

# RESEARCH ON THE DEVELOPMENT OPTIMIZATION PATH OF CHINA'S TRADITIONAL RETAIL INDUSTRY UNDER THE BACKGROUND OF NEW RETAIL

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## ABSTRACT

With the development of The Times, information science and technology are also constantly innovating. Under this background, a new retail model arises at the historic moment. New retail means that enterprises, relying on the Internet and using advanced information technology such as artificial intelligence and big data, upgrade and transform the production, circulation and sales process of commodities, and strive to reshape the business structure and ecosystem. And further integrate online services with offline experience and modern logistics. In the past, people's research on the retail industry mainly focused on the traditional retail industry, that is, the sale of goods without the support of the Internet and information technology. In this paper, by means of literature research and case analysis, to the present new retail related literatures were collected, dimensional analysis under the background of the present new retail formats problems of China's traditional retail, and in the alibaba group's new retail practice, for example, to the Chinese traditional retail industry put forward reasonable suggestions for the purpose of this study.

**Keywords:** retail industry、 innovation、 suggestions

### 1 Introduction

As the forerunner industry and basic industry of national economy, retail industry plays an important role in meeting people's demand, absorbing social labor force and pulling GDP plays a key role. In recent years, with the slowdown of China's macroeconomic growth, the impact of e-commerce and the change of consumer demand, China's traditional retail industry is facing a bottleneck and a wave of bankruptcy. Data show that in the first half of 2015, a total of 121 major domestic retail enterprises (including department stores and supermarkets) closed down, and the growth rate of retail sales of enterprises above designated size and hundreds of large domestic retail enterprises gradually decreased from 14.8% in 2012 to 7.6%-3.2% in the first half of 2016, with the growth rate of retail sales decreasing year by year. On November 11, 2016 the State Council issued "views on promoting entity retail innovation transformation, points out that the entity retail in relation to the market circulation of commodities, to the prosperity of the market and the safeguard employment play an important role, so to guide the brick-and-mortar retailers rich product variety, improve service innovation, and accelerate the cross-border integration and adjust the business structure, constructing the new pattern of retail. Judging from the development status of traditional retail industry and national policies, China's retail industry is at the crossroads of innovation and transformation. Reviewing history, we can find that retail industry has undergone four revolutions: the first is the emergence of department stores, which broke the formative development of the front-store market and created a new

experience model of open-shelf sales and self-service; The prologue of the fourth retail revolution is the emergence and promotion of e-commerce, which further reduces the cost of distribution and breaks through the time and space limit. After these four retail revolutions, the current operating situation of the traditional retail industry is not optimistic, while the flow dividend of e-commerce tends to shrink and the growth rate slows down. Under the current market situation and consumer demands, many brick-and-mortar retail stores begin to carry out bold reforms, and e-commerce giants are also speeding up the integration of online and offline. Jingdong, Alibaba, Amazon and other companies are actively creating offline channels to expand their business territory. The term "new retail" came into being as a result of various retail practices. The term "new retail" was put forward by Alibaba's Jack Ma, who said at the Hangzhou Cloud Conference in October 2016 that "there will be no e-commerce in the next 10 or 20 years, only new retail". Specifically, it refers to the close integration of online platforms and offline physical stores with modern logistics by relying on big data and artificial intelligence technologies to realize the transformation and upgrading of production, sales and circulation and establish a new pattern of retail industry. The emergence of new retail has its inevitability. On the one hand, it is due to the development of Internet technology. On the other hand, consumers are eager to combine offline experience with online convenience, so as to improve shopping efficiency and enhance shopping satisfaction. Based on the new retail environment, this paper focuses on the problems existing in the traditional retail industry under the new retail background and puts forward effective suggestions for the purpose of research.

