well as the company operation system.

In order to increase the customers’ recognition of low prices, Seiyu has also introduced Everyday Low Price program and bulk discount to their customers. Every day, Seiyu offers some selected items with lower price than normal, as well as offers a discount to customers who buy in bulk.

In response to Japanese customers’ growing needs to save time, Seiyu also offers a pick-up service using lockers and “unattended” delivery service. Customers who are not available for attended delivery can choose to pick up their parcels in lockers in the designated areas, or to pick up their orders at doorstep without showing up when the delivery arrives.

Partner network

Apart from its vendors, Seiyu has partner network with several innovative marketing agencies to introduce company’s program to customers and promote the online site.

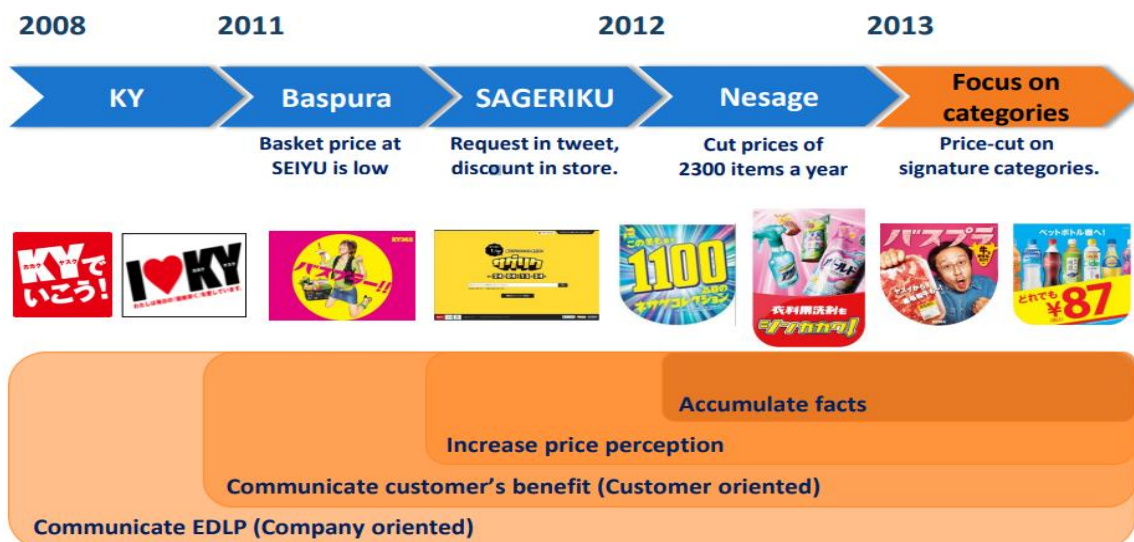


Figure 4.6: Seiyu’s marketing partners (Source: Walmart store, International meeting for the investment community, 2013)

Resources

With over 300 physical stores in more than 20 prefectures in Japan, Seiyu can utilize for its warehouses to stock inventory.

C. Customer relationship

Information strategy

Similar to other online shopping platforms, Seiyu collects customer's information via customers' online registration. In addition, the store also utilizes direct meet-ups with customers at physical stores to get their feedback about products as well as their service in order to get insights for their product development programs.

Distribution channel

Seiyu's distribution channel is through website and physical stores.

Trust and loyalty

With the advantage of a long-lasting brand in Japan, Seiyu maintains its customers' trust by letting its consumers participate in the launching of product development.

