

Investors' Psychological Expectation of Retailers under the New Retail Model

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Abstract. With the gradual disappearance of e-commerce dividends, driven by technological innovation and consumption upgrading, the retail industry faces vast opportunities and challenges. China, as one of the most important retail markets in the world, tends to be at the forefront of innovation through the combination of big data boom and retail industry. In 2016, new retail emerged in China as a challenge to traditional hypermarkets and e-commerce platforms. Investors have different requirements for companies under different circumstances. By analyzing the representative stocks with excellent performance of online and offline, this paper investigates alternations occurred in the retail industry and the various psychological expectation of investors for retailers in the new environment.

1. Introduction

The retail industry is very closely connected with our everyday lives. The global retail industry grows rapidly as people's income increases. By 2019, the global retail sales will reach \$28 trillion, with an average growth rate of 5.6%. As the largest market for the retail industry, the Asia-Pacific region has achieved a growth rate of 8.3%, surpassing other regions. The Chinese retail market performed the most representative performance in the Asia-Pacific region. China is experiencing the booming era of big data now. The Chinese retail industry is reorganizing under the guidance of new technologies. This paper investigates the changes in the retail industry in a new environment and uncovers the new expectations of investors for retailers by analyzing the Chinese market.

1.1 Chinese retail market

The booming e-commerce industry has had an enormous impact on the global retail industry in the last decade. The National Bureau of Statistics of the PRC provided a series of data indicates the sales revenue of the Chinese e-commerce market increased rapidly from 2014 to 2017. In 2014, online retail sales in China grew by 49.7% with the figure of 2.79 trillion yuan. In the following years, the transaction value of the online retail market in China increased 33.3%, 26.2%, and 32.2% respectively, and reached the figure of 3.88 trillion yuan, 5.16 trillion yuan, and 7.18 trillion yuan in the last year of the given period[1]. The scale of e-commerce retail sales has gradually increased, further devouring the traditional retail market. In Huo Hui's 2018 article, the author points out that the number of Chinese netizens has reached 772 million by the end of 2017, and the penetration rate of the Internet expanded to 55.8%[2]. Today, the e-commerce market has already entered the stage of global distribution.

However, although the sales contribution in China has gradually disappeared, the e-commerce market has reached its peak in the past two years. The growth rate of e-commerce retail sales has slowed down in the years of 2014-2017. At the same time, due to the excessive number of online stores, the quality of e-commerce retail is facing a severe test. On the other hand, the situation of offline stores is not optimistic as well, since they have restrictions on business scope and cannot meet the demand brought by consumption upgrades. Therefore, by integrating online and offline sales channels, new retails focused on data efficiency have emerged.

One of the best-known Chinese businessmen Jack Ma announced the beginning of the new retail era in the Computing Conference 2016 Hangzhou Summit. According to Ma's original words: "The era of pure e-commerce will soon end. In the next ten or twenty years, there is no e-commerce, just

new retail”. This is the first time that the new retail concept has been proposed. After the 2016 Hangzhou Summit, the Chinese government introduced policies and strategies to promote the innovative transformation of the retail industry. For instance, Premier Li Keqiang’s report pointed out that it is necessary for the government to encourage online and offline interactions and to promote the innovation and transformation of physical business. The new retail market has sprung up by virtue of the governmental policy in the following years.

Marketing scholar Fan Peng (2019) pointed out in his latest article that the “new retail” service targets on middle-class consumers. In today’s Chinese society, the commodity price is no longer an essential factor to consider for middle-class consumers; they are willing to pay for high-quality products and valuable experience. Under the influence of new force of consumers, it is estimated by Chinese industry research institute that the size of Chinese new retail market will exceed 1.8 trillion yuan with a compound growth rate close to 120% in 2019[3].

1.2 China’s retail investment market

The new retail market is inseparable from the pursuit of the capital market. According to an article published on the website of People’s Daily Online, from 2017 to 2018, the investment amount of Chinese retail industry was as high as 155.5 billion yuan, with a total of 505 investment events. The average single investment amount is 366 million yuan, about 1.6 times the industry average. The new retail market is a collection of “people, goods, fields” that meets consumers’ increasing demand through big data and artificial intelligence technologies[4].

Drawing on the previous research and introduction of the social background, the author analyses the innovative business model by dividing it into online and offline new retails. By carefully looking through the outstanding stocks, this article studies the company’s business strategy and investigates the expectations of investors for the new retail.

