Facilitate the Transformation and Upgrading of Traditional Retail to Create New Retail

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Abstract. With the rapid development of global economic integration and information technology, the traditional retail industry is facing tremendous transformations and challenges. This article analyzes the current status of the traditional retail industry and the problems it encounters, including high operational costs, a merchant-oriented sales model, inability of single-channel sales models to meet consumer demands, and the urgent need for transformation in traditional logistics. In response to these issues, this paper proposes corresponding strategies for transformation and upgrading, encompassing reducing operational costs, adopting a consumer-oriented approach, establishing an omnichannel sales model, and upgrading retail logistics. By analyzing successful cases of traditional retail enterprises such as Yonghu Superstores, Intime Department Stores, and BESTORE, as well as cooperation cases between online retailers and traditional retailers like Walmart and JD.com, and Suning.com and Carrefour, this paper extracts experiences and practices that can be used for reference. These cases demonstrate how traditional retail enterprises adapt to the requirements of the new retail era during their transformation and upgrading processes by optimizing supply chains, leveraging big data analysis, achieving channel integration, and enhancing logistics capabilities. This paper aims to provide beneficial references and insights for the transformation and upgrading of traditional retail enterprises, promoting high-quality development in the retail industry.

Keywords: Traditional Retail Industry, New Retail Era, Transformation and Upgrade Strategies.

1 Introduction

With the rapid development of global economic integration and information technology, the traditional retail industry is undergoing profound transformations and facing significant challenges. Historically, traditional retail has supported the flow of goods in diverse forms, but it has gradually transformed under the impact of large multinational hypermarkets. However, since the 21st century, the rise of internet technology and e-commerce has revolutionized consumers' shopping habits, leading to multiple difficulties for traditional retail: high operational costs (including logistics, rent, labor costs,

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and inefficient supply chain management), outdated sales models (dominated by merchants with a lack of effective interaction with consumers), homogeneous sales channels (unable to meet consumers' demands for shopping anytime and anywhere), and logistics systems in urgent need of transformation. These issues have severely compressed corporate profit margins and hindered the further development of the traditional retail industry.

In response to these challenges, extensive research has been conducted by both academia and industry, aiming to comprehensively review the current state of traditional retail research, deeply analyze the existing problems, and propose corresponding strategies for transformation and upgrading. Researchers will delve into key aspects such as reducing operational costs, centering on consumers, constructing an omnichannel sales model, and upgrading retail logistics, with the intention of providing references for the transformation and upgrading of traditional retail enterprises.

This article will analyze the successful cases of enterprises such as Yonghu Superstores, Intime Department Store, and bestore, extracting the successful experiences in transformation and upgrading. Meanwhile, by examining collaboration cases between Walmart and JD.com, as well as Suning.com and Carrefour, it will explore how online retail and traditional retail can achieve collaborative development in supply chain management, big data analysis, and channel integration, aiming to enhance overall supply chain efficiency, establish an omnichannel presence, and strengthen logistics capabilities. This research aims to facilitate the transition of traditional retail to new retail and promote high-quality development in the retail industry.

2 Literature Review

2.1 Current Research Status of Traditional Retail

The retail industry operated in a traditional manner is referred to as traditional retail. This term is used in contrast to the latest business models and its scope evolves over time. Prior to the 1990s, traditional retail was primarily carried out by simple, family-run retail shops, fulfilling the role of commodity circulation between regions. After the 1990s, with the improvement in shipping and sea transportation efficiency and the backdrop of globalization, the cost of commodity transportation continued to decrease, enabling rapid cross-border movement of goods. Local supermarkets that could only offer some local products were replaced by multinational hypermarkets such as Wal-Mart and Carrefour. To date, the formats of traditional retail enterprises include small, family-run shops, mini-supermarkets, department stores, brand specialty stores, convenience stores, supermarkets, supermarket chains, hypermarkets, and discount stores [1].

Currently, the growth rate of traditional offline retail has slowed down. Despite signs of recovery, the trend of store closures persists, and traditional retail enterprises are still generally under pressure.

2.2 Issues in Traditional Retail

High Operational Costs: For a long time, traditional retail has relied on the "slotting fee" model, considering price and location as its core competitiveness. However, this outdated business philosophy and limited sales channels have not only triggered price wars but also significantly increased operating costs. Some traditional retail enterprises, when transitioning to new retail which integrates online and offline, have merely established their own websites and online malls while maintaining offline physical stores. This actually represents a one-sided and superficial understanding of new retail, reflecting a lack of adequate cognition among traditional retail enterprises towards the new retail model [2].