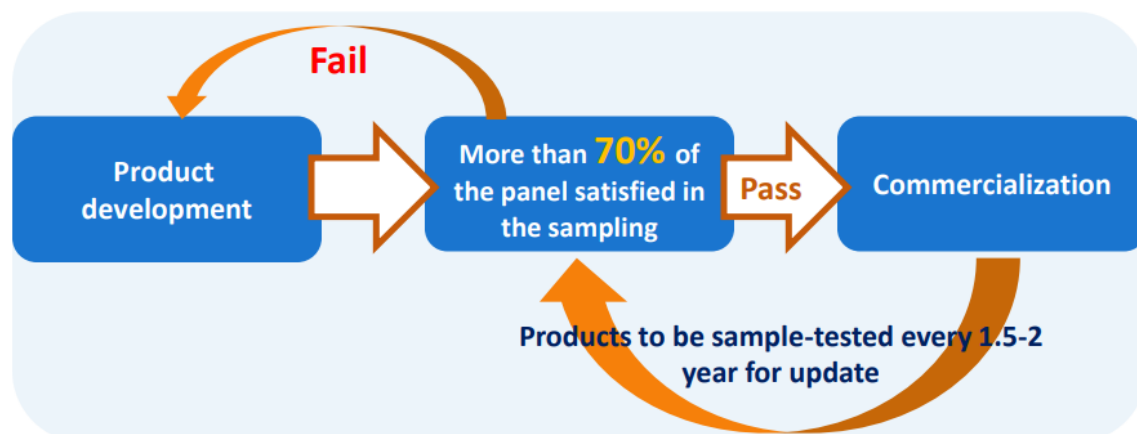
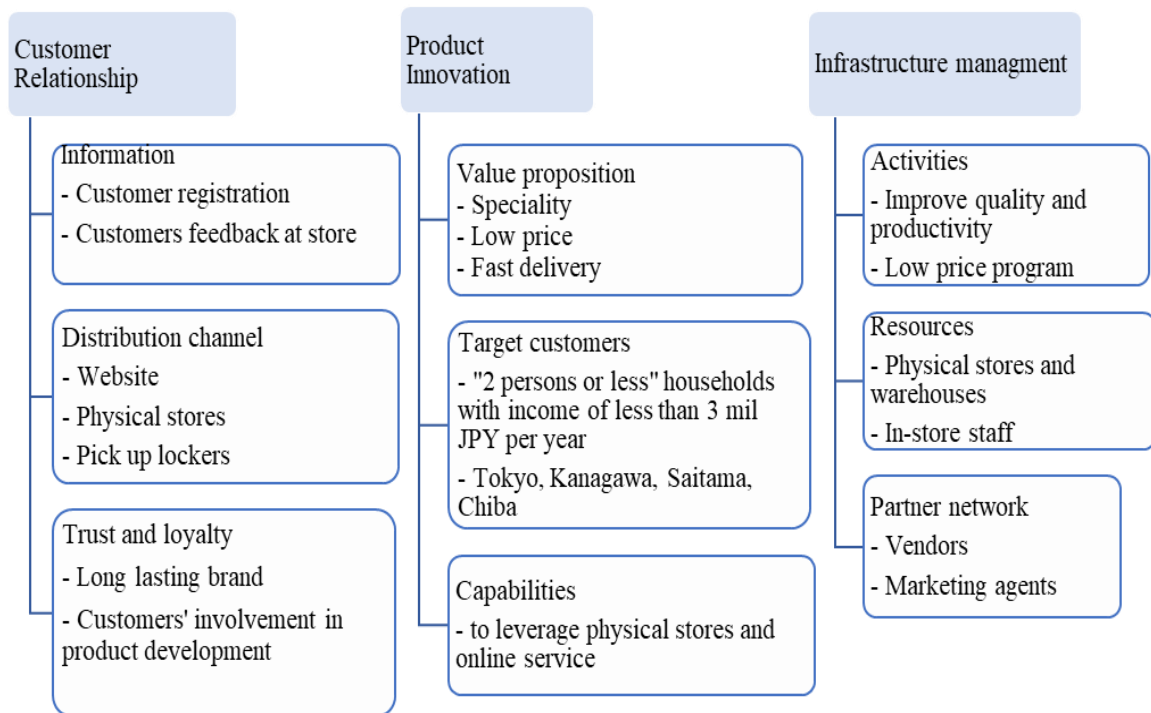


Figure 4.7: Seiyu's customers' product development testing before launch. (Source: Walmart store, International meeting for the investment community, 2013)

D. Financial aspect

Seiyu online store offers free membership fee to customers. Main revenue streams come from direct sales of the products. While the company follows the low-price strategy but still has to cover fixed cost for warehouses and other operation costs, profit gained from this model is doubtful.