2. Company under the “people, goods, field” mode

2.1 Breaking measures for offline stores

2.1.1 Wal-Mart

Wal-Mart is the largest physical retailer in the world and has been ranked as one of the tops of Fortune 500 company for five consecutive years, but its performance has not been as good as the investors expected. From the investors’ perspective, Wal-Mart was changed from a growth stock to a zombie stock from 2004 to 2012. Many investors lost interest in Wal-Mart during this period.

A group of investors bought Wal-Mart in 2004 for about \$50, but until the end of 2011, Wal-Mart's share price was only \$52. Even the renowned investor Warren Buffett began selling his Wal-Mart shares in 2015, Wal-Mart’s stock has changed its stagnation in 2016, and achieved the biggest increase in current years. On April 23, 2019, Wal-Mart’s stock closed at 103.53, doubled the increase in 2016.



Figure 1. The share price of Wal-Mart.

At present, Wal-Mart's dynamic P/E ratio is 45.81. Investors have higher expectations that each stock price is higher than earnings per share. The price-to-book ratio is calculated to be 3.53, which is at a relatively low level. In 2018, the stock price growth rate was 2.21% per share. The earning per share is \$1.41, which is higher than the expected \$1.34. Since the collapse of stock and Buffett's clearance in 2015, it seems that Wal-Mart is facing a promising future and becoming a well-valued retail stock now. It only takes a few years for Wal-Mart to overcome their dilemma; in the meanwhile, Wal-Mart's stock performance surpassed other stocks in the same industry. What measures Wal-Mart has taken to face the challenge in new retail?

2.1.2 Business strategy

The fluctuation of stock prices is always inseparable from business performance. Since the first negative growth in Wal-Mart's operating income in 2015, after the stock price plummeted, Wal-Mart realized the need to open up the e-commerce market and respond to the new round of retail revolution. In 2016, Wal-Mart began to take the initiative to adjust its business strategy. Undoubtedly, through the financial statements disclosed by Wal-Mart in recent years, it is noticeable that even in the face of the impact of the global e-commerce market, Wal-Mart's operating income remains steady. In 2018, Wal-Mart's revenue was \$514.4 billion, a year-on-year increase of 2.8%. It can be seen by these figures that the response strategy of Wal-Mart has worked well so far.

(1) Adjust store layout and industrial layout

In 2016, Wal-Mart announced the closure of 269 stores worldwide, including 154 local stores in the United States. In the following years, Wal-Mart continued to close the stores with poor profitability and made several strategies to improve the efficiency of single store operations. China, as the most important market of Wal-Mart, the retailer had closed 13 stores in 2016, and 24 stores in 2017, with an increase of 84%.

Most of the Wal-Mart stores are distributed in the first tier cities and the second tier urban areas. In the near future, market penetration of Wal-Mart will cover cities belong to the third and the fourth tier. Besides, Wal-Mart has invested nearly 300 million to renovate the existing stores. The big data and intelligent technology have been used in several means for the retailer to detect dynamic consumption data, depict consumer portraits, and improve business quality as well as the consumer experience.

Moreover, Wal-Mart revolutionized its industrial layout. Sam's Club, as one of Wal-Mart's major businesses, satisfied customers demand by upgrading new retail consumption and providing excellent goods and membership services. According to the earnings report, in 2018, Wal-Mart increased the size of Sam's membership stores month by month, and the sales of Sam's membership stores increased by 3.3%. Among the products sold, fresh products accounted for a quarter of the operating income. Wal-Mart plans to increase the proportion of food products to 50% overall, while investing 700 million yuan in establishing a new distribution center, simultaneously launching the "in-house

3-kilometer” delivery service. As claimed by Hao Shenyu (2018), Wal-Mart’s effort in developing the size of Sam’s membership stores and promoting fresh food is a groundbreaking forecast of the consumer trend in China and an attempt to lead the way of China’s new retail market[5].

(2) Fund exchange rate

Wal-Mart successive acquired several integrated e-commerce platforms in the past two years. The list of Wal-Mart’s acquisition includes Jet.com, the footwear e-commerce website ShoeBuy, the outdoor products brand Moosejaw, the male clothing e-commerce Bonobos, the furniture e-commerce Hayneedle, and the female fashion brand ModCloth as well as other vertical e-commerce. At the same time, Wal-Mart continued to develop its e-commerce platform and initiated close cooperation with JD. In 2017, Wal-Mart increased its shareholding in Jingdong to 12.1% and launched three flagship stores on Jingdong’s platform: ASDA Global Purchase Jingdong official flagship store, Sam’s membership store global purchase Jingdong official flagship store, and Wal-Mart Jingdong official flagship store. In addition to vigorously developing e-commerce business, Wal-Mart also launched promotional policies include “no reason to return within seven days of fresh food” and “two-day internal freight” to courage sustainable consumption.

