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ISSN (Online): 2455-7838

SJIF Impact Factor : 6.093

EPRA International Journal of

# Research & Development (IJRD)

Monthly Peer Reviewed & Indexed  
International Online Journal

Volume: 4, Issue:4, April 2019



Published By  
EPRA Publishing

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SJIF Impact Factor: 6.093

Volume: 4 | Issue: 4 | April | 2019

ISSN: 2455-7838(Online)

**EPRA International Journal of Research and Development (IJRD)**

Peer Reviewed Journal

# **RESEARCH ON THE DEVELOPMENT PATH OF ENTITY RETAIL INNOVATION-LOUDI CITY AS AN EXAMPLE**

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## **ABSTRACT**

*The supply-side structural reform has become a hot spot of economic development in China. With the development of the economy, e-commerce has been continually impacting the physical retail industry with its late-comer advantage. Under the background of economic globalization, the domestic entity retail industry is a critical stage of transformation and innovation. This article specifically describes: In the process of e-commerce development and growth, how to promote the development of the physical retail industry through supply-side structural reform. Analyze the development status of physical retail industry at home and abroad, analyze the problems faced by physical retail in Loudi City, and propose suggestions and solutions through supply-side structural reform.*

**KEY WORDS:** *Physical retail space, Innovative development, Study on the Paths*

## 1. INTRODUCTION

The world today is an information age. The rapid development of the network has brought many conveniences, information resources sharing, economic globalization and so on. Of course, it also includes e-commerce (e-commerce is based on information network technology and commodity exchange-centered business activities). The rise of e-commerce has had a huge impact on the physical retail industry. Many large supermarket chains and stores A sharp decline, online shopping platforms have appeared repeatedly, local protectionist barriers have been broken, commodity circulation has accelerated, and the physical retail industry is undergoing innovation and accelerating transformation.

In recent years, as China's economy has entered a new normal, the growth rate of retail sales of commodities has been declining year by year. From 2011 to 2015, the cumulative decline has been 8.5 percentage points, with an average annual decline of 1.7 percentage points. In 2016, the transformation and upgrading of retail enterprises showed an effect, and the growth of retail sales of commodities was slow and stable. The sales growth of large and medium-sized legal person enterprises above designated size accelerated. In 2016, China's retail sales of goods was 332.316 billion yuan, a nominal increase of 10.4% over the previous year. The growth rate dropped by 0.3 percentage points from the previous year; after deducting the price factor, the actual growth rate was 9.6%. Although the growth rate of retail sales of social consumer goods has gradually slowed down, the growth rate is still optimistic. In the process of increasing the total retail sales of consumer goods in the country, the total retail sales of social consumer goods in Loudi City increased rapidly. From 2010 to 2015, the GDP increased by 16.352 billion yuan, but the growth rate is decreasing year by year.

However, until December of 2017, Loudi City achieved a total retail sales of social consumer goods of 442.329 million yuan, an increase of 13.7%. Among them, the retail sales of wholesale and retail,

accommodation and catering enterprises above designated size reached 221,199.4 million yuan, an increase of 14.2%, 5.3 percentage points higher than the same period of the previous year. From January to December 2017, the total retail sales of social consumer goods totaled 433,822.17 million yuan, an increase of 10.8%.

Judging from the data in recent years, the development of Loudi City has steadily increased. In the absence of innovative development of the physical retail industry, Loudi City also faced a "closed shop tide", many large department stores closed, and e-commerce crowded, which was a huge challenge to the physical retail industry. According to a set of data provided by the Institute of Business Economics of Beijing Technology and Business University, from 2012 to 2015, there were 138 department stores closed, 262 supermarkets closed, and 6,209 sports brand stores closed.

At the time of social research, Ms. Zhang, who is engaged in clothing retailing at Youth Exchange, told us that "there has been a clear decline in consumer flow this year." Today's sales are not as good as before, with a maximum of 112,000 in a month and a minimum of seven or eight. Ten thousand, flatten down more than 3,000 per day, and the cost of rent is more than 30 yuan per square meter per day. In just a few decades, the department store industry has turned from a prosperous to a bad, and the former retailer's department store industry in the retail industry has entered the "post-sales era". "Because the business in the department store industry has done well in the past few years, the deep-seated contradictions accumulated behind the substantial expansion have not been highlighted, but the slowdown in economic growth, the impact of emerging business conditions such as e-commerce, and the rise in operating costs have led to the adjustment of the department store industry. Period." Xia Lin, deputy secretary-general of the China Department Store Business Association, said that some store closures were caused by operational difficulties, and some were due to their own active transformation needs. "In recent years, the cost of

department store retailing has increased significantly, mainly in terms of manpower and property. In recent years, the average annual increase in labor costs has been around 10%-30%," said Xia Lin, in the context of the deep adjustment of the traditional retail industry. The department store industry needs to adapt to market demand and accelerate transformation and innovation.