High operating costs, including logistics, rent, labor costs, and supply chain management, have severely compressed the profit margins of traditional retail enterprises, even leading to losses for some. Specifically, high logistics costs are primarily due to the low concentration of the logistics industry and the lagging development of standardization. The increase in rent costs is attributed to the continuous rise in real estate prices. Meanwhile, labor costs are also growing year by year. According to statistics from the Ministry of Commerce, in 2016, the total operating expenses, management expenses, and financial expenses of large and medium-sized legal entities in the retail industry above a certain size amounted to 840 billion yuan, an increase of 1.8% compared to 2015; while the total wage bill reached 287 billion yuan, an increase of 4% compared to 2015 [3].

Furthermore, issues with the supply chain cannot be overlooked, specifically manifested as high costs, low efficiency, complex and unoptimized structures, and poor information flow. These problems collectively lead to low overall operational efficiency [4].

Merchant-led: The operational mindset of traditional retail still revolves around the product side: what products manufacturers produce, consumers purchase. This is a manufacturer-centric approach, where channels for consumers to express their demands to the production end are not smooth. This represents the previous traditional retail sales model centered on products and channels. Such a sales model is no longer in line with the current state of the consumer market. Today's consumer market is characterized by new retail, which is consumer-driven. It relies on big data analysis to understand consumer demands and guides enterprises to control production centered on these demands [5].

Against the backdrop of economic development and rising consumer spending levels, consumption upgrading has become a trend. People now have a richer and more diverse range of choices, allowing them to select products based on their own needs for quality. Consumers have become more refined, learning to self-analyze and discern products. There has also been a shift in consumer mindsets, from seeking social identity in the past to now emphasizing personalized expression, achieving a transformation from "pleasing others" to "pleasing oneself." Consequently, the emotional economy has emerged continuously. ‘Answer Tea’ became popular on Douyin is an example, it is a cup of bubble tea, ‘Answer Tea’ can soothe consumers' emotions, making it favored by

them and achieving significant spread effects. It is a typical case of the emotional economy. Meanwhile, in the context of the advent of the digital internet era, consumer behavior is deeply influenced by the internet and social media. They are more inclined to communicate and share through social apps, forming interest-based communities within them, which drives consumer behavior. In terms of the goods they consume, consumers not only focus on quality and price but also have demands for their emotional value and emotional needs [6].

Deficiencies of the Sales Mode: Currently, many traditional retail enterprises still rely unilaterally on offline sales channels. However, in the internet era, consumers no longer engage in shopping and consumption through fixed or limited means. Gone are the days when they would go to supermarkets or department stores to buy whatever they needed. Their shopping habits have shifted from exclusively offline shopping to shopping anytime and anywhere. Consumers may shop online, offline, or even see something offline and then complete the purchase online once they return home.

For instance, the Social Local Mobile (SoLoMo) consumer group is emerging as a new shopping demographic, connecting consumers through various social networks and fostering new consumption patterns facilitated by mobile terminals. SoLoMo consumers expect to shop anytime and anywhere, meaning they may engage in purchasing behavior through any channel. For example, a consumer might first browse online, then visit a physical store for an experience, but may not ultimately make a purchase. However, they take photos and share them on their social media to seek advice from friends, ultimately placing an order online but opting to pick up the goods at a physical store on their way home. Consumers can switch seamlessly between different channel terminals as they wish. An important prerequisite here is that enterprises need to have different channels to satisfy consumers. Additionally, seamless integration between these different channels is crucial [7, 8].

If enterprises fail to provide an omnichannel shopping experience for consumers, they will miss out on online customers. The single or incomplete sales channels provided by traditional retailers to consumers also make it difficult to achieve economies of scale [7].

Inefficient Traditional Logistics: In the era of "New Retail," changes in consumer demand have placed stricter requirements on enterprise logistics systems. Specifically, at the level of logistics delivery, enterprises not only need to achieve visible tracking of orders and basic product delivery but also integrate scenario-based service design concepts, formulating inventory strategic layouts and optimizing product delivery routes based on demand forecasts. This requires enterprises to possess a complete logistics solution design, as well as a matching logistics network and facilities, to ensure standardized product delivery. In this process, a logistics system with a high level of coordination capability becomes particularly important. However, the current logistics systems of traditional retail enterprises obviously cannot fully meet this demand. In fact, traditional retail enterprises generally face challenges in logistics management and system construction, such as incomplete logistics system functionalities, resulting in frequent issues like manual transmission of numerous process forms, human intervention in Key Performance Indicators, and price negotiation games. These, in turn, lead to a series of problems such as uncontrolled hidden costs, inefficient resource utilization,

high management costs, and increased quality risks. Therefore, for most traditional retail enterprises, the traditional logistics system has become a significant constraint in their transformation and upgrading process [3].

