

Research on the Transformation Issues and Optimization Strategies of Traditional Chinese Retail Enterprises under the Background of Digital Transformation

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Abstract. The retail industry plays a vital role in the national economy, directly contributing to GDP growth. Its healthy development supports overall economic stability. However, in the digital age, amid a challenging business environment and intense market dynamics, traditional Chinese retail enterprises face unprecedented challenges and opportunities, necessitating digital transformation. This study explores the primary issues and corresponding strategies for the transition of traditional Chinese retailers to new retail models. Focusing on Miniso, a prominent example of new retail, and comparing traditional retailers with those that have embraced digital transformation, this study identifies four key challenges: inadequate technology adoption, poor data management, and utilization, difficulty in integrating online and offline channels, and rigid marketing methods. It proposes four optimization strategies: increased investment in digital technology and talent development, the creation of an efficient data management system, seamless integration of online and offline marketing and service models, and enhanced social media marketing. This study aims to offer theoretical support and practical guidance for the successful digital transformation of traditional Chinese retailers, promoting sustainable development and competitiveness in the evolving market landscape.

1 Introduction

Firstly, in September 2016, the Ministry of Industry and Information Technology issued the "Notice on Issuing the Development Plan for the Textile Industry (2016-2020)", which clearly outlined the future development path of the retail industry: integrating with e-commerce and continuously optimizing new business models and formats. Subsequently, Jack Ma, Chairman of Alibaba Group, proposed the concept of "new retail" at the Alibaba Cloud Summit in October 2016, emphasizing the need to combine online and offline logistics to create a new retail model that can adapt to the upcoming digital wave. The following COVID-19 in 2020 further accelerated the process of digital transformation of traditional retail enterprises. Because people were restricted from staying at home, consumption patterns

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and habits are gradually moving towards online consumption, and the decline in revenue from traditional retail enterprises' offline physical stores can be imagined. Countless individual businesses, individual enterprises, and other entities have gone bankrupt and "died". So overall, from the perspective of individual retail enterprises facing the current severe background, not transforming means eliminating [1]. Digital transformation can also improve their operational efficiency, expand market channels, and increase market share. From the perspective of the country and society, the digital transformation of traditional retail enterprises can promote economic growth, value consumer demand, put people first, optimize consumer shopping experience, and improve their quality of life [2]. Secondly, it can also promote the upgrading of related industries, further enhance the international competitiveness of China's retail industry, and narrow the gap with international retail giants.

Secondly, Zhang et al. emphasized that the rational use of digital and information technology is necessary to ensure the high quality of new retail by shifting consumers' consumption needs from material needs to experiential and spiritual needs [3]. Xiong and Hu explained in depth the three major capabilities and two conditions for enterprise digital transformation: intelligence capability, communication capability, sales capability, information infrastructure condition, and IoT sensing technology condition. This further explains that the theory of "people, goods, and venues" in the new retail elements is essentially an optimization and upgrading of cost, efficiency, and experience [4].

Again, most scholars mainly study how the retail industry can combine new digital transformation models to seek high-quality development or study the mechanism of digital transformation in the retail industry and the essence of new retail [3]. For example, Li et al. proposed that the construction and analysis of supply and demand structure diagrams show that the essence of digital transformation in the retail industry is actually a new business ecosystem constructed using digital technology centered on consumers [5]. Many articles have mentioned that returning to the commercial essence centered on consumers is a potential demand after the digital transformation of the traditional retail industry [3]. Du and Jiang, based on "New Retail Wheel", emphasized that the essence of new retail lies in the organic integration of online and offline and mentioned that innovation in the retail industry is very common [6]. Wang mentioned that the essence of new retail is the deep integration of "online+offline+logistics" [7]. Very few articles focus on studying the common problems and universal optimization strategies encountered by traditional retail enterprises in their digital transformation. The main research direction of this article is to summarize the difficulties encountered by traditional Chinese retail enterprises and provide corresponding practical guidance for them.

2 Case description

After the 2020 epidemic, the retail industry's revenue should have experienced a "surge" under various conditions, as people's consumption habits have changed, resulting in more sales of social consumer goods and other retail products being achieved through online transactions. The series of policies introduced by the government, as well as the rebound in people's consumption and tourism demand, will bring about a recovery in the profits of retail enterprises. According to research by China Galaxy Securities, the retail industry achieved a total operating revenue of 495.959 billion yuan in the first half of 2023, a year-on-year increase of 4.51%, and has basically recovered from pre-pandemic levels. The retail industry's revenue shows a moderate growth trend. In 2023, the department store retail industry will continue to recover, and the overall sales of sample enterprises will resume growth. 76.6% of sample enterprises will achieve year-on-year growth, compared to 14.1% in 2022; 70.7% of the sample companies saw a year-on-year increase in net profit, with 24% of the sample companies experiencing a net profit growth rate exceeding 20%. Compared to

only 16% of the sample companies achieving positive growth in 2022, the profitability of the companies has significantly improved [8].