## **2. THE DEVELOPMENT STATUS OF THE TRADITIONAL PHYSICAL RETAIL INDUSTRY**

### **(1) The overall business scale is small**

Since the beginning of the 21st century, the domestic physical retail industry has entered a rapid development with the improvement of people's material living standards, with an average growth rate of about 10%. However, from a practical point of view, the domestic physical retail industry is still difficult to compare with the international physical retail giants in terms of total sales and economic scale. For example, Wal-Mart's annual retail sales of US\$310 billion far exceeds the annual sales of China Bailian Group's RMB 80 billion. Comparing the e-commerce macro market, the report "The Impact of Omnichannel Model on Distribution Channels" jointly published by China Chain Store & Franchise Research Center and Li & Fung Research Center shows that China's online retail market has a good development trend in 2013, and the overall market size is relatively high. In the previous year, the growth of 42.8% reached a considerable 1,855.1 billion yuan, and the market entered a stage of stable development. In 2014, at 11:00, the turnover of Ali Mobile only reached 24.3 billion yuan, setting a new record for the single-day transaction of the global mobile e-commerce platform. Far beyond the development momentum of the traditional retail industry. Moreover, the sales data of the traditional physical retail industry is very unsatisfactory. By comparing the operations of the physical retail industry group in mainland China, the scale is not only difficult to match the international giants, but even difficult to compete with the domestic e-commerce giants.

### **(2) Low brand value and low service level**

For the retail industry, the brand value of the enterprise is very important. Compared with the popularity of foreign retail brands, the domestic lack of certain experience in brand value creation, and no differentiated treatment, the low level of supporting services is difficult to adapt. The fundamental needs of society, most of the work in some physical retail industries are still in the manual stage, and the logistics and distribution services are too traditional, and have not been upgraded to the supply chain management. In the past, the traditional physical retail industry had almost no supporting logistics services. It all depends on the consumer's own purchase. However, the fast-paced life now makes many consumers do not like to go out, busy work every day, and leisure time is very small. E-commerce is also because of the efficient logistics, the price of goods from the manufacturers, won the favor of consumers. Ordinary physical retail stores generally do not sell high-consumption goods, the cost is high, the transaction amount is small, the brand value of the goods appearing is low, and the competitiveness is naturally weak.

### **(3) Diversified retail**

Although the domestic physical retail industry has not developed for a long time, the format has shown a diversified development trend, including physical stores, department stores, convenience stores, shopping centers and specialty stores. In particular, specialty stores, convenience stores and supermarkets have become the mainstream trend in China's physical retail industry. From the analysis of the law of market development, the development of diversified retail formats is the general trend. With the continuous improvement of consumption levels, personalized consumer demand has become mainstream, leading to diversified formats becoming inevitable. The diversified development of the retail industry should be based on the original brand and deepened through market segmentation. For example, the physical retail industry includes many industries, clothing, home appliances, furniture, daily

necessities, and so on. With the development of its own brand, the company will deepen the development of the production chain and develop other industries to achieve diversified retail sales.

### **3. THE MAIN PROBLEMS FACING THE TRANSFORMATION AND UPGRADING OF PHYSICAL RETAIL ENTERPRISES**

#### **(1) The business model is single, and the physical store is “homogeneous”**

In the first half of the 1990s, it was the golden period for the development of China's “department industry”. However, the “one thousand stores” of the department store industry caused by blind construction, coupled with the backwardness of the concept and the rigid management system, the high operating costs of enterprises and competition. The force continues to decline.

And the traditional large-scale general department store in the 21st century has been saturated and differentiated after more than a decade of development. Goods also tend to be homogenized. Loudi City has an underground shopping mall. Many department stores have the same brand structure. The shops are also decorated in the same way. The means of discounting and selling goods are all the same. For consumers, there will be visual blind spots in the shopping malls. The goods are the same, which also makes consumers' purchasing power decline.

#### **(2) The substantial growth of online shopping restricts the development of physical retail**

The rapid development of e-commerce and the development of online shopping platform have led to the turmoil in China's retail industry. The reality of the national economy entering the new normal is to further accelerate the pace of retail industry adjustment, leading to unprecedented difficulties in the development of China's physical retail industry. The supply side is undergoing unprecedented changes. The data analysis shows that with the development of e-commerce and network sales platforms and the participation of a large number of