## **1.1 Literature review**

### **1.1.1 The concept of new retail**

"New retail" is a new business model that evolves on the basis of traditional retail and e-commerce, and it is an important direction of future retail reform. The combination of online and offline as well as the support of modern logistics has broken the boundary of the retail industry and will soon form a relatively perfect linkage system. Wang Kun and Xiang Feng (2018), based on the new retail practice dynamics of Amazon, Alibaba and Jingdong, explored the internal logic and critical path of the evolution of traditional retail to new retail, and proposed the "all-channel" extension of traditional retail + new channels and the "new retail wheel" of traditional retail + new technology. Ge Jinjing (2018) believes that there is a large market space for traditional convenience stores, but in order to gain competitive advantages in the new retail environment, it is necessary to enhance customer loyalty, carry out big data collection and cooperate with e-commerce giants based on their own advantages. Zhang Xiaotao (2018) analyzed the franchise enterprise management status quo and the online separation problem, so the author suggests in the context of new retail franchise enterprise should actively embrace the Internet, fully understand the characteristics of a new generation of consumer groups and enrich the database, strengthen the depth of fusion online, realize the whole channel management pattern .

### **1.1.2 New retail business model**

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Through the network search, it can be said that foreign research on new retail is very rare, and the domestic research is also in the beginning stage. However, through some scholars' theoretical research on the concept, connotation, multi-dimensional causes and development path of new retail, it can be concluded that new retail is the trend of future retail reform.

## **2. Current situation of convenience store retail industry in China**

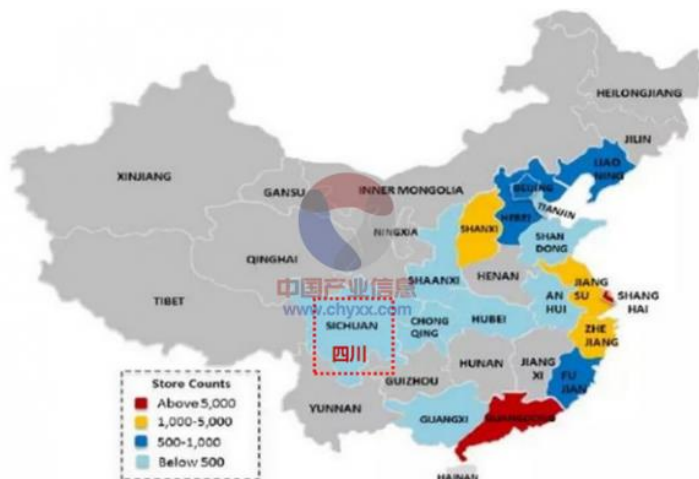
### **2.1 Overview of convenience stores in China**

GDP per capital is closely related to the life cycle of the retail industry. Per capital GDP reaches US \$3,000 to enter the introduction period, and US \$5,000 to enter the growth period. When GDP per capital reaches \$10,000, industry competition becomes fierce. In 2008, China's per capital GDP reached US \$3,000, and consumption patterns have become more personalized and convenient. The number of convenience stores nearly doubled in those years, from 13,567 in 2008 to 26,345 at the end of 2014, with an average annual growth rate of 11.7 percent. According to statistics, from 2015 to 2019, the sales scale of convenience store industry in China is increasing year by year, and the growth rate is slowing down year by year. In 2019, the sales volume of China's convenience store industry was 255.6 billion yuan, up 12.9% year on year. The number of stores in 2019 is 132,000. From 2015 to 2019, the number of convenience stores in China has been increasing year by year, with an annual compound growth rate of 10%. The number of convenience stores in China reached 132,000 in 2019, up 8.20 percent year on year. In 2019, the largest number of convenience store stores in China are EasyPass, Kunlun Hospitality and Meiyijia, each with more than 10,000 stores, followed by Tianfu with 5,019 stores, and Suning, Hongqi, FamilyMart, Lawson and other stores with about 2000-3500 stores. According to the survey data of CCFA convenience stores, the average daily sales per store of sample enterprises increased year by year from 2015 to 2019, and the growth rate slowed down sharply in recent years. The average daily sales per store in 2019 was RMB5,297, up 4.19% year on year.

### **2.2 Regional distribution of convenience stores in China**

Influenced by comprehensive factors such as population density, residents' income and the change of consumption patterns, China's convenience store industry has formed three major markets: South China with Guang dong as the core, East China with Shanghai as the core, and North China with Beijing as the core. At present, Guangdong, Shanghai has become the base camp of convenience store channels, the most mature market development of the core area. Convenience stores also number more than 5,000. It was followed by Jiangsu, Zhejiang and

Shan xi. The number of convenience stores between 1000-5000, the number of convenience stores in Hebei, Liaoning and Fujian between 500-1000, the number of convenience stores in the central and western regions of China is less than 500 or blank. This is mainly related to the differences in economic development, urbanization rate and marketization degree among different regions in China. Figure 1 shows the distribution of convenience stores in China in 2019.



