

Study on Development Strategy of the Traditional Retail Industry Transitioning to New Retail Model

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Abstract: In recent years, the development of China's retail industry is facing great challenges. The overall scale growth of the retail industry has declined significantly, and the disadvantages of physical stores and pure e-commerce are emerging. Driven by consumption upgrading and the impact of new retail development, the upgrading and development of traditional retail industry to new retail model is inevitable. This paper analyzes the development dilemma of the current traditional retail industry, and then looks forward to the development characteristics and trends of the new retail model. And then, this paper puts forward the path selection of the future transformation of China's retail enterprises from five aspects: value proposition, value chain, relationship network, organizational basis and profit mode.

1. Introduction

In recent years, China's traditional retail enterprises are facing many pressures, such as the sharp increase of store operating costs and the upgrading of consumer demand. In the future consumption growth, consumers have higher and higher requirements for quality, personalization, fine differentiation, shopping experience and brand effect. The upgrading of consumption demand brings challenges to the real retail industry. While the development of the real retail industry is weak, new commercial complexes continue to emerge, competing for a large number of market shares, causing a huge impact on the real retail industry. People's attention has gradually shifted from online to offline, which has obviously become the development direction of retail industry and the inevitable choice of retail enterprises.

The new retail model advocates the combination of physical stores and online e-commerce to stimulate consumer demand. In essence, it is the integration of online and offline development of the retail industry, the use of Internet thinking to promote the transformation of physical stores, enhance consumers' shopping experience, improve consumer environment, and improve the operation efficiency of the retail industry. Driven by consumption upgrading and the impact of new retail development, the upgrading and development of traditional retail industry is inevitable.

Through data investigation, this paper analyzes the development dilemma of the current traditional retail industry, and then looks forward to the development characteristics and trends of the new retail model. Finally, combined with the elements of the new retail business model, this paper puts forward the path selection of the future transformation of China's retail enterprises from five aspects: value proposition, value chain, relationship network, organizational basis and profit mode.

2. The Dilemma of Traditional Retail Industry

At present, the development of China's traditional retail industry has been affected by many factors, including changes in consumer demand and purchasing behaviour, the impact of e-commerce, and the decline in macroeconomic growth, etc. Traditional retail companies are going through a very difficult period. But at the same time, the rapid development of domestic e-commerce has helped the growth of the retail industry to a certain extent.

2.1 Overall Scale Growth Rate Declines

As China's economy continues to develop, the overall scale of the retail industry is expanding, and the total retail sales of consumer goods has also continued to increase. From 2015 to 2019, total sales increased from 24.2 trillion to 36.6 trillion, while online retail sales continued to expand, as shown in Figure 1.

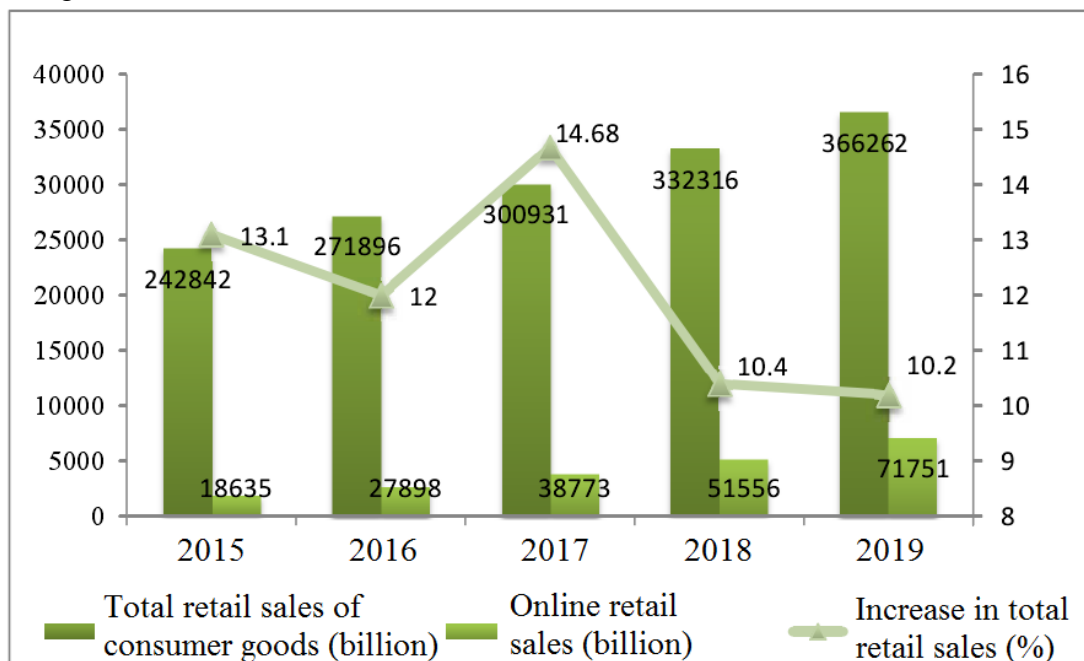


Fig.1 National Retail Sales of Consumer Goods from 2015 to 2019.