3 Solutions for Transitioning to New Retail

3.1 Reducing Operational Costs

Traditional retail enterprises can gradually achieve profitability by changing their business philosophy and optimizing their operational strategies. Subsequently, traditional retail enterprises can shift their sales methods towards New Retail.

In terms of logistics, by establishing or leveraging efficient information and logistics distribution systems, they can improve inventory turnover rates, asset return on investment, and profitability.

In terms of price wars, reducing malicious competition, optimizing resources in various aspects through knowledge to form each enterprise's competitiveness, forming strategic alliances, transforming and upgrading, and reducing operational costs. During the transition process, traditional retail enterprises can achieve multi-channel development through self-construction and borrowing methods. For most small and medium-sized traditional retail enterprises, it is recommended to choose the borrowing method. Selecting the corresponding third-party platform to join based on the retailer's own characteristics, leveraging the traffic advantages of third-party platforms to direct traffic to offline physical stores or provide online services for offline physical stores. By borrowing third-party platforms, they can quickly develop their online business and reduce technology cost investments [8].

In supply chain management, traditional retail enterprises can upgrade their procurement models and logistics supply chains. Yonghu Superstores, during its transition to the New Retail model, achieved dual optimization of its procurement model and logistics supply chain through supply chain upgrades. In procurement, Yonghu Superstores adopted a "direct sourcing" strategy, establishing strategic alliances with suppliers to promote supply chain transformation and upgrading, and self-building production bases to ensure product quality. It launched a series of its own fresh food brands, achieving cost compression in procurement and quality improvement in products. At the same time, Yonghu Superstores also adopted a diversified procurement strategy, optimizing the supply chain structure. In logistics supply chain management, Yonghu Superstores established a fresh food central factory-Caishixian, achieving integration of procurement, processing, and sales, and incorporating cold chains throughout the entire process of transportation, storage, and processing, improving the efficiency and coverage of the supply chain. Additionally, Yonghu Superstores optimized information flow by building a supply chain management platform (JDA) to improve work efficiency across all links of the supply chain. These initiatives collectively ensured the diversity and cost-effectiveness of Yonghu Superstores' fresh food products, earning it a unique supply chain advantage [4].

3.2 Consumer-Oriented Approach

Enterprises should shift their focus from the product side to the customer side, adopting a people-centered approach. Traditional retail enterprises should analyze consumer needs through various channels to boost product sales. Traditional retail enterprises should pay attention to consumers' demands and experiences with products, considering aspects such as the types of products required, the preferred methods of transaction, pre-purchase experiences, and user feedback. By taking these into account, enterprises can better create and select products that meet consumers' needs and preferences. This will help establish stronger connections between enterprises and consumers, gain insights into consumer demands, and promote the development of New Retail.

3.3 Establishing an Omnichannel Sales Model

The omnichannel retail model differs significantly from the traditional retail model. The theoretical framework of the omnichannel retail model is built upon the interdisciplinary foundations of consumer behavior, information technology, and supply chain management. With a consumer-centric focus, the omnichannel retail model integrates various online and offline retail channels to provide consumers with a comprehensive and seamless shopping experience. This model breaks the limitations of the traditional retail model, enabling interconnectivity and data sharing among channels. To accurately grasp consumer needs, optimize product allocation, and enhance operational efficiency, the omnichannel retail model establishes a unified backend management system and data analysis platform [7].

Taking the O2O operations of Intime Department Store and Yonghu Superstores based on the omnichannel approach as an example. Offline, they forge physical store advantages centered around "products + services + experiences." To satisfy consumers' "diverse" and "individualized" needs, Intime Department Store and Yonghu Superstores are committed to adjusting product mix, optimizing supply chains, and innovating business models, thereby providing consumers with a more comprehensive range of high-quality and competitively-priced products. Meanwhile, online channels better serve the roles of providing consumers with more convenient product information searches, purchasing experiences, and interacting with consumers. Especially when it comes to interacting with consumers, only when information flows between consumers and retail enterprises through interaction, and the respective resources of offline and online channels are fully utilized, can a true integration of online and offline channels be achieved. In the process of providing consumers with product and service experiences, forming a closed loop between online and offline channels is the function of omnichannel development. Therefore, consumers' shopping behaviors must not be confined within a single channel [8].