Source: China Industry Information Network, 2019

Although convenience stores in China have entered a period of rapid growth, there are still differences in regional development. At present, the density of convenience stores in Guangdong, Shanghai and other major cities has been very high, the competition has also entered the white-hot stage. Central and western cities per capita GDP has reached the basic level of the development of convenience stores, but the development of convenience stores is still in the initial stage. The market capacity of the central and western regions of China is relatively large. It can be predicted that the development of convenience stores in China will gradually develop from the first-tier cities in the central and western regions to the second and third-tier cities.

## 2.3 Problems in China's traditional retail convenience stores

### 2.3.1 Traditional convenience stores are not competitive

Internet giants are competing for the offline market because of the saturation of the online market and the fading of the demographic dividend of the Internet. Tmall has Tmall1 stores, Jingdong has unmanned convenience stores, Suning Tesco has Suning stores and OK convenience stores. Internet giants have a natural advantage over traditional convenience stores, because Internet giants operate online for several years and have a huge user base, which traditional convenience stores cannot have. At the same time, Internet giants have been able to use big data to analyze the data of this region, so as to determine the structure of consumer demand in this region, and based on this, to purchase, arrange and sell goods. In this way, the inventory of goods will not be as high and slow as that of traditional convenience stores. All the advantages that the traditional convenience stores have, the new convenience stores have

all the advantages that the traditional convenience stores don't have. In the case of I have people, people have I do not lower.

### **2.3.2 Excessive labor cost**

The labor cost of traditional convenience stores is high. In order to meet the demand of consumers throughout the whole period of time, convenience stores generally implement three shifts. If it's a small convenience store, you need at least three people. If the convenience store were a little bigger, you might need two or three people in a shift. The turnover of a convenience store is generally 160,000 yuan, and the gross profit rate is about 35%, which means that the gross profit of a normal size convenience store is 56,000 yuan. According to the different wage levels in different places, we calculated the wage level of a convenience store in a second-tier city of 3,000 yuan, and the labor cost of a convenience store of 9,000 yuan accounted for one sixth of the gross profit margin. It's already very expensive and the labor costs are going up every year.

### **2.3.3 Convenience stores are still not convenient enough**

In today's "lazy economy", consumers have become accustomed to having goods delivered to their homes with the click of a finger. Many shopping malls and supermarket chains have launched online orders and then delivered home business. However, traditional convenience stores still require consumers to go to the convenience store to pick up the goods themselves, which is still a little inconvenient for consumers.

#### **(1) The profit model of convenience stores is single**

Traditional convenience store on groceries and some top-up payment services to gain profit, the profit model is single and gross profit margin is very low, combined with the increasingly high human cost and the rent, bad convenience stores can be difficult to sustain a lot of places, even some large convenience store, the high human cost and the rent is also a big burden.

#### **(2) Convenience stores have a single brand of goods**

Convenience stores have a small area, but at the same time they require a wide variety of goods, which will inevitably lead to a result, that is, the variety of goods in the convenience store brand is single. When consumers buy goods, there are less opportunities for them to choose, which is not good for the shopping experience of consumers.

## **3. A case study of Alibaba's new retail practice**

The core of new retail is the restructuring of business model. Looking at a series of actions of e-commerce giants in recent years, since the strategic cooperation between Alibaba and Suning in August 2015, the two sides have promoted synergies in e-commerce, logistics and value-added services as planned. Suning has performed strongly since entering Tmall's flagship store, with its GMV in the fourth quarter more than tripling from a year earlier. Over the past year, Alibaba has invested in the layout of Hema Xiansheng, Yintai, Bailian, Suning and Sanjiang, and even opened the first unmanned supermarket "Tao Coffee" in Hangzhou in July this year, which fully entered offline stores and laid out new retail outlets.

