

# The Business Model of Multinational Retail Companies under the New Retail Environment in China: Using Walmart as an Example

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## ABSTRACT

With the rapid development of Internet information technology, many changes have taken place in consumers' buying methods, which makes the traditional retail sales models become difficult to match consumers' new consumer demands. Therefore, physical retail must be readjusted. This paper analyses Walmart's business model, because Walmart has entered the Chinese market earlier and has more successful operations. It is also actively transforming to adapt to the new retail environment. Based on this, The conclusions of this paper are as follows: Firstly, company should pay attention to improve customer experience and services, strengthen cooperation with influential local e-commerce platforms. Secondly, company should adopt different integration methods to promote the coordinated development of online and offline base on their resources and development positioning differences; Thirdly, based on their own business models, company should formulate differentiated strategies with their sustainable development, carry out enterprise core value activities, and build core competitiveness.

**Keywords:** *Multinational retail enterprise; business model; new retail.*

## 1. INTRODUCTION

Compared with traditional physical retail, the new retail is an activity that uses the Internet and big data technology to change or adjust traditional retail methods and use development ideas as guidance to sell products and services to consumers.

Walmart began to enter the Chinese market in 1996 and established the first Walmart Shopping Centre and Sam's Club in Shenzhen, a city in China. After more than 20 years, Walmart has more than 400 physical stores exceeding 180 cities, with about 100,000 employees in China. Besides, it has established about 20 cargo and fresh food distribution centres in the Chinese market. In addition, as Walmart focuses on the Chinese market, it has developed more than 7,000 local upstream and downstream suppliers in China. In recent years, Walmart is gradually expanding its capital investment and developed online and physical businesses.

According to Osterwalder (2005), the business model has four elements: value positioning, value network, resource capacity, and profit model [1]. This paper is mainly based on the four-element framework of the

business model combined with the development characteristics of physical retail company to define the elements of their business models. The research scope of new retail practice has been further enriched by studying the case of Walmart.

The research significance of this paper has two points. Firstly, the research in this article is helpful to the development of local physical retail companies in China. Compared with multinational physical retail companies, local physical retail companies in China have insufficient stamina and innovation in the development of new retail. Chinese local retail companies should combine their own development models to conduct in-depth research and analysis on the successful experience of multinational retail companies, and to selectively and targeted learn, absorb and imitate them, actively innovate, and improve their competitiveness.

Secondly, it help multinational retail companies find their own position in the new retail environment, integrate online and offline channels, carry out business model changes, and enhance their competitiveness. With the development of Internet e-commerce, Internet retail companies use their Internet advantages to become

powerful competitors in the retail industry. Physical retail companies have to consider the development of online channels to cope with fierce competition. Realizing the parallel development of multiple online and offline channels, Walmart is actively transforming in the new retail environment in multinational physical retail and has developed well. Therefore, the research in this paper can be used as a reference for other multinational entity retail companies, and it is great significance for them to maintain their competitiveness and achieve long-term development.

**2. WALMART’S VALUE PROPOSITION IN CHINA UNDER THE NEW RETAIL ENVIRONMENT**

**2.1. Value proposition**

*(1) Brand Position*

The original brand positioning of Walmart is "every day, consistent price", and the brand mission is "save consumers money, make their lives better." However, in the new retail environment, the brand positioning of Walmart is become to provide customers with high-value and cost-effective goods and services." Real-life examples like when Walmart puts products on the shelves, it will place high-value products in the best place to attract customers' attention and guide customers to purchase [2].

