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TRANSFORMATION OF CHINESE RETAIL INDUSTRY: HOW TO MEET THE NEW CHALLENGES BY ELECTRONIC BUSINESS?

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Abstract. *The past few decades witnessed the rise and expansion of electronic business (EB). An increasing number of companies are dealing with electronic commerce many of whom are well-known nationwide or worldwide leaders such as the Alibaba Group or JD.COM. On one day, 11th of November of 2014, the trading volume of Taobao reached 6 million RMB. The unprecedented development of EB has threatened traditional retail firms. Manufacturers as well as retailers need to reconsider their methods and make new strategies to satisfy the needs of modern customers in the new era of omni-channel retailing. This paper first introduces the status quo of the retail industry in China before analyzing competition between online shopping and the traditional format of selling in shops. Then the research forecasts the direction of future development and puts forward strategies that should be taken in order to meet the new challenge. In summary, concerted efforts in an all-round approach combined with international cooperation seem to be a robust strategy in face of retail transformation in global economics.*

I. Key terms and status quo in the retailing industry

The retail industry refers to the selling of products from manufacturers or agriculture to consumers directly for daily use for consumption. In general, retail is an industry providing customers with commodities and related services.

There are different kinds of business formats in order to satisfy the needs of customers; these fall into two groups in general, the first group is visible-shops based and the second group does not have real shops to show their products. Further more, formats within the first group can be catalogued into 12 types based on their ways of management, commodity composition, functions of service, sizes and layout of the shops, targeted customers etc. Shopping malls, department stores, chained supermarkets, exclusive shops, convenient stores, to name a few, are the common types with different shops spreading in a downtown area or suburbs. In addition some manufactures choose to sell and deliver their products directly to the customers instead of setting up or renting a physical store to run their business. Such formats include TV shopping, mail order, online shopping etc.

Despite an overall growth of modern retail, on-line shopping has witnessed a tremendous increase in China. It is reported^[1] that the on-line trading volume of 2013 reached 188 billion RMB; this was an increase of 42.8% compared with the year before. This has caused great suffering to the traditional formats for retail. In the first half of 2013, 158 stores of different sizes in China closed including 12 department stores. During the first three quarters of 2014, the “Top 100” giant retail companies suffered a decrease of profit of 0.1% compared with 2013, among which clothes was worst with a 1.6% decline^[2]. Another notable change is that more and more buyers are turning to overseas products instead of home-made products. This gives rise to the new phenomenon of “overseas buying” by almost every electronic business company. In a word, China has now become an international buyer with her hands reaching out to almost every country, including Belarus.

II. An analysis of competition and tendency of the growth in retail

Online buying has advantages such as low price and convenience. Customers do not need to wait in a long queue to pay, nor do they need to carry heavy packages home. Therefore, this

new type of shopping has caused a great challenge to shopping centers which must now highlight their unique selling points in order to hold on to their customers.

There is no doubt that with the advancement of computer science and technology, together with the growing purchasing power of Chinese people, online shopping will continue to grow and may even become the dominant purchasing method. At the same time, other methods using applications on smart phones such as WeChat and QQ or group buying web are leading to a brand new era called Omni-channel. Originally proposed by American scholars in 2014^[3], it means “from online to offline” (OTO). Under omni-channel retailing, manufactures and retailers will make full use of mobile internet technology and combine multiple channels of real shops, online shops, mobile computing (such as personal computers and cell phones) and socializing shops etc. They will adopt the strategy of omni-channel retailing to satisfy the needs and requirements of a modern customer by offering qualified before-and after-sale services aiming to facilitate consumer experience and improving reputation of the seller.

III. Strategies

Traditional retailing formats will never be replaced by online shopping, the traditional format allows people to examine products personally rather than rely on other people’s descriptions. However, it is high time that real shops examine and adjust themselves in order to survive the huge competitive pressure from online competitors. Efforts should be made by both manufactures and retailers. On one hand, manufactures need to re-check their strategy and amend it to include online business. Decisions about pricing and distribution need to be reconsidered; market insights based on big data need to be taken into consideration in order to make decisions more buyer-friendly. On the other hand, retailers including supermarkets and department stores must improve their service and create a pleasant environment to please the potential customers and inspire their desire to buy. For example, they can build bright and clean shopping environments to make shoppers feel comfortable. Furthermore, trained staff with excellent product-knowledge will add value to the customer by providing advice. Last but not least, well-positioned products and a well arranged layout will also boost market demand. In a word, manufactures should pay great attention to reconstruct their strategies involving production and distribution to include bi-channel. Retailers should improve their overall service and build a more pleasant environment as well as pricing at a reasonable level.

Though enjoying a remarkable rate of increase, electronic commerce or online shopping is not perfect. It also has some disadvantages which are annoying to customers or even has become a headache for authority regulating functioning of business. From regulatory point of view, there is an urgent need for relevant regulations and policies to be made to set a standard in the new economy for the practitioners to follow as well as to guide and rectify mistakes when necessary. From an economist’s perspective, more research should be done to make a thorough study of this new format by combined efforts of sociologists, computer scientists, managers from field as well as departments of government. Last but not least, the internet is bringing about a deep transformation in the whole world, retailing is just one typical industry and China is one of many locations being changed by this new way of communicating. To meet the challenge of E-Business and keep a balanced development in all economic areas, international cooperation is a must.

Reference

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