As China's economic growth has entered a new normal, the overall growth of various industries has slowed, and the growth rate of China's traditional retail sales has continued to decline. It fell below 10% for the first time in 2015 and 4.3% in 2019. The growth rate of total retail sales of social consumer goods in China also dropped significantly, down 8.3% from 2012 to 2019.

2.2 Expansion Speed of Channel Stores Decreases

In recent years, China's retail market has been saturated, especially in the first and second tier cities. The turnover of many retail enterprises has been standing still for many years, and even some stores are beginning to decline. However, the cost of operating stores is rising sharply. Many stores are faced with many unavoidable cost increases, mainly including store rent, housing construction and maintenance costs, employee wages, etc. Based on this reality, many retail enterprises began to choose to avoid the first and second tier cities, and to open stores in cities with lower operating costs to expand their territory. Many stores are closed due to poor efficiency. Due to the high operating cost, the price of many physical retail stores is much higher than the online retail price. With the popularity of the Internet, online shopping has become the first choice for many people. Traditional retail enterprises are also starting to find their own way out and solutions.

2.3 Retailers Are Forced to Explore Transformation

Many retail enterprises are gradually aware of the disadvantages of traditional retail enterprises, such as the difficulty of inventory allocation, after the continuous increase of operating costs and the continuous decline of profits. A product, from factory production to consumers, has to go through complicated procedures for a long time. If consumers are told that they are out of stock and need to get this product through other channels when they enter a shop for shopping, that will make the buyers give up this purchase to some extent and turn to other businesses or channels. However, if there are too many overstocked goods and stagnant sales in the stores, the liquidity will be squeezed and the inventory pressure will be too high, which will indirectly lead to problems such as single commodity and serious homogenization. Moreover, since the goods sold by physical stores

are all supplied by a unified supplier, it will lead to the existence of homogenization. Many stores are selling the same type of goods, so they will compete with each other, internal friction, and to some extent, they cannot meet the needs of consumers to choose diversified products. Due to the above situation, some retail enterprises have embarked on the road of exploration and transformation. Starting from the current situation, these enterprises use new innovative technology means to continuously try to innovate and change the management concept and corporate culture, so as to improve the operation efficiency of the company.

2.4 Difficulties in Online and Offline Integration

Nowadays, both offline and online retailing have suffered a huge impact, so the integration of online and offline is imperative. But it also means that companies need to invest a lot of money. How to rationally allocate online and offline resources so that companies can get the most benefit is a major problem that companies need to solve today. Since the development of new retail online links requires many advanced e-commerce technologies, most traditional retail enterprises cannot yet achieve this on their own, so they can only choose to cooperate with large e-commerce companies. At present, the business community generally believes that the ideal model for online and offline cooperation is that online platforms will guide customers offline, and offline stores will provide customers with various services. While the most direct question is that both need to measure the conversion advantages that offline traffic brings to offline companies, and to what extent offline companies can solve the bottleneck problem encountered by online platforms.

3. Development Trend of New Retail Model

Generally, retail circulation covers three upstream and downstream circulation entities, including suppliers and retail enterprises, retail enterprises and consumers. In the new retail model, retail enterprises transform from commodity sellers to consumer service providers. New retail companies have opened up all online and offline sales channels, covering physical stores, online malls and other channels. In addition to daily sales, personalized needs have also been incorporated into the operational process, and C2B and C2M have become new demand directions. The exchange and flow between the elements of the new retail entity are bidirectional, enabling the integration of information flow, capital flow, commodity flow and logistics in the operational process. The business operation process of the new retail model is shown in Figure 2.