In the era of big data, offline retailing cannot satisfy the needs of customers any longer. Traditional retailers have to open e-commerce platforms and broaden their channels of consumption. Wal-Mart’s e-commerce business continued to grow at a high rate. In the fourth quarter of the last year, the e-commerce growth rate remained at 43%, and e-commerce business growth is expected to stay at a high level of around 35% in the next year.

(3) Operational efficiency plus code

Wal-Mart’s low gross profit margin and high turnover rate make customers realize that the promotional slogans of Wal-Mart – “everyday low price” and “saving every penny for customers” – are the standard tricks for the company to survive. Wal-Mart’s gross margin is only about 22%, attracting more consumers by continuously lowering commodity prices and creating benefits for customers. Wal-Mart’s inventory turnover days are 42 days, relying on efficient logistics management and distribution technology. For coping with the challenges brought by the new retail area, Wal-Mart integrated e-commerce logistics technology of JD and inventory turnover technology of Wal-Mart to offer customers a better consumer experience. In recent years, Wal-Mart has been investing in constructing its distribution center continuously.

2.2 The new retail victory of the e-commerce platform

2.2.1 Alibaba Group

In the e-commerce trend of the past few years, many e-commerce companies have taken the wind. One of the most successful companies is Alibaba. In about twenty years, Alibaba Group started as a small e-commerce platform and grew up to be the largest company in Asia and the sixth largest listed company in the world. Since “Alibaba listed its shares on the NYSE” in 2014, Alibaba has been on a straight-line trend[6]. Even in the current e-commerce market saturation, many companies face a business crisis, Alibaba’s revenue growth in the 2018 fiscal year reached 58%, achieving six quarters of rapid growth, especially in the new retail business segment, with the revenue growth of more than 340%.



Figure 2. The share price of Alibaba.

Alibaba Group’s share price has risen nearly 300% in three years since the introduction of the new retail by Jack Ma in 2016. The Money magazine named Alibaba’s stock as one of the 12 most valuable investment stocks in 2019, with a volume of nearly 10 million. Earnings per share reached \$3.84. Alibaba’s stock has a P/E ratio of 48.69, which is relatively low for Internet companies. Undoubtedly, Alibaba’s stock is a stock favored by investors, and Alibaba’s layout strategy in the new retail industry was a successful plan. According to estimates, Wall Street expects Alibaba’s operating income to increase significantly in the coming year, with earnings per share reaching \$6.17.



Figure 3. The anticipated revenue of Alibaba next year.

2.2.2 Strategic layout of Alibaba

(1) Technological investment

Although the retail revenue of Alibaba accounts for 69% of its total revenue, Alibaba is essentially an Internet company. The daily investment in research and development of the company accounted for 15.65% of the company’s operating income. On the one hand, Alibaba expanded its financial sector through Alipay, Ant Financial, etc. Alibaba offered a more convenient service to consumers through online payment by using black technology includes face and fingerprint recognition. At the same time, the financial industry is used to provide credit to consumers to boost consumption.

On the other hand, as a large data company, Alibaba has a data bank in the retail industry. It contains 360-degree consumer images of the brand through the precipitated data and gains insights into their consumption abilities, purchasing habits, and preferences of goods. The company uses these

data for developing business strategies. The basic label and the industry label find similar potential customers among the Ali-based users and match the guests within three to five kilometers from the store. Through GPS positioning, looking for its stores around the consumer, and then offering membership cards, coupons, etc., to bring customers to the store. In addition, Alibaba also provides consumers with relevant product news and stimulates purchasing demand through the favorite portraits of Taobao. Customers are now able to experience an integration of online-offline consuming experience through technology.

(2) A series of investment mergers and acquisitions

Alibaba's M&A and investment cover almost all aspects of the retail industry. In April 2018, Alibaba spent 9.5 billion dollars on an acquisition of Eleme (an online food delivery platform) and entered the local life of service market by forming an offline pattern of word-of-mouth, hungry, and shop. Alibaba plans to break the boundaries between online technology, offline shops, and local life through the food delivery platform to achieve the "people, goods, field" model.

