

The Analysis of Three Models in New Retail

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Abstract: Facing fiercer competition nowadays, retailers are striving to find new path as a way that could be beneficial to both brick-and-mortar retailers and online stores. The new form of retail rises in response to the proper time and conditions. According to different requirements from customers and various types of merchandise, we classify new retail into three categories, logistics-centric model, experience-centric model and omnichannel sales and discuss them separately from their backgrounds, suitable product types, characteristics and so on. Most importantly, there is a typical case analyzed corresponding to each model to help understand the deep essence lies in a specific model, so that a better vision about its concept and future could be gained.

1. Introduction

The transformation of China's retail industry has experienced nearly a hundred years in history[1]. In China, the first retail revolution was basically completed in the 1980s, when department stores quickly became the main retail format of major cities. The second retail revolution marked by the supermarket and the third retail revolution marked by chain operation were almost completed at the same time. In 1999, that Lianhua Supermarket surpassed the Shanghai first department store and ranked first in the retail industry marked the successful transformation of dominant format of retail industry in China. The fourth revolution was marked by the founding of Taobao on May 10, 2003, the e-commerce revolution. The development of traditional retail after more than a decade finally turned into an inflection point in 2012 when the growth rate of the offline retail industry experienced a historical decline. The fifth revolution occurred in 2016 when e-commerce development matured and successfully penetrated into all walks of life, continuously rushing to the offline retail market. At the same time, e-commerce encountered bottlenecks in development. The fourth retail revolution triggered by e-commerce entered its mature stage. As Ma said, "the era of single-function e-commerce has passed. There will be no more e-commerce in the future, but only the "new retail" that is closely integrated with e-commerce platforms, logistics distribution and physical experience stores."

Under the trend of continuous "high fever" in e-commerce, some shortcomings were exposed:

high capital investment of “burning money”, high monopoly formed by unprecedented “platform competition”, high market risk of elimination rate, corrosion and destruction to the real economy by low-cost competition, and relative weakness of B2B. On the other hand, in order to meet the fierce challenge with e-commerce, brick-and-mortar retailers are stubbornly seeking ways to survive and try their best to compete for living space. Finally, the competing parties gradually calmed down, and the melee in the retail sector showed a clearer trajectory. The direction of the commerce and trade circulation industry, especially the retail industry, is definitely not the result that "virtual" replaces "entities", nor is it as simple as O2O.

Every major change in the retail industry must meet the following conditions: Firstly, innovation, which means to create a new retail model, and gradually achieve leadership and dominance; secondly, disruption, where the new retail model brings strong impact to traditional models, causing changes in consumption patterns and supply and demand, and leading to deep adjustment of the supply chain; thirdly, extensibility, means that the change is not fleeting, but extends and expands to a larger space, and maintains a certain life cycle.

At the beginning of Alibaba's integration of offline retail sales as a path to change, the US e-commerce giant Amazon, which is far from the other side of the ocean, launched its “new retail” model in December 2016. The strategic intent of its offline convenience store program, Amazon Go, was directed at the US convenience store market, which had a large share of the retail industry. Amazon's Amazon Go convenience store uses a new “unmanned supermarket” business model where consumers can achieve true self-service shopping without having to queue up for checkout. By using Just Walk Out technology, it automatically identifies whether the consumer is putting the product back on the shelf or taking it away, and sends the information to the customer via the virtual shopping cart on the AmazonGo APP. The customer can leave the store immediately after picking up the desired item. Amazon will then send the shopping list to the customer via the Amazon Go app, including the price and information of various items, and complete the settlement with the customer via the APP.

Starting in the fourth quarter of 2016, the three major department stores in the United States began to experience negative growth in same-store sales. In the first quarter of FY2017, declines of the same store sales in the three stores all exceeded Wall Street's expectations. In contrast, Amazon's share price raised 36% in the past year and was still moving higher. At this moment, new retail information emerged from home and abroad. Why the new retail will come unexpectedly, its deep roots can be simply attributed to technology, consumption and market.

The first is technology. The breakthrough development of electronic information systems and the popularity of mobile phone clients have enabled human society to enter the era of mobile Internet. Big data and cloud computing technologies have realized smart business and smart logistics. Internet finance has made smart business more perfect and feasible. The latest analog reality technology, relying on the new generation of information technology and computer simulation system, generates a virtual reality experience environment, which makes up for the shortcomings of online retail in the product experience and enriches the content of the retail experience. Artificial intelligence based on breakthroughs and application based on new technologies created the core of new retail [2].

The following is consumption. The comprehensive upgrade of consumption makes personalized consumption more prominent, and customers have put forward higher requirements for experience

consumption. That consumers are becoming increasingly aware of digitization can help them fully understand the full range of goods and services, the escalating experience-based consumer demand, the omni-channel shopping path, and the promotion of new shopping methods such as C2B and C2F, and then a new retail format has been evolved.