To summarize, Seiyu's business model is illustrated in Figure 4.8.



Revenue streams	Profit	Cost structure
<ul style="list-style-type: none"> - Direct sales - Service fee 	<ul style="list-style-type: none"> - Doubtful 	<ul style="list-style-type: none"> - Physical store and warehouses cost - Labor cost - Marketing cost

Figure 4.8: Business model of Seiyu

CHAPTER 5. CASE STUDY OF HONESTBEE

Section 1. OVERVIEW OF HONESTBEE

Honestbee is an e-commerce start-up that does concierge and grocery delivery service in Asia. Founded in Singapore in 2015, the company offers an online platform for consumers to purchase groceries at competitive prices versus physical stores with fast delivery. As a pure online player, the company has taken the model of being asset light – that is partnering with brick-and-mortar supermarkets as well as hypermarkets to fulfill the consumers' orders.

The model of how Honestbee is doing its business is demonstrated in the figure 3.3.1.



Figure 5.1: Honestbee service (Source: Honestbee, Introduction to Honestbee, 2017)

Customers who want to purchase goods via selected stores on Honestbee site can place order, after that trained shoppers called “shopper bees” will handpick the items and pass them to the “deliverer bees” who will deliver them to the customer’s doorstep in the customers’ preference timetable. By using Honestbee’s service, customers can not only save time from directly heading down to physical stores, enjoying the convenience of an online service, but also are entitled to additional value from picking up experience of bee shoppers.

After 3 years since establishment, Honestbee has expanded its operation to other seven countries including Hongkong, Taiwan, Malaysia, Philippine, Indonesia, Thailand and Japan. According to its official website, Honestbee’s vision is to become the world most convenient service market, and its mission is to provide positive social and financial impact to the community. In order

to achieve its mission, Honestbee has set up its key strategies when entering the e-grocery market, which are differentiation, international expansion and mobile services.

Differentiation:

According to the company’s co-founder and CEO Joel Sng, what sets Honestbee apart from other e-grocery players is (i) the business proposition which is the company’s ability fills a need in the market for time-constrained people who can not have time to shop at physical stores, and (ii) the society proposition where the company offers flexible work opportunities to the community. At present, Honestbee are using both freelance, part-time, full-time contracts to recruit shopper bees and deliverer bees. To date, the company has offered jobs to over 2300 bees in both Singapore and other seven cities.

International expansion:

International expansion is one of Honestbee’s key strategies. With the vision to become the most convenient market in the world, in 3 years Honestbee has broadened its market to 7 more countries in Asia. Within each country, Honestbee also tries to reach more and more groups of customers.



Supermarket Partners - March 2017

Singapore	Taiwan	Hong Kong
NTUC FairPrice	RT-Mart	The Market
Le Petit Depot	Carrefour	Gateway
	Costco	Fresh Grower
Thailand	Mayfull Fine Foods	PARKnSHOP*
Villa Market	Binjiang	The Great Food Hall*
K-Market	Lafe Market	Fusion*
	Tanhou	
Malaysia	Japan	Indonesia
Ben's Independent Grocer	Costco	Transmart Carrefour
	National Azabu	

Figure 5.2: Honestbee’s international partners (Source: Honestbee, Introduction to Honestbee, 2017)

Mobile service

Operating as an e-commerce retailer, Honestbee understands the importance of technology. Therefore, the company has set up its own technical team to develop its own mobile applications, which are “shopper bee” application and “deliverer bee” application to not only manage order placement by customers, but also to assign tasks to shopper bee and deliverer bee in order to fulfill customers’ orders. At the first stage of its technology development, all bee apps are supported by android devices only. Recently, the release of IOS version has been announced, which will help to integrate the company’s bee management.