However, the "2023 Digital Retail 'Death List'" jointly released by the NetEase E-commerce Research Center and NetEase Digital Retail Channel shows that a total of 110 digital retail companies "died" in 2023, involving comprehensive e-commerce, clothing e-commerce, beauty e-commerce, fresh food e-commerce, food e-commerce, shopping guide e-commerce, mother and baby e-commerce, and other fields [9]. It can be seen that the trend of digital transformation has been going on for several years, but there are still many enterprises that have not implemented the correct transformation measures, ultimately leading to bankruptcy.

According to the "2022 Online Retail TOP100 Report: Innovative Social Green - The Way to Win Online Retail" jointly released by the China Chain Store Association and Deloitte China, online retail sales in China reached 13 trillion yuan in 2022, an annual growth rate of 14.1%, and the scale of physical goods online retail increased to 10.8 trillion yuan, an average growth rate of 13.4% over the past two years. The growth rate was significantly higher than offline consumption, accounting for 24.5% of the total retail sales of consumer goods in society [10]. Online retail sales in China increased by 11.0% year-on-year from January to November 2023. The proportion of online revenue in the total revenue of retail enterprises is increasing, and traditional retail companies that have not yet transformed or are in the process of transformation should pay more attention to the strategy of combining online sales with offline entities.

As early as 2020, Tmall developed and invested in the use of 3D shopping technology, and many major retail companies have cooperated with it and achieved success. Through this technology, consumers can experience previewing products in real-life scenarios on their mobile phones, which undoubtedly revolutionizes the online shopping experience for consumers and increases the competitiveness of new retail enterprises after digital transformation.

3 Analysis on the problem

3.1 Problem identified analysis

3.1.1 Insufficient application of technology

In the process of digital transformation, except for a few leading enterprises, many retail companies have too little understanding of digitization, and even many companies do not introduce digital technology in their future strategic plans, only classifying digitization as e-commerce and only carrying out some information upgrades. Even if companies have the strength and funds to cooperate with digital technology enterprises, introduce IoT sensing technology, and build information technology infrastructure, they do not know how to operate and apply it.

3.1.2 Poor utilization of data management

If management data can be effectively utilized, many problems in the supply chain system and warehousing can actually be solved, and efficiency will also increase. Secondly, for example, in membership-based supermarkets such as Sam's Club or other retail enterprises, the privacy and security of membership data cannot be guaranteed. If the membership card is lost, it will cause losses, and the retail company will not be responsible for it.

3.1.3 Difficulty in integrating online and offline

Many enterprises have not solved the problem of reasonable allocation of "people, goods, and venues", and the significant differences in online and offline operation models cannot be coordinated and integrated. If the first two problems are not solved, it will be difficult for some enterprises to integrate online and offline. Due to inadequate management and utilization of data, the integration and sharing of online and offline data are difficult to achieve, and the integration of the supply chain will also face challenges. Some companies may have insufficient funds, making it difficult to achieve online sales at the technical level.

3.1.4 Marketing methods are rigid and single

Some traditional retail enterprises' marketing methods are still limited to offline physical store marketing. With the advent of the Internet era and the explosion of social media platforms such as TikTok, there are more and more netizens in the country, which is a consumer group that cannot be ignored. Connected to this is social media marketing, which some companies have not taken seriously and only symbolically advertise through social media or live streaming sales. Entering the live stream at once, the number of viewers is very small except for internal personnel, and all the efforts are useless, resulting in little investment in social media platform marketing and all going to waste.

3.2 Reasons for analysis of problem

3.2.1 Enterprise strategy is single and the structure is fixed

The "pyramid" organizational structure of many traditional retail enterprises is deeply rooted and difficult to change, and organizational restructuring may involve interests between management and management. However, the original organizational structure and corporate culture cannot adapt to digital transformation and cannot meet the necessary conditions for transformation.

Furthermore, the leadership should constantly capture information on market trends. Failure to pay timely attention to the arrival of the digital age and set goals for future digital transformation in the company's strategic planning has led to being engulfed by the tide of the times.

