

Influencing factors of business model innovation of China's retail industry

Huiqin Zhang

Hangzhou Lianhua Huashang Group Co., Ltd

Email: huiqin5149@126.com

James Ming-Hsun Chiang

California State University Monterey Bay, USA

drjameschiang@126.com

Abstract

With the growth of China's economy and the improvement of people's consumption ability, China's retail market is developing at an extraordinary speed. After experiencing the industrial era, the Internet era and the mobile Internet era, China's retail market is entering the digital era. The precision marketing and personalized services of "thousands of people and thousands of faces" and "live broadcast with goods" have become the norm. Therefore, China's retail industry has once again experienced new business model innovation. In fact, the business model innovation in the retail industry is the most well-known (Davies, 2006). We are participants from single category stores to multi category stores, from store sales to online sales, from e-mail to live broadcast sales. In the industrial chain, since retailers are closest to customers, the urgency of the retail industry to respond to the changes in the needs of end customers is higher than that of other industries. At present, the retail market is fiercely competitive. In order to win the competition, retail enterprises have to think more deeply about where the retail business model innovation will happen? How will it happen? How can enterprises take the lead in making appropriate business model innovation? Based on these thoughts, I do in-depth research on the business model

innovation of retail enterprises with strategy, business model theory and innovation theory, hoping to provide reference for enterprise decision-making.

I hold that retail enterprises should not only strengthen the determination of business model innovation, but also use scientific decision-making theory and methods to achieve enterprise performance through the promotion strategy and implementation process in line with business logic. Business model innovation is a systematic work, which needs to consider the changing trend of the external environment, combine the advantages and disadvantages of the internal conditions, make rational planning and firm promotion with rhythm and focus. Rational planning requires entrepreneurs to know what factors affect business model innovation. At present, business model innovation is still a relatively new field, and the theory and method are not perfect. Therefore, the study of retail business model innovation has both good theoretical value and strong practical significance. Based on system theory, strategic management theory and business model theory, I comprehensively use case analysis, empirical analysis and other methods to study the influencing factors of retail business model innovation. I summarize the trend of environmental change and four main factors affecting business model innovation, including policy factors, ecology factors, technical factors and marketing factors.

Keywords: Business model innovation model, Chinese retail enterprises, Chinese retail industry, regression analysis, Performance of retail enterprises

I. Historical Background

Retail industry is very closely related to people's lives as well as one of the oldest industries. With the progress of technology and social development, the retail industry is also undergoing constant changes. In the pre-Internet age, the retail industry has experienced many modes: department stores, supermarkets, shopping malls and so on. These changes are still relying on physical entities to improve their operations. But after the Internet is widely used, B2C and C2C e-commerce patterns bring people an unparalleled shopping experience with its unique technological advantages. For a time, online retailing will replace offline retailing and become the hot topic in the industry and academia. However, online giants like Alibaba and JD.com have opened many offline physical stores in recent years, which has officially opened a new era of online and offline integration. The retail industry is probably the industry that can reflect social development and technological progress the most directly, and the business model of the retail industry has therefore evolved continuously. After more than 30 years of rapid development, China has gone through a period of material deprivation and consumption shows a gradual upgrading trend. Under that background, people have stronger consume willingness and capacity, and the requirement tends to be personalized and qualified. On the supply side, China's production capacity and supply chain capacity are also getting better and better at the same time, which means that Chinese retail industry is within a good development window, and retail business model innovation will occur in China continuously.

Nowadays, Chinese retail industry is in a critical transition period of branding, differentiation and experience-oriented. In the past, the enterprises were operating in a static and stable market environment relying on government support, so they can obtain high profits easily. Now enterprises can build a sustainable profitable development model through its own capacity-building relying on the understanding of the market

and consumers. In the past, the emphasis was on speed and scale, but now quality and efficiency are more concerned. In the past, it is enough for the enterprise to focus on their own development, but now they have to consider the overall ecological benefits of upstream, downstream and surrounding services. This gives Chinese retail operators new development opportunities, both for traditional giants and newcomers. Traditional retail leaders can follow the trend to maintain and promote their existing strengths based on the support of science and technology, switch to a new track to continue to dominate the market. For the newcomers, they can also hold a good position in the market with their cross-border thinking and flexible mechanisms. In the 21st century, the competition is not just among technology, product and marketing, but also between business models. Chinese retail market has shown a polarizing phenomenon with the gradual decline in industry profits. That is to say: some retail enterprises can still maintain high-speed growth through mergers and acquisitions, independent innovation, etc., but more retail enterprises are facing problems such as the decline of sales and passenger flow, high costs, and other serious survival problems.

