

The Impact of Internet Marketing on the Profitability of Yifeng Pharmacy

Xiaofeng Tian^{1,*}, Luyao Duan¹, and Siqi Ying¹

¹Evergrande School of Management, Wuhan University of Science and Technology, Wuhan, Hubei 430081, China

*Corresponding author. Email: 88935661@qq.com

ABSTRACT

To analyze the impact of Internet marketing on Yifeng Pharmacy, this paper adopts a comparative analysis method to explore the changes and reasons of the profitability index of Yifeng Pharmacy between 2018 and 2020. The results indicate that the multi-platform online stores could expand sales, improve profitability, and create scale effects. However, they also bring about problems like the decline of gross margin, industrial policy risks, and market competition. Therefore, relevant recommendations are proposed in this paper.

Keywords: Internet marketing; Pharmaceutical industry; Yifeng Pharmacy

1. INTRODUCTION

In recent years, China's pharmaceutical market demand has been strong, and the industry has developed rapidly. On the one hand, the aging of the population and the prevalence inclination to younger groups of chronic diseases have enlarged the development space of the industry. On the other hand, the National Medical Products Administration and pharmaceutical and health departments actively promote the tripartite co-reform of Internet+ "medical, pharmaceutical, and health insurance", which has brought new opportunities for the industry [1].

With the outbreak of COVID-19 in 2020, the speed of prescription in hospitals and online has accelerated, and the level of professional services in online pharmaceutical prescriptions and physical pharmacies has risen. Yifeng Pharmacy (stock abbreviation: Yifeng Pharmacy) is representative of the pioneers of large national pharmaceutical retail chains in China. Yifeng Pharmacy's main business includes the sale of pharmaceuticals, medical equipment, and other products related to medicine. The company established a new online e-business in 2013, developed an e-commerce group chat in 2016, and revamped and updated its online e-services about retailing pharmaceuticals in 2019 to fully implement Internet marketing.

Taking 2019 as the time node for Yifeng Pharmacy to implement internet marketing, this paper collects its accounting reports between 2018 and 2020 from Cninfo. By comparing their financial data and changes in the past three years, an attempt was made to identify the positive and negative effects of Internet marketing on Yifeng Pharmacy's revenue and make corresponding recommendations.

2. POSITIVE EFFECTS OF INTERNET MARKETING ON THE PROFITABILITY OF YIFENG PHARMACY

2.1. Internet Builds Multiple Platforms to Expand Sales

With the support of Internet technology, Yifeng Pharmacy has developed a membership system and Internet medical treatment and established comprehensive and efficient online prescription consultation and chronic disease tracking management business to develop new customers and retain old ones through the efficient and convenient Internet, which reduces the importance of store experience and helps it rapidly occupy the market and expand sales.

By the end of 2020, Yifeng Pharmacy had built up to more than 360,000 independent chronic disease customer membership files and continuously followed up on the conditions of the members; the number of general members exceeded 43 million, contributing to nearly 80% of daily sales. The number of users who have downloaded software, used mini programs, and entered into electronic payment platform agreements like Alipay on their mobile phones or other mobile terminals exceeds 9 million, and the official WeChat and Weibo subscriptions have had over 10 million followers respectively. Through supply chain coordination systems, ERP systems, and WMS warehouse management systems, Yifeng's online marketing revenue reached US\$100 million, an increase of 114% year on year.

Has the growth in sales led to growth in value? An analysis of the growth rates of items like operating income, net profit, net cash flow from operating activities, net assets, and total assets between 2019 and 2020 could reveal the contribution of internet sales to the company's expansion [2]. Based on the key data provided by Cninfo, the results of the calculation are shown in Table 1.

Table 1. Sales profit and asset expansion of Yifeng Pharmacy in the past three years (Unit: 10,000 yuan)

Items	In 2018	In 2019	In 2020	Growth rate in 2019 (%)	Growth rate in 2020 (%)
Operating income	691,257.65	1,027,617.5	1,314,450.24	48.66	27.91
Net profit attributable to shareholders of listed companies	41,641.41	54,375.03	76,827.3	30.58	41.29
Net cash flow from operating activities	51,071.13	96,323.42	133,565.54	88.61	38.66
Net assets attributable to shareholders of listed companies	405,876.09	450,830.81	546,867.23	11.08	21.3
Total assets	786,814.26	917,527.81	1,294,990.08	16.61	41.14

As indicated in Table 1, in 2019, Yifeng Pharmacy's growth rate of business income, net profit, and net cash flow from operating activities exceeded 30%, and its growth rate of net assets and total assets exceeded 10%, fully demonstrating that the implementation of internet marketing not only increased Yifeng Pharmacy's sales but also created tangible value for shareholders of listed companies. In addition, the above items continued to maintain a growth momentum of over 20% in 2020, which further verifies the advantages of Internet marketing.