Alibaba introduces several large online platforms such as Tmall and Taobao, to achieve cooperation with offline retailers. In recent years, it has invested heavily in major retailers and formed the brand of "Alibaba". In November 2017, Alibaba cooperated with RT-Mart, the largest supermarket in China, to win a 36.16% stake in Gaoxin Retail for HK\$22.4 billion. In May 2018, Alibaba subscribed for Suning Tesco shares for US\$1.504 billion and held 19.99% of the shares. In addition, Alibaba has also invested in major retail companies such as Lianhua Supermarket, Sanjiang Supermarket, and Yonghui Supermarket, and reached strategic cooperation with these groups.

Finally, Alibaba and SF Group cooperated in establishing Cainiao Smart Logistics Network Limited. Through synthesizing the management mode, warehouse intelligence, and platform information, they continuously optimized the supply chain to promote the development of the new retail industry.

(3) Innovation to enhance the consumer experience

Hema Fresh is a new retail format offline supermarket chain launched by Alibaba. Hema Fresh is a supermarket, a food and beverage store, and is also a vegetable market. Consumers can go to the store to buy their products directly, and they can also order online through the Hema App. One of the biggest features of Hema is the fast delivery service. It will deliver the ordered products in 30 minutes within a 3-kilometer radius. In addition, Hema is capable of tracking the buying behavior of consumers and making personalized recommendations through big data.

Alibaba also launched several projects such as Retail App and the first unmanned supermarket in China. The unmanned supermarket shortens the purchasing time, and customers are able to finish their shopping quicker than before. In addition, Alibaba plans to launch "Tmall Mirror" and "Tmall Mirror" to give users the experience of "virtual makeup" and "digital fitting" to enhance the consumer's sensory experience.

2.3 Retailers against the trend

2.3.1 Costco

Many large companies are trying to use online and offline convergence to confront the impact of new retail. However, some companies made exceptional decisions. For instance, the United States has a well-rounded market and only operates offline stores. The operating income of the supermarket has not declined under the impact of the e-commerce market. On the contrary, it has risen by 1.8% on average. This supermarket is Costco.



Figure 4. The share price of Costco.

It can be seen from Figure 4 that the stocks of Costco have been oscillating and rising since 2011, and the growth is five times greater compared with the initial year of the period shown. The e-commerce market failed to make a substantial impact on investors' expectations for Costco. At present, the price-to-earnings ratio of the stock is merely 31.31, and the earnings per share ratio has reached 6.67, which has received the attention of many investors. The business model of Costco and the reasons for its success will be illustrated in the following part of this section.

2.3.2 Measures to improve the market

(1) Very low commodity prices

As a warehouse-type retailer, Costco has only 31 days of inventory turnover days. The comprehensive gross profit margin of Costco is 10.3%. The gross profit margin of a single product is over 14%. For the sake of low prices, Costco is hardly profiting from the product side. It offers a small number of items that are carefully selected.

(2) Membership system

Costco earns its membership fees by providing quality, affordable products, and excellent customer service. Costco has been established for decades, but in a few years, it has grown to become the second-largest retailer in the United States with more than 70 million members. Through the data analysis, Costco has recorded the consumption preferences of each member and improved the services they have in place. Its customer base is mainly concentrated in middle and high-income families.

(3) Excellent experience

Through the design of the store, the supermarket of Costco provides a shopping experience of "getting it right away" and "treasure hunt" to consumers. In addition, Costco offers a range of other services, including beauty salons, jewelry, gas stations, plant stores, bookstores, etc. Shoppers can find a variety of places to go while shopping in Costco.

3. Analysis and inquiry

3.1 Psychology of investor expectations

The new retail is a revolution brought by consumer design and technological advancement. As mentioned above, the new retail model cannot be separated from the combination of online and offline sales. After analyzing the well-performed stocks of the traditional retail companies and e-commerce companies, and exploring the company's operating strategies behind them, the author found that investors have certain psychological expectations for retailers under the new retail model.

3.1.1 Operating income growth

The growth of operating income is one of the preconditions for the sustainable development of enterprises. The new retail environment is a huge challenge for traditional stores and e-commerce companies. The new environment will strengthen the industry and will also increase the competition within companies. Therefore, it is necessary for the company to maintain the growth of operating income as a necessary business capability to cope with the competition caused by new retail. Investors hope that retailers can have a certain market share and retain customers.

3.1.2 Adequate free cash flow

Under the new retail model, many traditional hypermarkets entered the e-commerce platform and spent money on high passenger flow for maintaining the growth of operating revenue. However, with the assist of capital, many companies operated in a very rough way. For example, OFO bike has had a huge risk of capital chain breakage. As a competitive retailer, investors expect the company to have sufficient cash flow to deal with financial risks. Another typical example is Wal-Mart. Even though Wal-Mart invested a lot of money in the e-commerce market, its free cash flow was as high as \$18.3 billion. Additionally, Alibaba has acquired many companies, but its free cash flow is as high as 99.3 billion yuan.