Section 2. INTRODUCTION TO HONESTBEE JAPAN

Aligned with its international expansion strategy, Honestbee decided to enter Japan market in February 2016. At its first launch, Honestbee introduced its service in Niseko, Hokkaido during the winter festival. As winter festival is the time many tourists come to Hokkaido, including those from Singapore, Taiwan, Hongkong where Honestbee is already landed in their country, Honestbee believe that its introduction would draw many visitors’ attention. “Niseko is one of the most popular ski destinations in the world which sees a great amount of tourist visits every season. While these families look forward to grocery shopping, the closest supermarket in the area is an hour away,” said Joel Sng, co-founder and CEO, Honestbee. “With technology and software, we plan to offer our customers the same level of convenience they have back home by travelling alongside them. Now they can better spend their time skiing or sipping hot chocolate somewhere else.”

After its successful launch in Hokkaido, Honestbee started to open its office in Tokyo in October 2016. The company profile is summarized in the table below.

December 2014	Establishment of Honestbee Pte Ltd. in Singapore
July 2015	Operations start in Singapore

December 2015	Registration of Honestbee Japan in Tokyo
January 2016	Operations start for the seasonal service in Niseko, Hokkaido
October 2016	Opening of office in Minato, Tokyo
January 2017	The second season of operations start in Niseko, Hokkaido
July 20, 2017	Announcement of official launch of Honestbee Japan

Table 5.1: Honestbee Japan - Company profile (Source: JETRO, Success Stories of Honestbee Japan, 2018)

Honestbee's business model is explained in more details in the following part.

Section 3. HONESTBEE JAPAN BUSINESS MODEL

5.3.1. Product innovation

Value proposition

As discussed above, Honestbee provides value proposition not only for its customers but also for its workers. As of customers, because Honestbee has tie-ups with various existing supermarkets, customers can enjoy a wide range of product selection with same price as they buy at store. Besides, though customers do not head down directly to the physical stores, they still can receive high quality goods thanks to careful pickup of bee shoppers. More importantly, customers who are time-constrained no longer have to worry about delivery time because Honestbee ensures delivery be done in 1 hour.

As of workers, Honestbee provides them with various types of labor contract. Bee shoppers or bee drivers can choose to work full time, part time or freelance when join Honestbee. Depending on the types of their labor contract, payment will be different in weekly base or monthly base with bonus relying on the bees' fulfilled task. Moreover, the company encourages deliverer bees who join the company to have their own bikes. For those who fall in to bike-owner category, payment will be

300 Yen per hour higher than those who borrows bikes from company.

Target customers

Honestbee Japan's major customers fall into the following four categories: (1) stay-at-home parents who are too occupied with child rearing to go out shopping; (2) the elderly who are unable to carry heavy groceries; (3) busy working professionals; and (4) expats. Each of these target groups has its special needs. For example, food delivery is popular with working professionals, while grocery delivery is used by stay-at-home parents. Honestbee customers are scattered in a wide area around center of Tokyo, but most stay in the metropolitan area.