### **3.1 Store name "Hema Fresh"**

"Hema Fresh" is the most representative sample of new retail business form incubated by Alibaba. For the retail industry, especially the fresh retail industry, Hippo Fresh has the typical

significance of destructive innovation of the typical business model. It is the benchmark enterprise of the current new retail industry and has the sample significance. First of all, "Hema Fresh" is driven by big data. For example, "Hema Fresh" makes use of Alibaba's big data analysis to select the location of its stores, and delimits the target population based on this, so as to accurately select the location for different consumer groups. Judging from the current layout, most of the sites of "Hema Fresh" are located in high-end shopping malls and supporting middle and high-end residential buildings, accurately delineating the young Internet consumer groups aged 25-35. In terms of purchasing, "Hema Fresh" also uses big data to analyze demand and accurately obtain demand to control its storage and supply. Secondly, from the perspective of store organization structure, "Hema Fresh" is not only an O2O enterprise in the traditional sense, with online sales as the main part and offline sales as the secondary part. Offline store experience is the foundation and innovative highlight of Hema Fresh. Online stores not only provide experience services, but also serve as the storage, sorting and distribution center of the online platform Hema APP. One location, two uses. This mode effectively connects online and offline businesses, aiming to meet the needs of consumers within 3 kilometers of the surrounding area for fresh food procurement, catering and life and leisure. At present, it seems to be quite effective, attracting a large number of urban petty capital consumers.

### **3.2 Unmanned Supermarket**

Unmanned retail as an important layout of Alibaba's new retail, has been into reality. Since July, "Tao Coffee", an unmanned supermarket, has appeared in Hangzhou. Without any salespersons, you only need to scan the code with your mobile phone to enter the supermarket to buy goods, and then pay the bill automatically. No manual work. Tao Coffee innovatively combines artificial intelligence, vision sensors, pressure sensors and Internet of Things payment technologies. The integration of retail supermarket completely subverts the traditional supermarket retail format, which is a typical destructive innovation exploration and attempt. Similarly, Alibaba's announcement that it will launch a driverless car supermarket in the market at the end of 2017 is a disruptive innovation and subversion of the traditional car sales model.

## **4. Suggestions for China's traditional retail industry**

New retail is the general trend, the traditional convenience stores need to meet the tide to complete their own reform and upgrading. Reform and upgrading cannot be accomplished overnight. It requires all-round and directional steady transformation.

### **4.1 enhance their competitiveness**

#### **4.1.1 Build an APP or micro store.**

Consumers have begun to pursue the convenient consumption experience of choosing, placing and receiving goods freely. Giving consumers an environment where they can shop without leaving their homes is a successful start. Convenience stores not only need to build an online shopping platform, but also need to carry out some holiday marketing and promotional activities from time to time. To carry out some marketing activities can not only improve their popularity but also increase sales. Finally, convenience stores also need a special marketing means, that is to build a membership system. Customer consumption to a certain amount, can become a member member price and discount, after all, consumers still like to be able to buy some more favorable goods. A mature membership system can help a convenience store attract new customers, retain existing customers, and enhance the appeal of its own brand.

Convenience stores in the past are consumption is a single business, now the convenience store needs to complete a single order to gain a customer.

#### **4.1.2 Big data should be used to analyze the consumption demand structure of our own sector**

Big data should be used to analyze the consumption demand structure of our own sector, so as to predict which commodities have good sales prospects, which commodities have unmarketable risks, and which brand of products consumers prefer. Using big data to make a reasonable planning of their inventory structure, so that their capital can get a fast turnover. But customer preferences are not fixed, and convenience stores should be analyzed every once in a while, preferably once a month.

#### **4.2 Reduce labor costs**

Use new technology, implement 24 hours unmanned convenience stores, replace manpower with intelligence. The main new technologies include the Internet of Things, artificial intelligence, intelligent identification, smart supply chain, smart access control, mobile payment, smart stores, etc. Consumers first scan the QR code from the smart access control to enter the convenience store. The Internet of Things transmits the information of the goods you buy to the Internet through RFID for artificial intelligence processing. Finally, payment can be made through mobile payment. Smart stores can also make intelligent early warning for the goods that are about to expire, and then intelligent robots can unload and replenish the goods, so as to ensure the safety of food. This set of process can completely avoid the use of manpower, greatly reducing the cost of manpower.