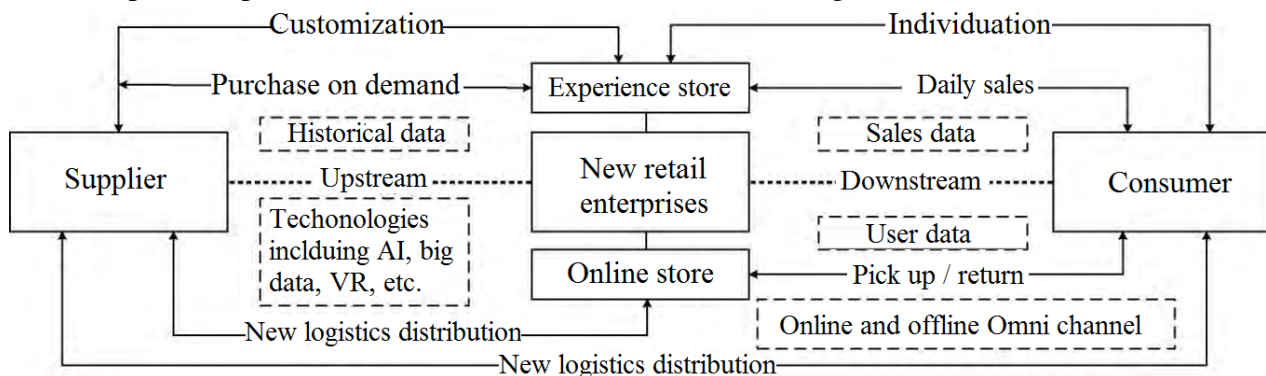


Fig.2 The Business Operation Process of the New Retail Model.

3.1 Production-Oriented Economy Turns to Consumption-Oriented Economy

New retail is driven by data and reshapes the relationship between people, goods and stores in retail. It improves the efficiency of the circulation of commodities, truly realizes the reverse transformation of consumption patterns in production, and guides the economy to transform from a production-oriented economy to a consumption-oriented economy. The entire retail format presents deep integration of multiple formats and multiple industries as online + offline, goods + services, retail + technology. Traditional e-commerce turns to O2O model, and the improvement of technology has broadened sales channels. Customer resource competition based on price wars

towards features of individualization, diversification and quality.

3.2 High Technology Becomes the Foundation of New Retail Model

On the one hand, big data has become more common as an underlying service. Big data has become a new fundamental force in the retail market, providing consumers and merchants with a basis for building personalized consumption scenarios. Big data can reduce the time cost of online shopping for consumers by intelligently processing the browsing data and purchase data of network users. At the same time, retailers can also make product recommendations based on these data to better grasp consumer trends and provide quality services. On the other hand, there are new breakthroughs in applying VR technology to experiential shopping. VR technology can create virtual shopping scenes, and consumers can see shops and commodities in real scenes through wearable devices. In addition, with the improvement of technology, robots and intelligent warehousing systems have become more and more perfect in the process of logistics development, and logistics information has become more transparent, not only the logistic information between merchants and consumers, but also between supplier and retailer. The technological logistics distribution system will become more and more perfect. The logistics system under the background of new retail will be built on the basis of the automated logistics system, which not only improves the delivery efficiency, but also reduces the labour cost.

3.3 Consumption Scenarios Become Richer

Under the new retail background, more consumption scenarios will be created, where consumers are not only simple purchasers, but also pay more and more attention to feelings and value propositions in the process of shopping. Under the new retail model, service providers will focus on the customer's experience, such as browsing experience, interactive experience, and trust experience. They are committed to maximizing user engagement, allowing them to fully feel the joy of shopping, and increasing consumer awareness of the brand. In addition, the new consumption concept of the new generation of consumers will gradually affect the retail behavior of the retail industry. Compared with traditional material consumption, they are more inclined to emerging consumption models such as internet, games, interaction, parties, and fitness. Driven by new consumers, consumer entertainment will become a new retail development trend.

3.4 Omni-Channel Logistics Develop Rapidly

Under the new retail model, companies will implement an open supplier strategy to provide data, logistics and other services to suppliers, thereby shortening the supply chain and reducing supply chain costs. In addition, retail enterprises cooperate with upstream, midstream and downstream enterprises to achieve information sharing, so that they can quickly adjust the supply chain of product design, production procurement, inventory layout, cross-channel services and other links to meet personalized retail needs in the market. New retail companies utilize artificial intelligence and Internet of Things technology to optimize the layout and execution capabilities of the logistics supply chain, and build an agile and intelligent Omni-channel logistics system. In the end link, through the data sharing of POS system, order system and logistics system, enterprises provide consumers with Omni-channel order delivery and local logistics distribution services. The traditional retail industry realizes the online and offline Omni-channel retail mode through the logistics link, carries out Omni-channel transactions, breaks the original boundary, and promotes the development of boundless retail.