Only by continuously innovating their own business models, can retail enterprise win the future. Business models can be divided into six types: popular business models, partially differentiated business models, market segmentation-based business models, business models that can obtain external support, business models that can integrate company innovation, and business models that can dynamically adapt to the market (Chesbrough, 2007). Innovative business models need external support, but the ability to integrate enterprise resources, and the ability to further develop the ecology is particularly important. Accurately dividing the market and recognizing customers require retail enterprise to have strong marketing ability. Differentiating competition strategy according to environmental changes as well as technical ability is the key factor

to put the business models into action.

China's retail industry is undergoing rapid changes. The retail industry is one of the oldest industries which is very closely related to people's lives. The "new" term of business model innovation is closely related to the retail industry, because the business model originated in the retail industry, and many new models have also emerged in the retail industry. E-commerce has brought an unparalleled shopping experience to Chinese people with its unique technical advantages since 2000. The innovative model demonstrates its enormous transformative power for the first time. Today, the traditional giants represented by China Resources and Lianhua, and the online business giants represented by Alibaba and JD officially opened a new era of online and offline integration, online and offline mutual empowerment. The retail industry will usher in a new situation.

The Chinese retail industry is fiercely competitive (Chesbrough, 2007).¹ The traditional retail industry faces great challenges. To adapt to changes, traditional retail enterprises try to develop online marketing channels in cooperation with e-commerce or Internet platforms, and try to integrate big data resources to improve data management capabilities. However, due to inherent deficiencies in the Internet, big data, etc., most traditional retail enterprises have not established their own online brands till now. Online retailing faced with the consequences of the amplification of the Matthew effect, the market is eventually dominated by a few leading brands. Because the first-mover advantage is too obvious and the online concentration is extremely high, the market often exhibits the cruel rule of "People will only know the one who wins the first place". The innovative measures of traditional giants include: establishing an online marketing team and establishing an online brand; improving big data capabilities and exploring the value of precipitated data; shifting to multiple formats such as

convenience stores, chain supermarkets, and community supermarkets, etc. The actions of the online giants include: constantly innovating marketing methods, from acquiring customers, transforming, locking, and launching full-cycle marketing; integrating physical resources and opening up offline consumption scenarios.

In terms of innovation trends, China's retail industry has gradually become specific in five aspects:

(1) Format Innovation—Diversification

In recent years, with the global economic integration and technological progress accelerating, China's retail business has shown a trend of diversified development. In 2022, China's online retail sales reached 1.38 billion yuan, a year-on-year increase of 4.0%. In offline retail, sales of supermarkets, convenience stores and other formats have shown rapid growth. Large-scale supermarkets, specialty stores, and gas stations with high sales all showed a certain decline. Offline retail formats focus more on service and experience, pay more attention to young consumers and social attributes. Overall, China's retail business is developing in a more diversified direction.

(2) Channel Innovation—Dual Line Integration²

The dual-line purchase model combines the advantages of online and offline channels, can cater to the changing needs of multiple parties and has huge development potential. In terms of online channels, dual-line purchases are in line with its trend of reducing offline customer acquisition costs; In offline channels, dual-line purchases are in line with the trend of consumers updating and paying more attention to the shopping experience. For consumers, dual-line purchases are in line with various consumer demand upgrade trends. In response to the needs of all parties, the dual-line purchase model will accelerate the market expansion in the future.

The online platform operation of the dual-line purchase model provides richer

product categories, and at the same time, it can make consumers more easily reachable in APP, applet and other channels. In addition, the online platform can coordinate offline short-distance delivery near stores, and online promotion enriches the choice of marketing channels. The offline stores of the dual-line purchase model provide the non-standard products that focus on consumer experience, which can enhance the guarantee of genuine products. Offline can be combined with emerging technologies to further improve user experience, and can be diverted to online platforms. Offline marketing also reduces overall marketing costs and enhances trust.

(3) Market Innovation—Market Segmentation

The traditional dimensions of customer classification are basic attributes such as region, age, income and occupation, which can also be classified by consumption scenario. Today's consumer market is fiercely competitive and the market continues to divide. By constantly gaining the insight into customers, companies try to establish their competitive advantage in new markets (Qianming, 2009). For example, in the high-end fresh area with fierce competition, e-commerce has opened fresh physical stores to the community, supermarkets also set up fresh e-commerce team, and high-end fresh supermarkets began to become the hotspot of offline layout. High-end fresh supermarket is a typical product of market segmentation.