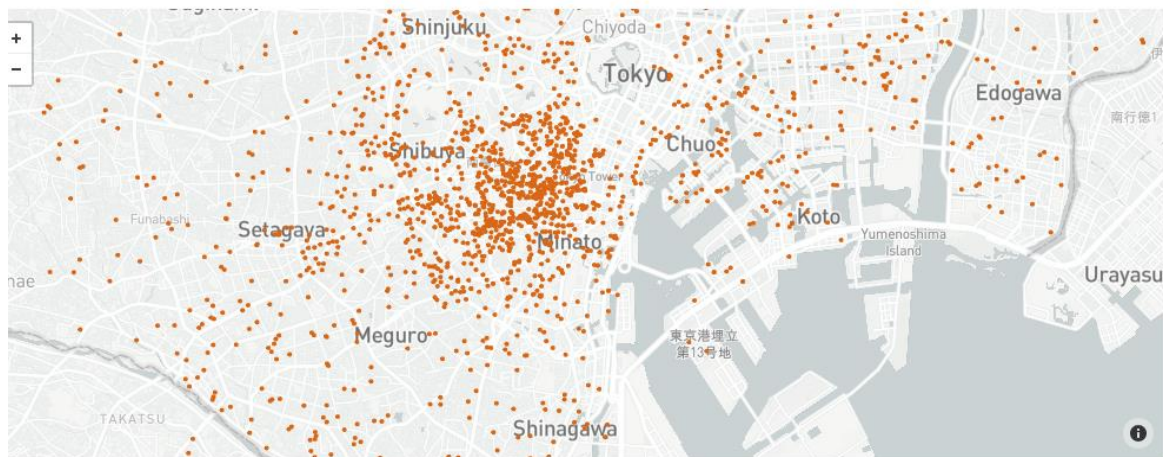


Figure 5.3: Honestbee's customers' presence

Capabilities

Honestbee Japan has the capabilities to connect bee community to ensure the fluency in the order fulfillment. Whenever the orders are placed by customer, the coordinator who is in charge will coordinate deliverer bees and shopper bees adequately so that the orders can be finished in the shortest time and delivered by the nearest deliverers. Besides, Honestbee has capabilities to gain new members to join the team by utilizing the existing bees. By introducing Member Gain Member program, Honestbee suggest present bees introduce their friends to be shoppers or deliverers.

5.3.2. Infrastructure management

Activities configuration

The activities configuration of Honestbee is connecting consumers with the right products from the right supermarkets at the designated areas, as well as connecting shopper and deliverer bees with the right ability of order fulfillment. Customers order online can choose which stores they prefer the shoppers to shop, Honestbee team needs to make sure there is available shopper and deliverer to cover that order.

Partner network

To date, Honestbee has created partnership with over 300 supermarkets and restaurant in Tokyo, some to name are Tokyu Precce, Asia-Superstore, which is Japan's largest Thai food store; supermarkets including Costco, a US-based member-only warehouse supermarket; and stores selling fresh foodstuff located at the Tsukiji Outer Market, etc.

Resources and assets

Honestbee is an e-commerce company that follows the model of light-asset. Unlike other online retailers who locate their warehouses in some designed areas to keep their inventory, Honestbee owns neither warehouse nor inventory. What the company possesses are experienced shopper and deliverer, young talented staff, and technology infrastructure.

Experienced shopper and deliverer bees are recruited thoroughly in 3 rounds. First, the company will scan their profile to see if the candidates meet the basic requirement. After that, an interview with potential candidates will be conducted, and finally a 1-week training will be offered to the bees. As part of Honestbee's customers are expats or foreigners, the company also requires their shoppers and deliverers to be able to communicate in daily English.

IT infrastructure is one of the most important assets that Honestbee owns. Starting from a non-tech company, Honestbee had to outsource external IT innovation. Before, the company had to rely on When I Work to manage its bees' schedule and payment calculation. Up to now, Honestbee

has developed its own app called Bee Schedule which allows more efficient management of bee team as well as better control of customers' orders.

5.3.3. Customer relationship

Information strategy

Honestbee's information strategy is to collect the customers' information via its bee app and via its bee team. When a new customer wants to use Honestbee's service, he needs to create an account and fill in the required information. Based on this registered information from customers, Honestbee can understand its customer demographic, from which will be used to answer the questions: who are using its service, where is the location, what are their preference...

In addition to its bee app, Honestbee also can have insights about customers via its bee team. As the shoppers are those who contact directly with customers via phone when shoppers are fulfilling their orders, customers can share their feedback about products or service quality with shoppers. For example, in May 2018, shopper bees informed that customers complained about the freshness of avocado, Honestbee operation team had contacted with the supermarket manager and adjusted the temperature of the storage freezer.

Feel and serve (Distribution channel)

Honestbee uses both webpage and phone app to distribute goods to the customers.

Trust and loyalty

Trust and loyalty in e-commerce business are important. Honestbee sets up a customer service that are active 24 hours to receive customers' feedback about products and service. The company also trains its customers to trust the shoppers or deliverers by increasing the interaction between them when they are processing the orders.