Three months ended December 31,			Nine months ended December 31,		
2017	2018		2017	2018	
RMB	RMB	US\$	RMB	RMB	US\$
	(in millions)			(in millions)	
55,428	64,898	9,439	111,422	132,422	19,260
(6,463)	(10,011)	(1,456)	(12,998)	(26,648)	(3,876)
(2,566)	(3,514)	(511)	(7,195)	(12,010)	(1,747)

Figure 5. The partial cash flow statement of Alibaba.

3.1.3 Meet the needs of consumption upgrade

The consumer spending growth escalates as the global economic growth drives a consistent rise. Retailers need to improve their business model to meet consumer demand and enhance the consumer experience. Moreover, retailers need to use technology to maintain potential customers, and investors can use sales conversion rates to assess their ability to operate.

3.1.4 Higher level of brand awareness

Consumer unit price and repurchase rate are generally directly related to brand awareness. Consumers usually tend to choose large retail companies because good brand awareness means better service and higher product quality to a certain extent. Thus, large retail companies always have potential customers. Even private brand of domestic chain enterprise has a lower overall market share and concentrates in low-technical commodities in foreign countries, Liu Xin and Shao Huiyu (2011) pointed out that scientific brand management is crucial in the Chinese market, especially for middle-class consumers, high-quality products and a higher level of brand awareness are fundamental factors to consider when selecting a brand name[7].

3.2 Recommendations

3.2.1 Maintain the essence of the retail industry

Alibaba's new retail, Jingdong's unbounded retail, and Suning's smart retail, all these companies belong to the category of the retail industry. The development of new retail is inseparable from two core elements, low prices, and fast delivery. Low prices are the primary factor in attracting consumers. Whether Wal-Mart or Costco, they have a low gross profit margin and give benefits to consumers. With the development of new retail, it can be expected that online products and offline products will have the same price in the future. In addition, compared to traditional retail, the new retailing emphasizes operational and distributional efficiency. Both of Wal-Mart and Alibaba have invested in building their distribution centers to achieve efficient logistics. As a warehouse-type supermarket, Costco has an efficient operating system. Therefore, under the mode of "people, goods, field", retailers have to strengthen supply chain construction to obtain traffic through passenger flow.

3.2.2 Complementary integration of online and offline sales channels

The new retail model cannot be operated simply by online or offline mode. Using a combined model is an inevitable trend in the future. On the one hand, offline data can be used to capture consumer preferences, increase the business scope, and obtain customer flow. On the other hand, given the complexity of e-commerce products and the uneven quality level, it is also the general trend to cooperate with offline retailers to improve product quality.

3.2.3 Technical orientation

The development of new retail is inseparable from technological innovation. Each round of technological revolution will ignite consumer hotspots, such as Alipay's face payment and Alibaba's unmanned retail, which will promote a new round of consumption. They should invest in innovating technology to master the real-time needs of consumers and to improve operational efficiency. For example, the hotter community model, artificial intelligence, unmanned shelves, etc. In a few years, retailers will be able to track and control hot spots in real time. Hu Yuqing (2018) mentioned that the most appropriate means to effectively enhance the operating rate and reduce the cost for retailers is to improve data analysis ability[8]. Thus, companies need to use technology to compute the optimal inventory, cash holdings, and capital cost rate through multiple data. Moreover, companies also need to use advanced computer abilities to strengthen supply chain management. Furthermore, artificial technology could help people to optimize their vital part of operation management, including cash, inventory, and receivables, which contributes to the competitiveness of the company.

4. Summary

This paper investigated the expected factors of investors for the development of retailers in the new retail era. The author used a triangulation method to integrate case study and trend analysis method for analyzing representative online and offline retailers. This study examined the typical characteristics of retailers based on their operation measures and performance; investors take an optimistic view of its future in the new retail market, including operation strategy characteristics and financial characteristics. The author also suggested that retailers have to adhere strictly to the development strategies to maintain their competitiveness and development speed in the new retail era. The results of this article are limited to preliminary identification and evaluation of some expected factors influencing investors in the new retail industry. However, this study provides a fundamental theoretical framework for the future research of the new retail market, in terms of conducting in-depth analysis to explore different weight ratios of factors influencing investor's psychological expectation, and thereby contribute to establishing models of influencing factors.

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