*(2) Product and service*

Walmart has a large storefront which mainly deals in various commodities, such as food, home appliances, and clothing. This kind of one-stop shopping could help consumers save lots of money and time. In recent years, the area of Walmart supermarket stores has shrunk, but the types of fresh food products showed an increase. In addition, the proportion of store area has increased, and sales accounted for ¼. Beyond that, in terms of product positioning, Walmart is striving to meet the demand of young customers. Also, the proportion and quantity of maternal and child products and children’s toys have increased. A further figure shows that Walmart has 13 series of private brands and is constantly developing private-label products: Great value, Mainstays, and Faded Glory. These products are differentiated and diversified, covering food, household goods, clothing, etc. (Table.1)

On the other hand, Walmart added detailed services and convenient payment on its original customer-oriented service standards. The company prefer to match product combinations according to the scene and attach importance to the value of the display of products, such as the visual sense of boutique stores in the clothing display area, the innovation of product styles to price display, and creating a multi-scene experiential shopping area [3]. At settlement, Customers can use the WeChat

applet "Scan QR Code" and self-service cash registers to pay in Walmart.They only need to open the product's barcode on their mobile phone to make payments conveniently.

**Table 1.** Walmart own brand in China

Own brand name	Brand characteristics	Products/Fields Involved
Great Value	Parity, essential	Daily necessities & food
Maiustays	Highly functional	Household goods & hardware tools
Faded Glory	Comfortable, great value	Ordinary clothing
Select Edition	Classic, stylish	Textiles & kitchenware
Equate	Fresh, nature	Cosmetics
Original	Youth, trend	Fashion clothing
Penmans	Mature and generous, casual	Male suits & accessories
Athletics Works	Vitality, athletic	Sportswear & equipment
Kid Connections	Funny, safety	Children's clothing & toys
Durarand	High-tech, durable	Home appliances & accessories
Everlast	Reliable and durable	Battery
Parent’s Choice	Comfortable	Baby products
Marketside	High quality, low price	Baked & delicatessen

**2.2. Client subdivision**

Walmart subdivides its target customer groups in the new retail environment to create a comprehensive shopping experience for consumers, developing online business and maintaining the same online and offline brands and products. Of these, the offline business is mainly aimed at consumers with specific financial capabilities and middle-income levels. In contrast, the online business targets customer groups who prefer to shop online and have online consumption habits. The online and offline businesses of Walmart are mainly aimed at customer groups with different spending power.

### **3. WALMART'S VALUE NETWORK IN CHINA IN THE NEW RETAIL ENVIRONMENT**

#### **3.1. Relationship with customers**

Walmart obtains and analyses consumer information through the big data analysis platform—Walmart-Labs, which can fully recognize customer needs and conduct differentiated marketing to provide products and services that satisfy consumers.

With the promotion of the consumer communication platform, Walmart communicates with customers online through Walmart China's official accounts, shopping websites and social platforms.

At the same time, it uses the enormous amount of customer data and information accumulated on social platforms to analyze customers' potential shopping needs to improve online and offline sales.

#### **3.2. Relationship with partners**

##### *(1) Supplier*

Walmart insisted on localized sourcing and sold more than 95% of local products during its development in China. In addition, Walmart developed its brand products mainly through direct purchases from factories and powerful global suppliers. Walmart has changed its original behaviour of lowering prices and deducting payments from suppliers to adopt advanced information technology in the new retail environment [4]. Besides, the company began to share information with suppliers and place orders directly with manufacturers without intermediate links. At the same time, Walmart provides suppliers with real-time online product and inventory information and provides suppliers with tools and data to predict supply and demand make effective production plans and transportation plans.

##### *(2) Brand Owner*

In addition to cooperating with original brands, Walmart has begun to strengthen cooperation with some local Chinese brands to expand fresh food products. Currently, Walmart has cooperated with JD Home, Dole, and seven other domestic fresh brand suppliers to create "Fresh Alliance". It is expected that more brand suppliers will join the alliance in the future. Besides, to enrich the product range, Walmart also launched many fresh product categories and added new product packaging and branding activities with JD Home.

##### *(3) Network platform provider*

The physical retail company Walmart began to expand its online business, which Walmart and JD

demonstrate cooperated settled in JD.com. This method successfully implemented the three links strategy of users, stores and inventory, and JD.com's massive online traffic was used to obtain new sales, bridging the gap of insufficient online resources.