3.2.2 Weak digital foundational capabilities

According to KPMG's comprehensive digital evaluation of over 60 retail enterprises, on a 5-point scale, the overall average score for the digital capabilities of physical retail enterprises is only 2.26 points, indicating that the digital foundation of most traditional retail enterprises in China is too weak. Enterprises have invested too little in digitalization and have not introduced digital operation personnel, data management personnel, or basic infrastructure required for digitalization. The sales focus is still on physical offline sales. Without learning from large enterprises, even though the Ministry of Commerce emphasized at the National Retail Innovation and Development Conference on October 14, 2020, that enterprises should focus on the long term, grasp the trend, follow the rules, drive innovation, vigorously develop new brand chains with the supply chain as the core, accelerate the digital transformation of the retail industry, and play the promoting role of large retail enterprises in "big leading small".

3.2.3 *The differences in online and offline operation modes*

Online sales have overcome the limitations of time and space, but companies have not invested enough in technology, data management, and personnel and have not achieved a supply chain-centered approach, ignoring the purchasing power of online consumer groups. The integrated service of online sales and delivery is not perfect. Offline physical sales are not well coordinated.

3.2.4 *Lack of emphasis on social media marketing*

There is too little investment in social media marketing, and there are many new models of social media marketing. Most companies only register accounts on various platforms and start live-streaming sales without operating them. Some companies do not even have accounts. The marketing methods are single, and there is no dedicated data department to conduct real-time detection, data statistics, and feedback on social media through technology.

4 Case analysis

Miniso is a daily necessities retail enterprise founded by Ye Guofu in 2013. Inspired by the "high-quality and low-price" model of physical retail stores in countries such as the United States and Japan, Ye Guofu decided to bring this retail model into the domestic market. At the very beginning, Miniso's suppliers were all from other countries, preparing to take product quality as the core. In 2015, Miniso launched its globalization strategy and began to enter overseas markets. Then it started the "Japanized" packaging: hiring Miyake Junya as the chief designer and emphasizing the concept of Japanese designer brand. The product image style imitates Japanese brands Muji and Uniqlo, which are mainly simple, making it easier for overseas consumer groups to accept. Except for food, all Miniso products are designed under its own brand. The sales model adopts a very short direct sales channel from factory to store, omitting the distribution link, controlling both product cost and price to the minimum, and focusing on small profits but quick turnover[10]. In order to better solve the difficulty of integrating online and offline, Miniso chose to cooperate with Youzan New Retail. It uses online stores to digest the overflowing consumer volume. Youzan perfectly solves Miniso's marketing problems. In 2018, Miniso had already started to try online projects. In 2021, it launched the strategic project G project (omnichannel growth project) and laid out deep cultivation of private domain operations. Miniso uses a grid management model that combines Internet technology with offline stores. All chain stores adopt the operation mode of "small front desk and large back office" and focus on online. It integrates various resources through the Internet. Coupled with the integrated analysis of back-end monitoring data, intensification, and standardization are realized to the greatest extent, and the linkage of global chain stores is realized [10].

Miniso has perfectly opened up the traffic ecosystem. Due to its unique marketing strategy, there are a large number of offline stores with wide coverage and a large number of covered people. The innate conditions determine that it has many public domain users. Miniso quickly privatizes public domain users by setting up a membership system and giving free shopping bags to consumers by scanning codes. The marketing team, from time to time, pushes soft marketing-themed content to consumers on the official WeChat account to strengthen the connection between consumers and the brand. Miniso also actively uses co-branded marketing and cooperates with popular IPs to sell derivatives to increase the stickiness of private domain users. Miniso uses a store opening model between direct sales and franchising: a quasi-direct sales franchising model, that is, franchisees invest, and the

brand manages. At the same time, it solves the problems of investment and management and better optimizes the enterprise's basic digital capabilities.

5 Suggestions

5.1 Clarify the core goals of the enterprise

The leadership should make strategic adjustments in the general direction of the enterprise in a timely manner, clarify the target consumer groups and markets, and develop the enterprise's unique style. For example, Miniso follows the "high-quality and low-price" style and strives for extreme product design and extremely low gross profit margin. If the enterprise's organizational structure cannot adapt to the changes brought about by digital transformation, it should change along with it. Of course, the entanglement of interest between leadership and management needs to be coordinated. The weight of the data monitoring department should be increased in the organizational structure, and data talents and technologies should be introduced. If necessary, cooperation can be carried out with data e-commerce platforms under other enterprises to strengthen back-end data management. In the new strategic project, each department is required to have a clear division of labor, simplify the decision-making process, improve work efficiency, strengthen communication and cooperation among departments, between management and leadership, break down barriers, and form a joint force.