3.1.1. Financial aspect

As it is still in the setting up stage, Honestbee has raised a big amount of fund to support its

expansion. At present, Honestbee’s service is free registration, the main revenue streams are from delivery service and shared revenues with partners. Meanwhile, the company has to bear other operation costs such as labor cost, marketing cost... Though financial figures are not revealed, profit can be predicted to be minimum.

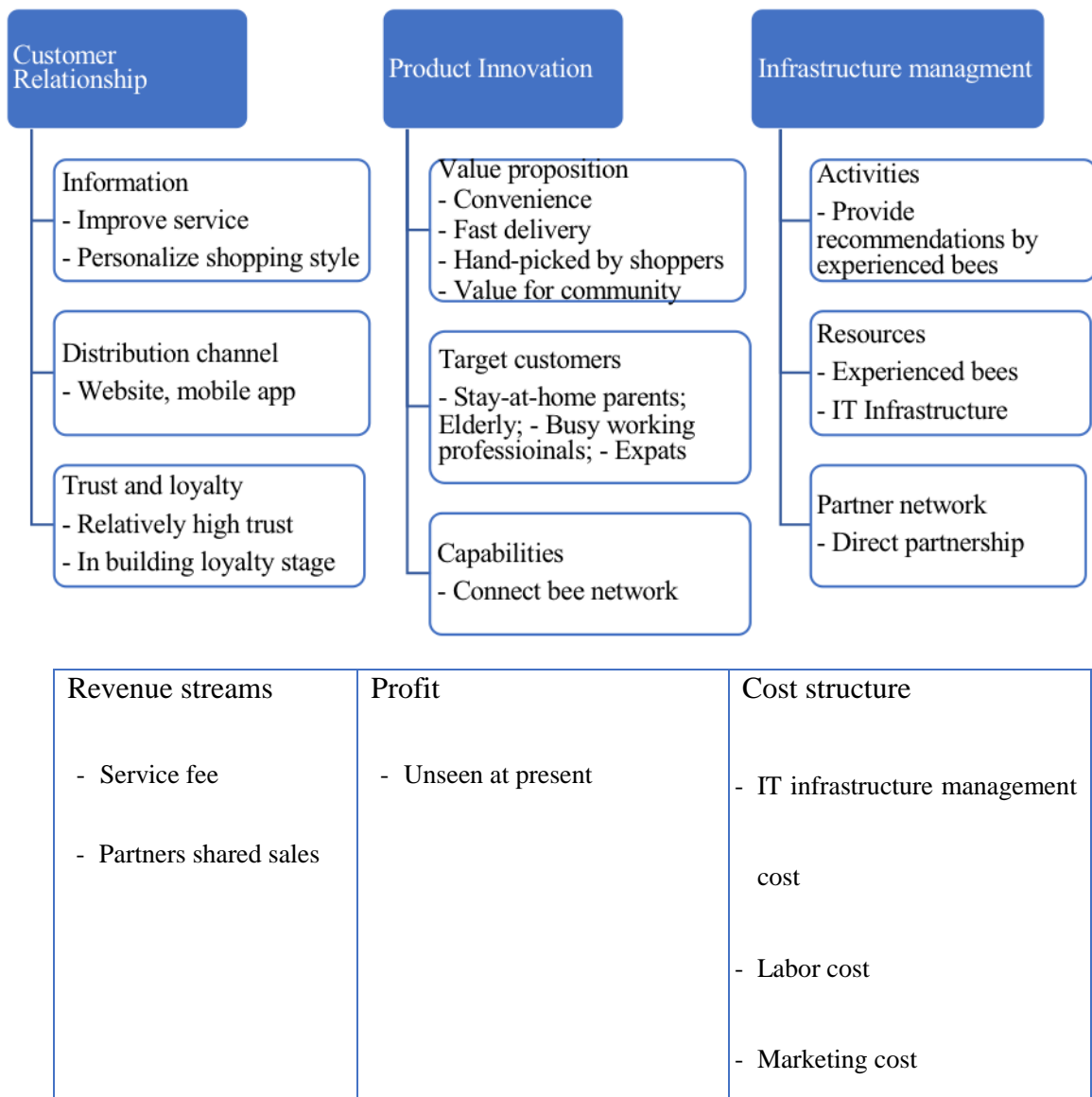


Figure 5.4: Business model of Honestbee Japan

CHAPTER 6. COMPARISON OF THREE BUSINESS MODELS

As analyzed above, three companies are all built on e-business model. However, each company has different focuses according to their own strategies.