#### **4.3 Logistics outsourcing increases convenience**

In the distribution of this piece of convenience stores do not have to create a distribution team, because convenience stores are small profits but quick turnover, their own a list only earned 10 yuan but need to use 5 yuan to distribute, which violates the nature of business. Convenience stores if the establishment of their own logistics system, then the logistics cost is not breakthrough. Therefore, convenience stores can outsource the business of distribution. Consumers place orders at home, and there are dedicated deliverers who can deliver the goods to their doorstep. Convenience stores should strive to become a "shopping point + logistics center". Customers place an order at home, and the deliveryman picks it up from the convenience store and delivers it to the customer's door. There's a convenience store every 300 meters in the neighborhood. For deliverers, it is not particularly difficult to deliver door-to-door in a specific area.

#### **4.4 Single profit model has become one of the problems hindering the development of convenience**

convenience stores need to change their profit model. Compound convenience stores can solve this problem perfectly. "Convenience store + light catering", "Convenience store + bookstore", etc. Convenience store can be combined with too many industries. In this era of takeout, a convenience store that also has a food and beverage side of the business can add revenue. One store investment, multiple store revenue, so the convenience store profit channels expanded. In addition, this kind of compound convenience store can also provide WiFi services to give consumers a better on-site experience. Such convenience store has more potential. Rosen, one of the traditional convenience stores, has developed a successful "convenience store + fruit store" partnership with Xianfeng Fruit.

#### **4.5 Increase the number of brands by relying on online shopping malls and supply chains**

Convenience stores have limited space in real life, but online stores have unlimited space. Convenience stores can analyze consumers' favorite brands according to big data and thus enrich the brand categories of goods. At the same time, convenience stores can analyze not only domestic brands but also foreign brands, using online store space to display and sell goods from all over the world. But it is not easy to sell goods from all over the world, which depends on a strong supply chain. The traditional convenience store supply chain is not feasible, because from the manufacturing of products to the terminal need to go through 4 to 6 links and this channel is very lengthy, coupled with a wide variety of brands, which brings a lot of risks to the traditional convenience store. But if you rely on a smart supply chain, it's much easier to sell goods around the world. Because the smart supply chain starts from the perspective of consumers, it first analyzes what kind of brands consumers need through big data and then designs the supply chain. This supply chain is flexible and very precise. At the same time, the smart supply chain will always collect end-to-end data. Convenience stores can manage data throughout the supply chain so that convenience stores can respond to changing consumer needs and make changes to the supply chain in a timely manner. Convenience stores After 20 or 30 years of development, convenience stores in China have been learning the "convenience" of Japanese convenience stores. However, due to the rapid development of e-commerce and takeout platforms in China, the "convenience" feature of convenience stores has been greatly impacted. The Japanese model of development is no longer feasible in China, and even the three big Japanese convenience stores have begun to change. With the rise and popularization of artificial intelligence and Internet technology, every convenience store should pay attention to the application of new technology and big data, so as to understand consumers through big data and provide better services to consumers with new technology, so as to meet consumers' personalized needs to the greatest extent. In the context of the new consumption era, the traditional convenience stores need to "self-help", technology, intelligence, data is the general trend. Traditional convenience stores should adapt to consumption upgrading.

#### **5 conclusion**

Retail enterprises should carry out timely reform and transformation, so as to conform to the trend of The Times, so that the retail industry reborn. So entity stores or electric business enterprise should be more open attitude to join the new retail landscape, ongoing service innovation, improve efficiency of retail, meet consumers multidimensional consumer demand, to provide more humanized service, fully display the respect and concern for consumers as well as to the details of the control, in order to break through the development of the retail in order to gain market share under the new retail environment, retail enterprises need to establish an omni-channel marketing model, that is, by means of multi-channels platform provides consumers with more convenient shopping places and shopping time, creating an undifferentiated online and offline service experience. Moreover, we should attach importance to relationship marketing and new customer management supported by the Internet and big data.

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