The market is once again affected by e-commerce, the global physical retail industry has slowed down, and the entire retail industry urgently needs to find new growth drivers. E-commerce has encountered bottlenecks in development, which needs breakthroughs in order to constantly maintain its development momentum. The overall efficiency of circulation declined, the profit margin shrank, and the market competition was unprecedentedly fierce, which forced the emergence of multiple retail forms. In order to survive and develop under market competition, whether online or offline retailers have to find ways to find roads and reengineer advantages, and embark on the road to innovation in new retail

In fact, the trend of online and offline integration is already very obvious[3]. It is difficult to have traditional physical stores and pure e-commerce in the future. In the tide of online and offline integration, there are indeed two opposing forces: one is that traditional brick-and-mortar retailers are striving to develop online, and the other is that e-commerce or online-platform retailers are drastically marching down the line. The ending of the two forces is the fusion, and the result of the integration will inevitably lead to the emergence of the "new retail" business model. In short, new retail is not only the general trend of the retail revolution, but also the inevitable development of physical business and e-commerce.

The retail-based commerce and trade circulation industry is in an era of change, from the original single offline channel to the offline dual channel, to the omni-channel retail and even to smart retail. The entire retail industry is being rebuilt at an incredible speed

Huang Mingduan, chairman of RT-Mart China, believes that the new retail is a process of re-construction, which is an online and offline integration, but it is not only the application of new technologies, but also a new way of thinking. New retail means that at some point in the future, the retail industry's industrial value chain should be restructured, including design, production, wholesale, distribution, retail and consumption. Guomei's head Du Fu believes that new retail is a new retail ecosystem. Guomei's "new retail" emphasizes the application of next-generation information technologies such as the Internet, big data, and the Internet of things, including six values, "users are kings, products are kings, platform is the king, service is king, the sharing is king, and the experience is king". Wang Tian, chairman of the BBK Group, believes that the new retail future must belong to offline companies with deep Internet thinking and ability to master and use various Internet tools. In the next three years, BBK will transform into a new data-driven, online and offline retail company with a vision to grow into a leading omni-channel operator in China. Zhang Jindong, chairman of Suning Holding Group, interprets the new retail from the perspective of "smart retail". He pointed out "Smart retail means that apply the Internet, Internet of Things technology, perceive consumption habits, predict consumption trends, guide manufacturing, and provide consumers with diversified and personalized products and services." [4]

In this article, based on the characteristics of the new retail and its main development direction in the future, we believe that the new retail is based on the application of the new generation of information technology, a retail form that maximizes the efficiency of retail business operations in the whole society to maximize the satisfaction of consumer experience needs. Innovation in the new

retail business model completely breaks the dividing line between traditional physical business and online e-commerce. It is not simply a pursuit of online and offline, but a “smart business” that combines online and offline and deep integration of all retail resources. The rise of new retail will definitely have a major and far-reaching impact on the evolution of the future business landscape. Here, we summarize and summarize according to the existing new retail models, and divide them into three categories to discuss separately.

2. Logistics-centric model

2.1. The characteristics of modern logistics

With the continuous development of modern information technology, the rapid rise of e-commerce in China has driven the development of the logistics industry, and also put forward new requirements and high standards for logistics. The logistics industry has changed from the original small-scale and high-cost model to the intensive and information-based management. After entering the 21st century, third-party logistics has gradually matured, and fourth-party logistics has gradually emerged, and the logistics industry has continued to grow and develop. Each enterprise is currently experiencing different stages of integration and restructuring, terminal competition and logistics splitting. Among them, the end competition needs to solve the "last mile" problem, which accelerates the layout of logistics enterprises and lays a foundation for the online and offline layout of new retail.

2.2. The product types

Suitable for online and offline products of the same price, consumption purchase frequency is high, daily demand is large and itself is not easy to store goods, and online and offline through channel integration to form complementary advantages and win-win situation. This kind of cooperation can break the original boundary of the industry, online enterprises realize resource sharing through data, and many retail businesses under the line cooperate with each other to mobilize the supply of goods and achieve the nearest distribution, so as to satisfy the convenience and needs of consumers to the greatest extent, and form a benign circulation channel and logistics distribution network. While solving the pain points of consumers, we can maximize the use of resources, reduce costs as much as possible in terms of warehousing, loss, and diversion of customers, thus generating profit income for enterprises.

2.3. Case analysis - Freshhema

At the beginning of the concept of new retail, Alibaba took the lead in taking the fresh industry as a breakthrough, directly attacking the pain points of the offline fresh channels, using online channels, logistics and distribution as an advantage, and greatly providing convenience to consumers. The logistics distribution model in the new retail provides a case.