(4) Technology Innovation—Smart Operation

With the development of 5G technology, retail will become more and more intelligent. In operation, through image recognition and other induction equipment can help the store to analyze customer flow distribution and shopping preferences through thermal maps, and help operation improve efficiency, meanwhile, it can service staff to make timely adjustments and feedback according to the heat distribution to improve operational efficiency. The mature development of the Internet of Things makes

accurate user portraits a reality. Based on data analysis such as consumers' historical consumption preferences, accurate recommendations can be made to enhance the customer experience. It can also promote supply chain, inventory and store products to achieve a high degree of data management. In the future, with the development of big data analysis technology, artificial intelligence and the Internet of Things will be deeply integrated with the retail industry.

(5) Form Innovation—Novelty With Goods

"Live streaming" started in 2009 when celebrities shared their products with their fans. The year 2016 is regarded as the first year of "live streaming with goods". E-commerce platforms such as Taobao and Jingdong have successively set up their own live streaming departments, and live streaming e-commerce business has grown rapidly. In 2020, due to the COVID-19 pandemic and the downturn in the offline economy, merchants turned to online "live streaming", which ushered in an explosive period of sales mode. This new mode of carrying goods has changed the traditional way of online consumption, from the previous "goods to people" to the current "people to people". In this situation, Douyin, Kuaishou and other short video platforms have risen rapidly. At the same time, Oriental Selection is welcomed by consumers with a differentiated style, and carries out marketing with humorous and content videos. According to iiMedia Research, the total scale of China's live streaming e-commerce industry reached 120.12 billion yuan in 2021 and is expected to reach 2,137.3 billion yuan by 2025. With the development of Internet technology, KOL delivery mode represented by live streaming brings consumers more intuitive and vivid shopping experience with high conversion rate and good marketing effect, which has become a new growth driver for e-commerce platforms and content platforms³.

In the development process of Chinese retail enterprises, there has been a clear

trend of differentiation. The rapid rise of Alibaba, JD.com, and Pinduoduo all illustrate the importance of business model innovation for the survival and development of retail enterprises.

After pondering and theoretically constructing the Chinese retail industry, below rules are found: (1) Most of the successful retail enterprises are always able to make some innovative measures, which are not fragmented, but organic combined into a certain model to achieve excellent results; (2) The method of successful retail enterprises are not exactly the same, some use old products to lock in new markets, and some provide new services for old customers, while some have reconstructed the traditional value delivery network; (3) There are many retail enterprises that use the same strategy and tactics, but only a few of them can succeed. It is believed that these laws can be summarized into several theoretical issues: "What will influence the innovation of retail business models?"; "Does the innovation of retail business models play a positive intermediary role on the performance of enterprises?"

This paper has three main research objectives :(1) To extract several internal and external factors that have great impact on the business model innovation of China's retail industry; (2) Verify the relationship between business model innovation and corporate performance of retail enterprises; (3) Verify whether these factors can affect enterprise performance through business model innovation.

It is found that in order to achieve the goal of long-term stable development, retail enterprises will continue on exploration and innovation in business model. The diversification of consumer demand, personalized trends, and fierce market competition are the external driving forces for enterprises to choose business model innovation. Under the influence of internal and external driving factors, a large number of business model innovation practices have emerged in China's retail industry.

II. Case interpretation:

In my opinion, in order to achieve the goal of long-term and stable development, retail enterprises will continue to explore and innovate in terms of business models, so as to stimulate the internal driving force of business model innovation. At the same time, the diversification and personalized trend of consumer demand as well as the fierce market competition are the external driving forces for enterprises to choose business model innovation. Under the influence of internal and external driving factors, a large number of business model innovation practices have emerged in China's retail industry. Consumption upgrading and technology application are reconstructing China's retail industry, and China's retail industry has entered a new stage. At present, the new business model of China's retail industry is mainly manifested in several general directions: (1) the integration of online and offline based on efficient logistics; (2) Cross-border operation with the integration of multiple business types; (3) Unmanned retail.

I have made a comprehensive review of the existing research results on business model, innovation theory and the impact of business model on enterprise performance through the analysis of the new retail industry. After that, I choose the exploratory multi-case study method and selected three representative sample cases in the retail industry, which are the regional retail leading enterprises A Company, Alibaba and Luan Bird Bookstore. Through case study procedures such as data collection, integration, coding and comparative analysis, this paper attempts to fully and effectively describe how the retail resource system affects the performance of enterprises, and reveals the role of business model innovation in the middle, so as to build a preliminary theoretical framework and theoretical hypothesis for empirical research and prepare for subsequent research.