Since 2019, BESTORE (Liangpinpuzi) has achieved omnichannel integration and adopted the new retail business model. Its cross-channel and multi-mode operations have two clear objectives: first, "connectivity," which aims to break down barriers between channels, avoid channel obstacles, and improve operational efficiency, addressing issues such as the lack of information interoperability and increased operational

costs due to the disconnect between offline store operations and online management; second, "coordination," which refers to achieving shared supply chains, management, and information through interconnected channels, with further emphasis on coordinating user inquiries, experiences, and other aspects to reduce customer diversion caused by discrepancies. In 2019, BESTORE piloted "smart stores" in Shenzhen, achieving comprehensive cross-channel integration that became the core of the new retail business model, providing consumers with intelligent consumption experiences across all scenarios. Today, "BESTORE+" has advanced omnichannel integration to a mature stage, forming a brand-integrated channel matrix, marking a landmark application of the new retail business model [9].

Although the transition and upgrading towards an omnichannel approach is the direction most traditional retail enterprises are attempting to change in, their current practices do not fully leverage the synergistic effects of channels. For instance, discrepancies in pricing between offline and online channels have led to intensified malicious competition among various channels, constant conflicts and contradictions, ultimately impacting the overall performance of enterprises. In reality, the key to implementing an omnichannel approach lies in the synergies among channels, allowing consumers to freely choose and switch between different channel terminals. For most traditional retail enterprises, achieving seamless connections among different channels and reaching the synergy of omnichannel retail is difficult. Therefore, they should gradually build an omnichannel retail model. In the process of transitioning and upgrading from multichannel to omnichannel, traditional retail enterprises need to gradually develop omnichannel product organization capabilities, omnichannel operational capabilities, omnichannel digital marketing capabilities, and omnichannel service capabilities. It is recommended that traditional retail enterprises implementing an omnichannel strategy should focus on choosing the right timing, shaping a seamless shopping experience, prioritizing logistics and big data system construction, and adopting differentiated omnichannel strategies for different business formats [8].

3.4 Upgrade of Retail Logistics

The upgrade of retail logistics is crucial in achieving omnichannel transformation and upgrading the product supply chain. Efficient logistics facilitates the integrated development of online and offline operations, shaping the new retail model.

To build an efficient logistics system, cooperation with third parties can be a viable solution. For a business, effectively covering and serving regional markets through logistics is vital. Both self-established logistics and opening new physical stores require substantial capital investment, making them costly endeavors. Therefore, collaborating with third-party logistics providers is a practical choice. For instance, by partnering with the third-party logistics provider Dada-JD Daojia and making continuous investments between 2016 and 2018, Walmart significantly enhanced its omnichannel service capabilities in the Chinese market. Currently, 200 Walmart stores have joined the platform, covering more than 30 cities and offering one-hour delivery services. Walmart hopes to provide customers with a more convenient shopping experience and increase satisfaction through this service [3].

The acquisition of Carrefour by Suning.com is another example of this trend. Suning.com is an online shopping platform, while Carrefour is a traditional retail enterprise. To enhance its profitability, Suning aims to create a "smart retail" model through the integration of online and offline operations. Suning.com provides Carrefour with services such as logistics and delivery, as well as after-sales service. Additionally, Suning possesses its own full-category supply chain advantages and big data capabilities. Leveraging these advantages, Suning can provide Carrefour China with an integrated online and offline logistics system and supply chain support [10]. Both the collaboration between Walmart and JD.com, and the partnership between Suning.com and Carrefour represent collaborations between online retailers and traditional retailers. The two parties work together in areas such as supply chain management, big data analysis, supplier resources, and channel integration, achieving synergistic development and complementary advantages. Such practices are of great significance in improving end-to-end efficiency, establishing an omnichannel presence, and enhancing logistics capabilities [3].

4 Conclusion

The research in this paper finds that in the era of e-commerce, the transformation and upgrading of traditional retail has become a trend. Adapting to market developments and changes in consumer spending habits, transitioning towards new retail allows enterprises to achieve better development. Retail, by its very nature, is a consumer-centric commercial activity. New retail revolves around consumers, leveraging big data as its primary impetus to deepen the understanding of the connection between "people, goods, and locations," ultimately striving for mutual benefit and win-win outcomes through the execution of new retail initiatives. At the same time, enterprises should adjust their transformation and development strategies based on their actual circumstances. Both e-commerce and traditional retail should keep pace with the times, continually adjusting their models, innovating, and achieving their own development.

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