Business model	Amazon Fresh	Seiyu	Honestbee
Vision	Become number one e-grocer in US and in the world	Become global online grocer	Become world most convenient service market
Strategy	Local trial model, then expanding to other areas	Low price to gain more customers	Differentiation in service
Product innovation	<p>Value proposition: Wide range of product selection</p> <p>Target: Amazon prime members</p> <p>Capabilities: ensure smooth transaction</p>	<p>Value proposition: Specialty, Low price</p> <p>Target: Low income people</p> <p>Capabilities: Leverage physical stores and online service</p>	<p>Value proposition: Hand-picked experience; Community value</p> <p>Target: Stay at home parents; Elderly; Busy working professionals; Expat</p> <p>Capabilities: Connect bee network</p>
Infrastructure management	<p>Activities: Packing, stocking</p> <p>Resources: IT infrastructure; Pick up centers, warehouses</p>	<p>Activities: Improve quality and productivity; Low price campaign</p> <p>Resources: Physical stores and warehouse; in-store staff</p>	<p>Activities: Recommendations by bees</p> <p>Resources: Experienced bees; IT infrastructure</p>

	Partners: Vendors; Vertical business partners	Partners: Vendors; Marketing vendors	Partners: Direct partnership
Customer relationship	Information: Required zip code Distribution channel: Pick up centers Trust and loyalty: Well-known brand; Customers' reviews and rating	Information: Customers' feedback at store Distribution channel: Physical stores; Pick up lockers Trust and loyalty: Long lasting brand; Customers' involvement in product development	Information: Personalized shopping style Distribution channel: Website, mobile app Trust and loyalty: in stage of building loyalty
Revenue stream	Premium fee Amazon Fresh member fee Online advertisement Warehouse, pick up center cost	Direct sales Warehouse, store, pick up locker cost	Partners shared sales Labor cost

Table 6.1: Comparison of business models of three empirical companies

Amazon Fresh's vision is to become the number one e-grocer in US and in the world, the company sets up its coherent strategy to test business model in a selected region, later scales up its expansion. As a well-known brand in US, Amazon Fresh has taken the advantage of advanced technology and numerous physical warehouses to deliver a wide range of products to its paid members. Premium fee and online advertisement are the main revenue stream to cover its cost and bring back profit for the company.

Seiyu joined e-grocer market in Japan in recent years after the acquisition of giant online retailer Walmart. In order to become global online grocer, Seiyu's strategy is to offer low price to attract customers and expand its influenced market. However, Seiyu's main revenue stream is from direct sales, which controversially covers its fixed costs.

Honestbee is the latest player in e-grocer Japanese market. The company separates itself from competitors by providing different shopping experience by utilizing bees' shopping skills. In the stage of establishment and building its own market, the main revenue of Honestbee comes from shared sales with its partners. With the expectation of adequate expansion and having a stable stay in the Japanese e-grocer market, the hope of gaining profit from Honestbee's business model is within hand.

CHAPTER 7. CONCLUSION

As a new player in the severe market, Honestbee has to focus on its strategy and utilize the differentiation in the business model to achieve its target.

Product innovation: Focus on its service differentiation and real need of customers before expanding to bigger markets.

Infrastructure management: Develop more exclusive online services for customers

Customer relationship: Focus more on the bee community development, create more interaction between bees and customers to gain insights and improve service.

Financial aspects: Develop more revenue streams, possible revenues from premium service, advertisement on company's own platform.

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