5.2 Reasonably manage and utilize data

The data department should collect the basic information, purchase history, consumption preferences, etc. of public domain users and further understand customer needs through channels such as WeChat official accounts, as well as store and integrate the data information of various channels. Database management systems such as MySQL and Oracle or cloud storage services can be used to ensure data security. A complete data security management system should also be established, including measures such as data access permission control, data backup and recovery, and data encryption to ensure data security. It can cooperate with data platform data enterprises to analyze sales data, customer data, and inventory data, adjust commodity procurement and inventory management strategies in a timely manner, predict future sales situations, segment customer groups for precision marketing, and be able to collect factors of customer churn and declining loyalty in time to make corresponding countermeasures. Data department personnel should also visualize data in intuitive icons and graphics so that management and employees can understand and make decisions. A personalized dashboard can also be designed to display key business indicators such as sales volume, inventory volume, and customer satisfaction in real-time.

5.3 Open up the traffic ecosystem

The first opening up of traffic is the opening up of online and offline. Miniso is well aware of its own weak digital foundation of the enterprise, so it has reached a cooperation with Youzan New Retail. Youzan New Retail is a new brand under Youzan. It is committed to helping traditional retail store merchants realize digital transformation. Youzan has helped Miniso build a new and more perfect online mall. The second opening up is the opening up of public domain and private domain. Guo and Li defined private domain traffic as the traffic that enterprises and brands can freely control. In essence, it relies on a strong relationship of trust between users, brands, and enterprises [11]. Kang mentioned that the difference between

private domain traffic and public domain traffic mainly lies in the fact that public domain traffic users are random and have greater fluidity, while private domain traffic users are relatively fixed, have less fluidity, and have strong sustainability [12]. In short, the benefits brought by private domain users are relatively stable. For traditional retail enterprises, breaking through the barriers between online and offline is the top priority. Enterprises can use high-level e-commerce platforms as tools to build online mall apps or mini-programs. Secondly, clarify the public domain coverage of chain stores and convert public domain users into private domain users as much as possible through some means, including but not limited to scanning codes at checkout to join fan groups, vouchers, discount coupons, birthday discounts for members, and giving away environmentally friendly shopping bags.

5.4 Diversify marketing models

The fundamental purpose of privatizing public domain users is to use the repurchase rate to spread the increasingly expensive initial customer acquisition cost. Improving the repurchase rate and strengthening user loyalty are inseparable from improving the marketing model. Miniso chose to cooperate with Youzan New Retail. This is because Youzan New Retail can not only help build an online mall but also help find high-value and high-quality distribution traffic owners. If it is just simple advertising, personal selling, and promotion, then it will never be able to stand out in the market. The key to social media marketing lies in the selected platform, key opinion leaders (KOL), and key consumption leaders (KOC). To reduce costs in the new retail industry, KOC's choice is crucial. The nature of KOC determines that it will not have more fans than KOL, but it has a higher conversion rate and stronger monetization ability for private domain traffic. When most small and medium-sized retail enterprises are facing digital transformation, the biggest headache problem is actually wanting to transform but there is not enough capital. In fact, the quasi-direct sales franchising model used by Miniso is worth learning from, but the enterprise qualification must meet the standard to find better franchisees.

6 Conclusion

This article discusses some existing problems of traditional retail enterprises and the main obstacles on the road of digital transformation in the context of the digital era and proposes corresponding optimization strategies. In general, there are two major points of the problems: lack of capital to support digital transformation, having capital but having no clue, or only doing superficial work about digital transformation. It mainly focuses on enterprises with capital but not knowing how to act or act wrongly, analyzes problems and reasons for them, and proposes optimization strategies. The main content of the strategy is essentially to reconstruct the three elements of "people, goods, and place". This article intends to solve the problem of the sluggish business of traditional retail enterprises under the digital wave, promote consumption, optimize the shopping experience of consumers, and promote the development of society towards digitalization and intelligence.

The main research methods used in this article are the literature research method and the case study method. Therefore, there are still areas for improvement: First, all the data used comes from the Internet, and the most recent one is also from 2023, and there is no market research; second, the main consumer market of the case Miniso selected in this article is the overseas market, ignoring the differences in the domestic and foreign market environments; third, this article focuses on the technical level, and there is still a lot of room for discussion and exploration value in the marketing mode section.

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