##### *(4) Technology partners*

Walmart's technology partners for online and offline integration include JD.com and Tencent. Walmart and JD.com have cooperated in supply chain and technology to share inventory information. If a customer places an order on JD.com, the courier will pick up the goods from the nearest Walmart and deliver them as quickly as possible, which improves the customer experience and Walmart's inventory turnover. In addition, Walmart and Tencent have launched technical cooperation, using Tencent's applet "Find Goods" to find product information and "Scan QR Code" for payment. Customers only need to open the product's barcode on their mobile phone to make payments easily.

### **4. WALMART'S RESOURCE CAPACITY IN CHINA UNDER THE NEW RETAIL ENVIRONMENT**

#### **4.1. Key business**

##### *(1) Combination of the physical store and network operation.*

In China, Walmart Supermarket has more than 300 physical stores, which have developed into a distribution centre for online and offline business and implemented scene-based construction. For example, Walmart centres on physical stores. When customers place orders online, physical stores deliver goods or pick them up. Besides, the clothing area displays the visual sense of boutique stores. From product styles to price display innovations, Walmart creates multiple scenes of experience. In addition to this, the Walmart online shop on JD.com and its own Walmart app and product information from the Walmart online shop need to be integrated with the physical shops, which means that items need to have a uniform product brand and price.

##### *(2) Logistics.*

Walmart settled in JD.com, which related logistics for distribution. In addition, Walmart cooperated with Dada-JD Home to carry out logistics distribution. (Figure.1) The clerks finish packing and sorting goods in advance in the picking area, which helps physical shops achieve one-hour delivery within three kilometres. This division of labour will significantly increase efficiency and allow Walmart to reach more customers.

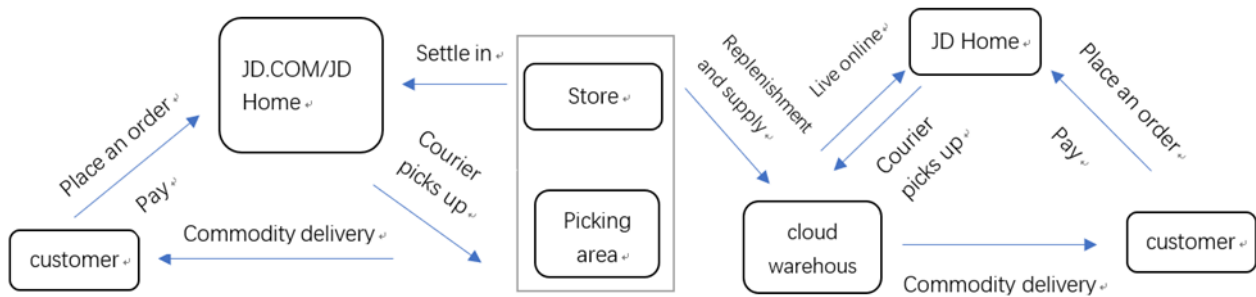


Figure 1 Walmart logistics distribution flow chart

#### 4.2. Core resources

(1) *Supply chain management systems and technologies.*

Walmart shares information with suppliers through its supply chain management system and provides suppliers with real-time online product and inventory information. At the same time, Walmart uses big data technology to obtain and analyze customer information and data, and analyze customers' potential shopping needs.

(2) *Infrastructure such as stores and logistics.*

Walmart has more than 300 physical stores nationwide and has established nine dry warehouse distribution centres and 11 fresh food distribution centres with abundant material resources. In addition, Walmart and JD Home have established integrated warehousing called cloud warehouse. The cloud warehouse is established in a place that the physical store cannot cover. In this case, the physical shops supply and replenish the cloud warehouse in real-time. At the same time, Jingdong Home provides a delivery service for customers within 3 km of the cloud warehouse.