Through my comparative analysis of the critical success factor, business model innovation and corporate performance of the three retail case companies, I have made new discoveries:

In terms of enterprise resource and business model innovation, company A: In January 1999, under the strategic deployment of a local commercial asset management company, company A was formed to divest of the wholesale business format, which is to determine its format as the overall development idea of positioning large and medium-sized comprehensive supermarkets. Strong strength and scale advantage have accelerated the development chain process of Jiayou supermarket. A brand-new warehouse supermarket-HS supermarket stood at the end of the year at the west of the local city, and a distribution center and fresh food distribution center with an area of 15,000 square meters were put into use one after another. About Alibaba, in May 2003, the online shopping retail platform "Taobao.com" was established to attract businesses to touch the Internet in a free manner, attract users to shop online at discounted prices, and collect advertising and deposit fees from businesses. On October 30, 2006, the strategic investment in the Koubei.com of the localized living community platform was completed, and it was committed to using data and products to help offline merchants to do business. In August 2010, Alibaba invested and became the actual holding company of Vendio and

Auctiva, both of which are US e-commerce solution providers. On June 16, 2011, Alibaba Group split Taobao into three enterprises: eTao, Taobao, and Tmall. TSUTAYA Bookstore was founded in Hirakata City, Osaka Prefecture in 1983. Founder Masuda Masuda's initial positioning for TSUTAYA Bookstore was: Life Information Center "LOFT", creating a place to provide new lifestyle information. Zongzhao Zengtian believes that when people have solved the basics of food, clothing, housing,

transportation, social relation and emotional acquisition, they will yearn for "self-actualization", that is, what I can do to make me different from others. Therefore, TSUTAYA Bookstore focuses on being a "self-realizing cause" to solve people's needs for "self-realizing" at the highest level. From 2000 to 2017, the number of Japanese bookstores dropped sharply from 21,495 to 12,621, and the number of closed stores each year was greater than the number of opened stores. In the worst case, the ratio reached 6:1. However, TSUTAYA Bookstore once conducted a questionnaire survey in Japan: "In the city you live in, what facilities do you most want to have?" The results are surprising. The first place is the coffee shop, and the second place is the bookstore.

These discoveries make me firmly believe that the key success factors of company A have a significant positive impact on business model innovation.

In terms of enterprise innovation and performance: company A, In 2004, the Canal Plaza store was grandly opened, positioning "supermarket plus department store", with annual sales of 700 million. In 2009, the first high-end boutique supermarket CiTYLiFE South Yanan Road was opened. In 2012, the Heping store with an area of 39,000 square meters opened for business, which was the first attempt of company A to develop a "small commercial complex" format. Company A has always listed self-built logistics as one of the most important strategies. There are 4 logistics bases with a total construction area of nearly 250,000 square meters. There are processing workshops including precision packaged vegetables, potted vegetables, North-South goods, meat, bread, cooked food, professional pesticide residue inspection rooms, large fresh logistics bases that integrate agricultural and sideline product procurement, inspection, processing, storage and transportation, display, sales, distribution, and other functions, as well as comprehensive logistics bases that integrate information, automation, and

intelligence. About Alibaba, in July 2004, Taobao launched Aliwangwang, an instant messaging software product, which facilitates the exchange of text, voice and video between the two parties. On January 9, 2007, Alibaba Software was officially established, with the vision of "let the world have no difficult business" as its vision, providing SMEs with "one of the most convenient, most flexible, most concise and cheapest" online software tools. In April 2010, Alibaba officially launched AliExpress, so that consumers from all countries can purchase products directly from domestic enterprises, adopt a platform model, and realize cash through commissions and advertisements. TSUTAYA Bookstore wants to do is a bookstore that can make money, not only selling books but also coffee; not only selling knowledge, but also selling "comfortable", providing consumers with

more diverse and novel experiences. In 1999, TSUTAYA online started e-commerce business in Japan earlier than Amazon; in 2002, the Internet home delivery rental service TSUTAYA DISCAS was launched. However, the TSUTAYA Bookstore did not shift its focus to online, but consolidate the advantages of physical stores while expanding channels, and exploring more possibilities offline mode.

As a result, I found that business model innovation has a significant positive impact on enterprise performance (Jingjing, 2014).