2.2. Internet Marketing Improves Profitability

Relying on management information systems and decision-making information systems, the Internet model could help companies break free from their high dependence on administrators to a certain extent, thereby improving decision-making efficiency. Meanwhile, Internet marketing driven by technology and centered on data connects the client side, the store side, and the supply side, which could improve operational efficiency and reduce operational costs, thereby improving profitability [3]. As for Yifeng Pharmacy, the degree of the improvement of profitability could be judged by calculating the profitability indexes and growth rates between 2018 and 2020 represented by earning per share and return on equity. The relevant data are shown in Table 2.

Table 2. Changes of main profitability indexes of Yifeng Pharmacy in recent three years

Financial indexes	In 2018	In 2019	In 2020	Growth rate in 2019 (%)	Growth rate in 2020 (%)
Primary earnings per share (yuan / share)	0.817	1.031	1.455	26.19	41.13
Earnings per share after non-recurring gains and losses (yuan / share)	0.749	1.019	1.399	36.05	37.29
Return on equity (%)	12.42	12.72	15.51	2.42	21.93
Return on equity after non-recurring gains and losses (%)	11.38	12.58	14.91	10.54	18.52

As indicated in Table 2, the earnings per share and return on equity of Yifeng Pharmacy achieved sustained growth in 2019 and 2020. In 2019, excluding non-recurring gains and losses, earnings per share increased by 26.19% to 36.05% while return on equity increased by 2.42% to 10.54%, implying that the company incurred non-recurring gains, i.e. gains indirectly related to production and operations. However, no matter whether non-recurring gains or losses are taken into account, the company's growth rates of earnings metrics in 2020 are higher than those in 2019, which demonstrates a significant advantage of internet marketing. In 2020, the company was substantially rewarded and its profitability was remarkably improved. Further research revealed that the growth rates of earnings per share and return on net assets after non-recurring gains and losses declined in 2020, which is possibly due to non-recurring losses caused by the epidemic. Nevertheless, both growth rates are still higher than those in 2019, which also

verifies the continuous contribution of internet marketing to profitability.

2.3. Internet Traffic Thinking Creates Economies of Scale

Internet marketing driven by technology and centered on data connects the client side, the store side, and the supply side to improve operational efficiency and reduce operational costs, thereby improving profitability. As the scale of the business increases, this favorable impact on the profitability of the company will become more significant, which is due to Internet traffic thinking [4].

The number of visits to the online platform, i.e. traffic, could be replicated and purchased at a relatively low cost, thus creating significant value for the enterprise. This has facilitated the formation of user-centered and value-oriented

thinking, i.e. Internet traffic thinking which focuses on the provision of user services and user experience. Inspired by this thinking, Yifeng Pharmacy carried out large amounts of preferential activities at the early stage of the online brand establishment taking customer acquisition or new users development as an essential indicator. The company achieved growth in operating income, net cash flow from operating activities, and earnings per share in the first year of implementing Internet marketing with growth rates of 48.66%, 88.61%, and 26.19% respectively, as shown in Tables 1 and 2. This fully indicates that the Internet sales model has achieved initial effects. At the later stage, the retention rate of customers declined due to the decline of offers. However, in 2020, all indicators like operating income, net profit, net cash flow from operating activities, and financial ratios like earnings per share and return on equity maintained positive growth, indicating that the decline in online offers did not cause customer loss. The customer retention rate and transaction value per capita showed an upward trend while the cost of customer acquisition shrank. The two financial indicators that reflect profitability in 2020, namely earnings per share and return

on equity, increased more rapidly than those in 2019, which reflects the scale effect.

3. NEGATIVE IMPACT OF INTERNET MARKETING ON PROFITABILITY OF YIFENG PHARMACY

3.1. High Costs and Expenses Have Reduced the Gross Profit Margin of the Main Business

In 2020, Yifeng Pharmacy's operating revenue increased steadily, but its gross profit margin decreased by 0.83% compared with that in 2019. Despite that the decrease was not significant, it is necessary to analyze it and find its root cause. A comparison of the company's 2020 operating revenues, operating costs, and gross margins by sales method and product variety respectively is shown in Table 3.

Table 3. The main business of Yifeng under different sales methods and product varieties in 2020 (Unit: RMB million)

Items	Operating income	Operating cost	Gross margin (%)	Operating income growth rate (%)	Operating cost growth rate (%)	Gross margin growth rate (%)
Retail	1225186.05	762939.60	37.73	27.77	29.47	-0.82
Wholesale	56148.81	49904.28	11.12	44.88	41.12	2.37
Total	1281334.86	812843.89	36.56	28.43	30.13	-0.83
Chinese and Western Prepared Medicine	899258.44	595730.85	33.75	25.63	27.01	-0.72
Chinese medicine	119855.31	64195.16	46.44	5.91	-2.53	4.64
Non-pharmaceuticals	262221.10	152917.87	41.68	55.42	70.36	-5.11
Total	1281334.86	8812843.89	36.56	28.43	30.13	-0.83