(3) *Human resources.*

Walmart strengthens the training of employees and establishes a life-long training system. After training, Walmart lets employees practice and manage, allowing the potential employees to improve internal improvement. At present, the main decision-making level of Walmart China is the Americans, who have begun to try to establish a management system for Chinese locals. In addition, Walmart's grassroots employees also have achieved localization, which is demonstrated by the fact that the ordinary employees of Walmart are local people.

(4) *Brand reputation.*

Walmart's wide range of products and attentive service, as well as its guarantee of product quality and safety, have attracted many loyal customers. Besides, donations for public welfare, poverty alleviation, and disaster relief have established a good brand reputation for Walmart.

#### 4.3. Sales channels

Walmart's sales channels are mainly composed of online, offline and mobile terminals. The online sales channels include JD.com, JD Home, and Walmart App. Offline Walmart takes advantage of the wide distribution of physical stores to provide product delivery services. For example, physical store customers will enjoy specific discounts when delivering goods to online customers; customers can place orders online and pay in cash for delivery.

### 5. WALMART'S PROFIT MODEL IN CHINA UNDER THE NEW RETAIL ENVIRONMENT

#### 5.1. Cost structure

The cost structure of Walmart consists of two parts: the costs incurred by online business and offline. However, whether online or offline, the inventory cost of Walmart accounts for most of the total cost. Walmart reduces inventory costs by sharing inventory information with suppliers and providing suppliers on time. In addition, the offline costs of Walmart mainly include operating costs, rent, personnel costs, and promotional expenses. The opening of new Walmart shops and the establishment of cloud warehouses account for a large proportion of the costs, which is due to the rise in domestic housing prices has led to rising rents year by year, accounting for a significant proportion. In terms of cost control, Walmart has controlled personnel spending and promotional expenses. Besides, the company seldom advertises on TV media and uses more telephone networks to reduce costs.

The cost incurred by Walmart's online business is mainly composed of the construction cost, operating cost, procurement cost, and logistics cost. The development of network technology has made the establishment and maintenance of the network platform account for a decreasing proportion of the total cost. Also, Walmart uses physical stores to purchase directly from suppliers, reducing procurement costs. Likewise, Walmart's good brand influence has reduced marketing costs for Walmart's online business development.

## 5.2. Income resources

The income source of Walmart is mainly composed of offline and online sales.

The offline income sources of Walmart include retail sales, sales of brands, promotions, barcodes and other expenses. Among them, Walmart's income mainly comes from retail sales, purchasing goods from suppliers and selling them to earn the price difference. In addition, Walmart gains profits by selling its own branded products and charging suppliers for barcode fees and promotional fees without charging entrance fees, thereby reducing suppliers' operating costs [5].

The Walmart's online sales revenue include JD.com and Walmart App. Walmart entered JD to expand their market and develop their online business by using JD's vast traffic flow to generate revenue.

## 6. CONCLUSION

From the business analysis of Walmart, it can be seen that the business models of physical retail companies will be affected or even changed due to the new retail environment when the company develop new retail. This environment will directly or indirectly prompt the company to change its business strategy and development direction continuously. To cope with external changes, entity companies need to use other platforms or self-build platforms to improve their internal resources or external conditions to adapt to the environment and achieve their development [6].

This paper offers some suggestions for entity companies to develop new retail businesses and improve their existing business models. Firstly, the company needs to focus on consumer experience and establish a value proposition centered on customer needs. Secondly, the corporate can establish a value network, maintain a good cooperative relationship with customers and suppliers. Retailers need to communicate with their

customers online to understand their needs and share information with their suppliers to promote mutual benefits. Thirdly, the company needs to devote itself to enhancing corporate resource capabilities, whether self-built platforms or cooperation with other companies, to develop online businesses and enhance corporate core competitiveness. Finally, the company can transform new retail development as an opportunity to acquire more customers, increase revenue sources, and achieve sales and profit growth.

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