In terms of enterprise resources and performance: company A undeviatingly implements the new development concept, and strives to promote the steady development of business management, and thus launched the blueprint of "a high-quality retail-based business platform." Create more unique category integration pavilions: Snack Workshop—Integrated leisure food integration pavilion; Miao Miao City—Maternal and child commodity integration pavilion; Youpin Life—Home living integration pavilion; Japanese Food—Japan directly imported commodities integration

pavilion; Max Reco—Professional bakery integration pavilion. On August 11, 2005, Alibaba acquired all assets of Yahoo China (technical talent, capital, and Yahoo brand in China). After two years, the online advertising platform Alimama was established, introducing the concept of "advertising is a commodity" for the first time. In November 2007, the online advertising platform Alimama was established, introducing the concept of "advertising is a commodity" for the first time. On September 4, 2008, Taobao and Alimama were merged and developed, and the integration of the internal labor system could provide better services for SMEs and consumers and created an e-commerce ecosystem. On August 21, 2009, Alibaba Group divested Koubei.com from Yahoo China and included it into the Taobao system. In 2003, TSUTAYA Bookstore and Starbucks reached a cooperative relationship and opened TSUTAYA Tokyo Roppongi in Roppongi, Minato-ku, Tokyo. The two major brands joined forces to add another fire to the "Book&Cafe" concept, this form immediately became popular in Japan. In 2011, Daikanyama T-SITE, an integrated lifestyle facility that integrated multiple services, was opened. This is the most representative store of TSUTAYA Bookstore.

Therefore, I believe that the key success factors of company have significant positive impact on the company's performance.

III. Conclusion

I analyze the retail business model from the perspective of model evolution environment and enterprise practice qualitatively and to establish a research framework for the retail industry business model innovation system basing on a comprehensive review of the business model and theoretical research of the retail industry. A questionnaire survey was used to quantitatively study the pre-influencing factors, innovation process and corporation performance of Chinese retail enterprises' business model innovation. Through the entire research process, the following insights were

obtained:

(1) Enterprise form concept. As a representative of a retail enterprise, TSUTAYA Bookstore is not a bookstore, but a data technology company. In the context of digitalization, the future retail enterprise is not only a node enterprise of pure commodity distribution, but also a node enterprise of social circulation data. Every commodity, every customer, every POS machine, every shopping cart is a node of data production and data consumption. The future retail model is a data-driven model, and business model innovation is based on data innovation. When designing top-level strategies for retail enterprises, they should not be limited to traditional perspectives, but should look forward to the changes in the next 5 or 10 years. Its vision, goals, and key tasks must all meet the characteristics of the digital age.

(2) Enterprise talent concept. The core asset of an enterprise is talent. When the business model of the retail industry is innovated, the enterprise's talent view will also change accordingly. In the process of innovation and transformation of Chinese retail enterprises: First, require existing talents to change their concepts, update work ideas, and add new capability dimensions. Second, it is required that the imported talents meet the ability and quality of the future retail demands, the existing talents and the proposed talents should meet the strategic requirements. I believe that the key talents of future retail enterprises should have at least three qualities: the quality of synergy with data, the quality of cognitive society and the crowd, and the quality of integrating interdisciplinary knowledge.

(3) Enterprise technology concept. Technology is a core asset of future retail enterprises. According to the theory of balanced scorecards, the fundamental driver of enterprise performance is organizational assets, including people and

information technology (Jingjing., 2014). According to this logic, the fundamental determinant of retail enterprises performance in the future is technology in addition to people. The world's leading retail enterprises are also the best technology enterprises, such as Amazon's smart warehousing, Taobao's precise recommendation, Wal-Mart's digital supply chain and so on. The key success factor for retail enterprises in the future is technological ability. Enterprises should attach great importance and focus on cultivating their own technical ability.

Nowadays, the retail industry is developing rapidly, and the retail industry is a complex ecosystem. This round of research cannot solve all the problems. I will improve my research in the future by enriching the pre factors that affect the innovation of business models in Chinese retail enterprises, further analyzing the connotation of ecological capabilities, and designing business models for retail enterprises in the digital era.

References:

- [1] Chesbrough H. Why Companies should have Open BM[J]. MIT Sloan Management Review, 2007,48(2):22-28.
- [2] Gary Davies. Innovation in Retailing[J], Creativity and Innovation Management, 2006:1(4):230-239.
- [3] Huang Qianming. On Business Model Innovation and Sustainable Competitive Advantage of Enterprises [J]. Business Times, 2009, (12): 38-40
- [4] Guo Jingjing, Chen Qi Research on the Mechanism of the Impact of E-commerce Business Model Design on Enterprise Performance [J] Journal of Management Engineering, 2014 (3): 45-50