As indicated in Table 3, the company's sales are dominated by retail sales of pharmaceuticals, accounting for 95.62% of the total revenue. The gross margin of the company's main business was 36.56% in 2020, which is not low compared with peers but down 0.83% from the previous year mainly due to the epidemic and the marked rise in retail costs. In terms of product categories, the fastest-growing main business was non-pharmaceuticals with a growth rate of 55.42%, which is higher than the overall growth rate due to the sharp increase in demand for epidemic commodities. However, its operating costs grew even faster, resulting in a decline in the gross margin, which together with Chinese and western medicines caused the overall gross margin to end up being lower.

3.2. Increased Policy Risk and Market Risk

As the quality of life improves and people pay more attention to pharmaceuticals and healthcare, national and industrial regulations will become stricter and the

supporting policies may reduce the profitability of pharmaceutical retail companies. For example, the newly implemented two-ticket system and zero-rate policy aim to reduce distribution links and prevent mark-up sales; the frequency and standard of product testing by the Chinese Drug Administration will be improved in the context of the COVID-19 epidemic, which will also pose policy risks to companies [5].

Competition in the pharmaceutical retail industry is becoming increasingly fierce. In recent years, large chain companies in China's pharmaceutical industry have gradually formed regional and local large chain pharmaceutical retailers through acquisition and reorganization. They have nearly comprehensively covered basic pharmaceutical institutions and facilities in their regions by virtue of their local advantages, thus inhibiting Yifeng Pharmacy's business expansion and penetration, reducing its sales revenue and profitability to a certain extent, and weakening its scale effect. Table 4 compares Yifeng Pharmacy's main operating expenses and gross margins by region in 2020. The data indicates that the

growth rate of operating expenses in all regions higher than that of operating revenue resulted in an overall decline in

gross margin, implying that Yifeng Pharmacy faces serious market risks nationwide.

Table 4. The main business of Yifeng Pharmacy by region in 2020 (Unit: RMB million)

Region	Operating income	Operating cost	Gross margin (%)	Operating income growth rate (%)	Operating costs growth rate (%)	Gross margin growth rate (%)
Central South	573560.02	354649.55	38.17	32.45	34.46	-0.92
East China	573157.27	371357.02	35.21	27.18	28.52	-0.68
North China	134617.56	86837.31	35.49	18.11	20.71	-1.39
Subtotal	1281334.86	812843.89	36.56	28.43	30.13	-0.83

4. CONCLUSIONS AND RECOMMENDATIONS

In 2019, Yifeng Pharmacy seized new opportunities in the development of the pharmaceutical industry and implemented internet marketing, to take advantage of the internet to build multiple platforms to rapidly capture the market and expand sales and rely on intelligent management to improve operational efficiency and enhance profitability and leveraging flow thinking to enhance user experience and create scale effects. The ensuing adverse effects are as follows. The retail business of Chinese and western medicines and non-pharmaceuticals, which occupy a large proportion of sales, has witnessed a rapid increase in costs, leading to a decline in the gross margin of the main business instead of an increase, policy risks arising from stricter regulations, and market risks brought by intensified competition in the industry.

To reduce the negative impact of internet marketing, Yifeng Pharmacy can take the measures as follows. First, learn from the "big health pharmacy" layout of Japanese pharmacies, give full play to its refined management and private brand advantages, make use of its intelligent sales and service systems, increase revenue from products other than pharmaceuticals like mother and baby products and personal care products, and apply its own intelligent and professional procurement model. In addition, address policy risks. The company could set up a policy research department, which communicates with the marketing department regularly to explore current industry policies and future development trends, continuously standardise the system channel model, strengthen employees' awareness of

laws, regulations, and professional ethics and training on relevant business norms, thus working with the marketing department to improve the quality of its products. Furthermore, the company could work with the finance department to anticipate the impact of policy changes on the company's profitability and plan ahead to reduce losses.

REFERENCES

- [1] Pan Te. Study on the impact of medical reform policy changes on the profitability of Yunnan Baiyao Group [J]. Business Accounting, 2020 (8): 64-67.
- [2] Hou Yaping. Research on the profitability of enterprises under the Internet business model--a case study based on Luckin Coffee [D]. University of International Business and Economics, 2020.
- [3] Gao Yi. Research on marketing strategies in the era of Internet economy [J]. Global Market, 2021(5): 173.
- [4] Chen Baiyin. Research and countermeasures on the development of China's pharmaceutical network marketing [J]. Western Leather, 2020, 42(5): 112.
- [5] Guo Jimin, An Xianglin, Zhang Jutao et al. Analysis of O2O marketing strategy of pharmaceutical e-commerce in Heilongjiang Province under the background of the Internet [J]. Modern Business, 2019 (34): 24-25.