small and medium-sized production enterprises and retail enterprises, a new large supply side has been formed, forming a unified domestic large market; the online shopping volume of the whole society accounts for social consumer goods. The proportion of total retail sales continues to increase, and is surpassing the increase in total retail sales of consumer goods. The physical retail industry has reached its growth limit in total, facing overcapacity, structural adjustments have increased, department stores have become shopping centers, and shopping centers have gone to department stores. The development of large enterprises has slowed down and the number of small and medium enterprises has expanded. The development of e-commerce has smashed the local protectionist barriers of commodity circulation, broke the retail pattern of sales by region, and intensified market competition. People like imported goods in coastal areas, or goods in some places of production, because of the quality and price of goods. Both are more affordable, which has led to an imbalance in the development of the retail sector and a net inflow and net outflow of consumption between provinces and cities, leading to a series of new changes in the regional pattern of consumption and the retail market, also in Loudi. Closely related, Loudi is not a light industrial production site, and it lacks resistance in the face of future commodity invasion. Moreover, the prevalence of e-commerce will lead to deepening of the reform of the supply side of the retail industry, which will have a profound impact on the circulation industry and the production and consumption system.

#### **(3) Rent, employee wages increase the pressure on business operations**

Although the price of Loudi is not very high, the physical retail is compared with the e-commerce. In the facade environment, the facade rent, and the salary of the employees, a large amount of capital investment is required, which will increase the commodity price. The e-commerce directly obtains the goods from the manufacturer, saves the cost of the facade, and only needs to invest in the cost of

customer service and logistics. The goods are the same but the price is relatively cheap. This will also make physical retail competitiveness decline.

#### **(4) The ability to apply new network technologies is weak**

The practitioners in the traditional physical retail industry have weaker ability to apply new technologies in the network. To transform the enterprise, it is necessary to develop both online and offline services, so the learning of network technology must be improved.

### **4. COUNTERMEASURES AND RECOMMENDATIONS**

Using supply-side structural reforms to promote physical retail transformation and upgrading

The supply-side structural reform aims to adjust the economic structure, optimize the allocation of factors, and improve the quality and quantity of economic growth. Supply-side structural reforms provide the following assistance in physical retail innovation.

#### **(1) Policy support**

The state has successively issued a series of policy measures such as “Opinions on Promoting the Transformation and Upgrading of In-Line and Offline Interactions to Accelerate the Innovation and Transformation of Commerce and Trade Circulation” and “Opinions on Promoting the Transformation of Entity Retail Innovation”, from deepening the reform of the circulation system, cultivating consumption hotspots, and improving business. Starting from the environment and promoting the development of online and offline integration, it aims to reduce the cost of enterprises, foster new kinetic energy for consumption development, build a new mechanism for expanding consumption, create new conditions for consumption supply, and establish a new order for the consumer market, thereby promoting the innovation and transformation of physical retail. .

#### **(2) Online and offline integration**

The “traffic cost + warehousing logistics” of online retailing has been catching up with the “rental cost + employee compensation” of offline retail, and

the final profitability of the two channels will eventually converge. The value of outlets and the value of experience in offline retailing are irreplaceable on the line and are becoming more important as consumption increases. Therefore, it has become the new normal of the retail industry to take advantage of the advantages of online and offline functions and promote the integration of the two. The integration of online and offline can enhance online information exchange, online trading, precision marketing and other functions in the wholesale and retail industry, and can also enhance offline product distribution, real experience, logistics and after-sales service. These are critical to the innovation upgrade. It is also necessary to promote the onlineization of life and service industries such as food and lodging, tourism and entertainment, and promote the combination of online transactions and offline services to provide personalized and convenient services. Encourage exhibitions, pawns, auctions and other industries to carry out online display and trading, and create a normalized communication docking platform. Encourage enterprises to use the Internet platform to optimize the allocation of social resources and develop new models such as shared economy, coordinated economy and experience economy.

#### **(3) The innovation focus of the enterprise itself**

Enterprises value consumer demand. That is to take consumers as the core and make a fuss around consumer demand. Through continuous interaction with consumers through multiple channels and multiple touch points, we will grasp the consumption habits, consumer preferences, lifestyles and potential consumer needs of core consumers. Understand the consumption targets of their own enterprises, from the popularization to the pursuit of individuality, understand the preferences of consumers online, provide high-quality services, open offline stores, create a beautiful shopping environment, and welcome consumers to the store to feel the consumption. The interaction between the channel and the brand, and the consumer, through the

differentiated operation to create the ultimate consumer experience for consumers. The store must provide high quality goods. Whether it is clothing or food, we must pay attention to the feelings of consumers, but also pay attention to the provision of specialized goods and services. Because consumers' personalized and professional demands will drive more vertical segmentation needs to emerge, and the high integration of goods + services is the best choice to maximize consumer value. Enterprises must build online and offline consumer chains. Optimize the supply chain and create value by synergy. Through the universal cooperation between retailers, we can achieve complementary advantages and resource sharing to create a harmonious and win-win business ecosystem.

### **Acknowledgments**

This paper is supported by Research learning and innovative experimental project of college students in Hunan (2018).

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