4. Transformation Path from Traditional Retail Industry to New Retail Model

At a strategic level, the starting point of a new retail enterprise is to create value for customers and organize production and sales based on the real needs of customers. New retail enterprises apply advanced thinking and technology of the Internet to improve and innovate traditional commodity circulation methods, and provide goods and services to customers through all channels. The objectives of transformation and upgrading of traditional retail enterprises include: on the one

hand, continue to improve online or offline expansion capabilities, use big data to tap consumer habits and preferences, continuously improve the quality of your products and services, and ultimately combine scene-based services to meet the consumer experience of different groups; on the other hand, build an industrial ring from the source to the end of the supply chain, reduce production costs, and speed up product turnover efficiency, thereby realizing the upgrade from traditional retail to new retail models. Combined with the elements of the new retail business model, here we put forward the path selection of the future transformation of China's retail enterprises from five aspects: value proposition, value chain, relationship network, organizational basis and profit mode.

4.1 In Terms of Value Proposition

First, create holographic consumer portraits according to consumer demand, and use big data to set exclusive labels for different consumers for precision marketing. Second, attach importance to building Omni-channel consumption scenarios, and combine various cultural contents and channel experiences to form a trinity of consumption scenarios of physical stores, e-commerce and social networking. Third, stimulate consumers' individualized demand for goods or services and make them change from large-scale and homogeneous production to small batch and differentiated production. Finally, to use big data and artificial intelligence for scientific location selection and construction of community retail and new shopping centre is a new direction of entity retail transformation, which can maximize the compound ability of operation and consumption.

4.2 In Terms of Value Chain

First, upgrade and reshape the new and efficient supply chain of the enterprise, realize the operation visualization of the supply chain, artificial intelligence and business intelligence, and ensure a high degree of coordination between various functions. Second, coordinate the largest external resources with the lowest procurement cost by paying attention to the procurement of value-added products, establishing a standardized strategic procurement alliance for retail enterprises, and adopting e-procurement on a large scale. Third, integrate C2B and c2m concepts into production and manufacturing, optimize production mode, and use new logistics methods for efficient warehousing and distribution. Finally, improve the sales effect in the aspects of pricing strategy, brand building, channel promotion and promotion, and achieve the comprehensive promotion of sales performance through all media, all channels and all contents.

4.3 In Terms of Relationship Network

First, retail enterprises must pay attention to the establishment of membership system, popularize e-members online and offline, tap the habits of members, carry out rights and interests activities, and form a close business relationship through timely communication, suggestions and feedback. Second, it is urgent for retail enterprises to examine the relationship network with upstream suppliers, strengthen mutual trust in the process of cooperation through information sharing platform, and finally establish a long-term stable, mutually beneficial and win-win strategic cooperation relationship. Second, retail enterprises should pay attention to the maintenance of brand value and corporate image, constantly improve their popularity through public opinion publicity, and win the trust of the market and users.

4.4 In Terms of Organizational Basis

First, the transformation of retail enterprises needs to establish a flat, simple, flexible and diversified organizational structure, and attach importance to the cultivation of reserve talents and coordinate the division of labour and cooperation of functional departments. Second, new retail enterprises are inseparable from digital economic infrastructure, and the elements of real-time, all online, self-service and social networking are integrated into the construction of self-service intelligent retail terminals, e-commerce platforms, smart stores and other new retail species. Third, the application and upgrading of new logistics forms, such as crowdsourcing logistics, intelligent logistics, trunk logistics and new city distribution, must be accelerated under the Omni channel to

greatly improve the timeliness and accuracy of distribution.

4.5 In Terms of Profit Mode

On the one hand, retail enterprises can reduce the cost and risk of enterprises through electronic purchasing information system and electronic real-time payment system, so as to achieve the best inventory and the fastest capital turnover. Accelerating the development of online shopping malls, social platforms and other channels can greatly reduce the costs of store rents, human salaries and so on. Moreover, new information technology and management methods make the cost structure more reasonable. On the other hand, the revenue sources of retail enterprises have become more extensive. In addition to the traditional price difference, advertising revenue, design revenue, content revenue, brand revenue, service revenue, value-added revenue, etc. can harvest new profit projects for enterprises, while increasing the customer flow and repurchase rate of retail stores.

5. Conclusion

Under the background of new retail model, the development of traditional physical retail and traditional e-commerce has appeared a bottleneck. A series of problems, such as the increase of business cost, the backward business model, the serious homogenization of goods, and the inconvenient way of payment, restrict the development of physical stores. Driven by the new retail mode, the transformation and upgrading of traditional retail industry has become an inevitable trend. Through data investigation, this paper analyzes the development dilemma of the current traditional retail industry, and then looks forward to the development characteristics and trends of the new retail model. Finally, combined with the elements of the new retail business model, this paper puts forward the path selection of the future transformation of China's retail enterprises from five aspects: value proposition, value chain, relationship network, organizational basis and profit mode.

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