

The Crisis Analysis and Development Suggestion of Chinese Traditional Retail Entity Operation in the Era of E-commerce

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Abstract: The consumer's preference for e-commerce has really caused the crisis of sustainable operation of China's retail department stores. At its root, the online operation mode of e-commerce has a considerable cost advantage over the real business in the channels of rent, publicity and marketing. Convenient shopping methods and low prices divert the traffic of physical stores, which leads to the deterioration of business income. From the perspective of macro microeconomics and industrial economics, this paper analyzes the ways in which Chinese retail stores are impacted by e-commerce and how Chinese traditional retail model should keep pace with the times under the new retail format.

1. Introduction

After entering the 21st century, with the emergence of e-commerce and the vigorous development of e-commerce, the real business has entered a depression period, and the whole market has fallen into a deep pool of "retail cold wave". Although the grim situation of the entity business has a warming trend in the second half of 2016, the market situation under the influence of the new normal and market competition factors is still grim, and the retail market under the traditional business model still faces tremendous pressure of transformation

Under the strong impact of e-commerce, many retail enterprises deal with the crisis through a large number of layoffs, closing stores, selling assets and other measures. However, the traditional business model has not been fundamentally cured.

In this paper, the survey method is used to systematically collect the actual operation situation of Chinese retail enterprises. By using the method of literature research, we can get the information through the investigation of literature, so as to fully and correctly understand and grasp the background and reasons of the business crisis faced by the traditional retail business under the background of e-commerce sweeping the retail market.

2. Journals reviewed

2.1 Impact of e-commerce on physical stores

Hua Min (2016) believes that the decreasing transaction cost and zero marginal cost effect brought by platform e-commerce are rapidly causing market substitution for enterprises, which will bring fatal blow to China's manufacturing industry. Huang Hao (2014) believes that compared with the entity model, the e-commerce model has the advantages of time cost, price cost, personalization and sales opportunity.

2.2 How to deal with the impact of e-commerce

Wang Xiuli (2014) believes that retail can integrate physical stores, online shopping malls and telephone orders, and realize a multi-channel composite business model, that is, super department stores. Through the collection of the advantages of three sales channels, not only the consumer psychology, but also more in line with consumer habits. In addition, Lihui (2015) believes that physical stores should take advantage of e-commerce platform to create unique advantages.

3. Crisis analysis of Chinese traditional retail entity management

3.1 Impact degree of different retail formats

According to the data statistics in 2016 China retail industry development report issued by the Ministry of Commerce, the sales volume of exclusive stores and convenience stores in 2016 increased faster than last year, respectively 3.1% and 6.8%, and the operation status of these two types of businesses improved. However, according to the data in the past three years, the overall growth rate is not small affected by e-commerce.

3.2 The contribution of physical sales to China's retail market has declined significantly

In 2015, although there were only seven e-commerce enterprises among the top 100 retail enterprises in China, their sales reached RMB 1104.93 billion, an increase of 110.1% compared with the same period, accounting for 32.8% of the total sales of the top 100 enterprises, a full increase of 12 percentage points compared with last year. With the rapid development of e-commerce, there is no doubt that the number of customers and sales of retail entities will be greatly divided. Only 7 enterprises can compete with 93 other entity competitors, which shows that e-commerce is a significant competitor of traditional retail in China. In addition, the sales of these seven e-commerce companies grew rapidly, contributing 82.7% to the overall sales growth of top 100 retail enterprises, 28.7 percentage points higher than last year.

4. Empirical analysis

4.1 Data sources

In this paper, the e-commerce sales volume is described based on the information and e-commerce data of enterprises in different regions in China Statistical Yearbook. This paper includes the sales volume of goods, business area of retail enterprises, year-end employees of retail enterprises, e-commerce sales volume of different regions in 31 provinces and cities of China from 2013 to 2016 Sales figures.

4.2 Empirical model - substitution effect model

The relevant regression models are:

$$S_{it} = \alpha_0 + \alpha_1 E_{it} + \alpha_2 P_{it} + \alpha_3 C_{it} + \varepsilon_{it}$$

$$Q_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 P_{it} + \beta_3 C_{it} + \sigma_{it}$$

Z_{it} represents the corresponding variable value of city I in year t, ε and σ represent the random variable constant, α_1 and β_1 are the influence coefficients of e-commerce sales on retail sales and physical area respectively, which should be negative in theory, but α_1 may not be significantly negative due to the expansion of online sales channels by physical retail in recent years.

4.3 Empirical estimation and result analysis

Table.1. Panel data analysis on sales volume of goods in retail industry

| yl | Panel-corrected | | | | |
|----------|-----------------|-----------|-------|-------|----------------------|
| | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] |
| e | .3894066 | .1162468 | 3.35 | 0.001 | .1615671 .6172462 |
| consumer | 1.018441 | .1803061 | 5.65 | 0.000 | .665048 1.371835 |
| price | 20.16857 | 14.80012 | 1.36 | 0.173 | -8.839126 49.17626 |
| _cons | -98.93745 | 68.48984 | -1.44 | 0.149 | -233.1751 35.30018 |

It can be seen from table 1 that after controlling the relevant variables, the sales of e-commerce and

the sales growth of retail industry are positively correlated ($\alpha_1 > 0$) and the relationship is significant ($z < 1\%$). This is because in recent years, traditional retailers learn from the successful experience of e-commerce, take advantage of their own advantages in marketing management, commodity channels, customer focus, etc., increase the operation of online channels, and carry out o2o marketing mode. For example, Yonghui supermarket has established Yonghui micro store, which connects with Jingdong home; Cr Wanjia has established e-wan online mall; Wal Mart has established Sam member online business City. So judging from recent data, e-commerce has a growth effect on traditional retail in terms of overall sales.

Table.2. Panel data analysis on the real business area of retail industry

| y2 | Panel-corrected | | | | | |
|-------|-----------------|-----------|-------|-------|----------------------|-----------|
| | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
| y1 | .503609 | .0492879 | 10.22 | 0.000 | .4070066 | .6002115 |
| y3 | .5398087 | .0642199 | 8.41 | 0.000 | .4139401 | .6656773 |
| e | -.0193619 | .0252258 | -0.77 | 0.443 | -.0688034 | .0300797 |
| price | -7.183249 | 3.661882 | -1.96 | 0.050 | -14.36041 | -.0060923 |
| _cons | 34.93184 | 16.97682 | 2.06 | 0.040 | 1.657882 | 68.2058 |

However, the impact of e-commerce on entities still exists. From table2, it can be seen that after controlling the relevant variables, the sales of e-commerce is negatively related to the operating area of retail industry entities ($\beta_1 < 0$), with obvious substitution effect. It can be seen that under the impact of e-commerce, the storm of traditional retail closing continues.

5. Conclusion

In recent years, the e-commerce economy has gradually risen, and the development prospect of this new marketing mode is immeasurable. In the case that the retail market has reached saturation, the emergence of e-commerce is bound to take a share of the physical operation. Based on the theory of price advantage in economics, this paper analyzes that it is the real business model that no longer meets the fast and convenient consumption concept of customers, while e-commerce takes advantage of its advantages and uses the Internet to open a simple sales channel for the media. In addition, e-commerce uses its own characteristics to greatly reduce the huge costs brought by store leasing, personnel wages and inventory management, and successfully reduce product prices to form price advantages. In such severe business competition, physical stores must realize their own business transformation, innovate the traditional marketing mode, and carry out online and offline multi-channel retail. In this way, it is possible to improve the current situation of operating losses.

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