Freshness is a typical offline industry in the traditional field, because of product specificity and consumer demand for freshness. However, with the development of the society, Freshhema targets customers precisely in the 80s and 90s, so that the target customers have both a large number and special consumer needs.

Freshhema achieves a high degree of online and offline integration, and the product range is very rich. It can mobilize all the stocks of nearby shops through the online database, and realize the same price and the same quality online and offline. Consumers can directly place orders through mobile phones. Freshhema will guarantee the freshness of products and meet the needs of the target customers.

Secondly, as an APP whose initial product positioning is for fast delivery, Freshhema will ensure the high efficiency of distribution to the maximum extent, making the delivery within 30 minutes in the range of 5 kilometers. Freshhema adopts the automatic logistics mode, and sets up a confluence area with more than 300 square meters in the backstage of the store. The front and back office adopts an automatic transmission system. From the front-end store to the back-end warehouse, all items are transported by the logistics belt. In the store, consumers can see parcels flying around in the conveyor above the top of their head. After the shop receives the APP order, it picks up the goods at the store, puts the special insulation bag, directly transfers the goods to the back-end confluence area through the automatic transmission system, loads the special distribution box, and sends it to the first floor with the vertical lifting system. It takes only ten minutes to complete from ordering to packing. This series of processes ensure the delivery speed and increase convenience.

In terms of profitability, since the food from Freshhema is directly shipped from the store, the cost of storage is reduced. Packing the product in advance reduces the cost of loss when customers pick. And through the advantages of Alibaba company itself, the sense of trust established by Alipay and the good experience of offline consumption in Freshhema can reduce the cost of drainage.

3. Experience-centric model

3.1. The demand

With the rapid development of e-commerce, the freshness of the goods themselves and the irritating feeling brought by the Internet are gradually becoming saturated. The requirements of people for cost-effectiveness to the quality of the goods themselves are increasing. Especially in recent years, consumer satisfaction has reached a bottleneck. The online shopping increase index has slowed down year by year, and the shortcomings of online shopping have become increasingly apparent, thus stimulating the transformation of retail industry. Experiential marketing is a widely adopted offline retail model. New retail provide customers with a wider range of experiential consumer services through the integration of online and offline to achieve consumption scenario. By deepening the awareness of the product when in the scenario that consumers are experiencing, consumers can be further stimulated through their desires, convert them into purchase volume, so that the offline experience can drive online consumption.

3.2. The product types

This type of model is suitable products that can be reused many times, especially products with high technology, durability and high price. Except for special circumstances, consumers will not purchase such products again in a short period of time. Such products can bring consumers effects different from just simple visual senses after experiencing the trial, so an experience of such products can stimulate the nerves of consumers and promote purchase behavior.

3.3. Case analysis - Xiaomi

Xiaomi's offline experience store has achieved online and offline balance, providing customers with the best quality experience service, eliminating customer concerns and turning potential customers into direct customers.

First of all, Xiaomi retail store opens in the shopping center where is the most prosperous neighborhood with a large passenger flow, although this is contrary to the traditional concept. However, by attracting customers to the Xiaomi store and showing them the products of Xiaomi, the brand concept is conveyed. At the same time, the features of the store can be sent to customers, from packaging to marketing, Xiaomi strives to convey its value and importance to consumers.

Through the offline experience store marketing model, Xiaomi successfully establishes and communicates its brand and concept to the public. Consumers in the experience store through the feeling of a product, on account of the uniformity of the Xiaomi system, consumers can expect other products to bring the same smooth experience, thus, such retailing model can increase consumer's goodwill and help them trust in the brand.

4. Omnichannel sales

4.1. The background

In the process of rapid development of e-commerce, many offline retailers began to seek online and offline development in response to shocks. However, for multi-category retail enterprises, online and offline multi-channel retailing is not a simple superposition, it needs traditional retail companies think about how to use the Internet, new media, new technologies, etc. to create a comprehensive, systematic business model of online and offline channels to provide customers with a full range of service experience.

Omni-channel model through multi-faceted integration can meet the purpose of business for consumers. This model requires strong pre-sales service, fast and accurate logistics capabilities and previous technical system as support, for offline retail to leave a place for fiercer competition of consumers resources in the future.

4.2. The applicable type

The omni-channel retail model has high requirements for the operating enterprise. It requires the retail enterprise to possess strong capital, coordination and data platform support, and the ability to achieve seamless online and offline connections, bringing the highest quality of the shopping experience to customers. Meanwhile, such model also puts high demands on enterprises, logistics enterprises and digital technology facilities.

This kind of retail method is suitable for a wide range of goods, suitable for all kinds of daily necessities, and the logistics distribution and experiential services mentioned above are involved, but the omni-channel retail model will pay more attention to the integration of the product chain and the sharing of the platform. Because omni-channel involves a wide range of aspects, it requires the company to have strong coordination and data processing capabilities to support the various categories of goods and services in the platform.

4.3. Case Study - Suning

Originally, as a traditional home appliance retailer, Suning catering to consumers' changing lifestyles and shopping behaviors in the face of consumers' omni-channel, personalized and fragmented shopping needs decided to launch “Suning Tesco” to create an open shopping platform that supports online and offline, and highlights the new retail model of “stores + e-commerce + retail service providers”, adopting the omni-channel strategy.

This is the breakthrough point for Suning in the face of the challenges brought by the Internet. Suning itself has the advantage of the traditional offline retailer, which can provide excellent service for the customers present. At the same time, Suning's online Suning will not affect its own business, because Suning has already built its own warehouse, bought daily express delivery and other services. The increase in online shopping for Suning is to provide consumers with better shopping opportunities and convenience, but the company itself does not need to invest more money to build new channels for sales. In addition, Suning itself has a powerful SAP system developed jointly with IBM for Suning. This system enables managers at the headquarters to be informed about the inventory, sales, distribution and other information across the country. Thanks to the support of the big data platform system, business level of the company will not be disturbed in the face of huge online shopping volume.

5. Conclusion

What is really new in new retail is based on new names, new technologies and new trends, but the new retail models analyzed above have been applied very early. M.P. McNair, a retail expert at Harvard Business School in the United States, proposed the “revolution wheel” theory in 1958[5], and later S.C. Hollander added it further. The main content of this theory is that there is often overproduction in the normal industrial society. Under this pressure, there will be some large-scale sales patterns, which are initially based on low-cost, low-margin, low-price business strategies. When this kind of business strategy is successful, it will inevitably cause other stores or enterprises to follow suit. As a result, when a large number of sales shops form fierce competition, low prices will lose their effectiveness as weapons that are beneficial to them. In this way, the focus of competition among a large number of sales stores has shifted to other competitive strategies other than price, such as promised refunds, coupons, credits and other new services. In addition, the initial small profits but quick turnover model was to concentrate on high turnover products. As competition intensified, it would have to operate commodities with relatively low turnover rates to increase gross profit. As a result, the initial development of cheap sales as a competitive advantage is bound to be transformed into a high-cost, high-price, high-margin retail organization. At the same time, new innovators began to come out with retail organizations featuring low cost, low gross profit, and low prices, thus, the wheels re-turned.

According to the "retail wheel" theory, a retail organization or retail format from its birth to decline generally goes through the following three stages: First, the entry phase, characterized by low cost, low profit, low price and simple. The second is the Trad-ing-up stage, in which retail organizations have to increase operating expenses in order to provide new services; third, the Vulnerable stage, the emergence of new retail organizations. Whether it is Taobao, T-mall or Jingdong, all have experienced the above three stages since its establishment. Take Taobao as an

example. In the early days of its establishment, Taobao did not need to rent a store, did not need to hire too many sales personnel, did not need a large amount of inventory, and did not need to pay a large amount of tax to obtain low cost and low price advantage. Owing to the existence of this advantage, a large number of merchants have been attracted to Taobao, resulting in increased competition. In order to win in the competition, merchants must spend money to compete for traffic. The traffic cost of an e-commerce is similar to the differential rent of a traditional commercial site. The flow of the business district is related to the lot. There is a “level difference rent”. The better the rent, the higher the rent until someone can't afford the rent. Taobao adopts a model of bidding for traffic charges, which raises the cost of traffic until no one is willing to pay a higher price. The rise in operating costs made pure e-commerce enter the third stage of the “retail wheel”, and inevitably there will be innovative retail organizations coming out.

As a new type of retail, new retail is now a combination of online and offline as a response to rising network customer costs and customer experience. The cross-regional extension of the network to offline will limit the company to high initial costs. Achieving a wide range of online and offline retail sales will be feasible for larger companies. For small and medium-sized stores, their customers are limited to the local population, which requires two different online platforms integrated and differentiated. At the same time, mature data integration capabilities and new technologies are needed, so that the true meaning and value of new retail can be maximized. The future retail model will become more and more specialized and personalized, to meet the demands of consumers to a greater extent. This large amount of consumer data requires the platform to synchronize online and offline. New retail is based on the emergence of traditional e-commerce, but it also requires the platform and data processing capabilities provided by traditional e-commerce. Future new retail models may also spawn more forms, but new retail model will slowly penetrate into everyone's daily life like traditional e-commerce. Considering the convenience and speed of new retail, it will become an inseparable part of people's lives.

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