Analysis of Walmart's New Retail Business Model

Xiaoyang Liu *
Business School, University of Shanghai for Science and Technology, Shanghai, China
* Corresponding Author Email: 233531297@st.usst.edu.cn

Abstract. With the rapid development of the retail industry, new retail formats are emerging. Walmart, as a globally recognized retail brand, faces challenges in its transformation in the Chinese market. The research objective of this paper is to analyze Walmart's business model and value chain to provide reference suggestions for its digital transformation under the new retail model. This paper mainly studies Walmart's business model and compares it with Yonghui Superstores, conducts value chain and SWOT analysis on Walmart, and finds that Walmart's development in the Chinese market can not only rely on physical stores for sales but also needs to capture the market through omnichannel to retain customers. At the same time, Walmart needs to expand its business and utilize its advantages to attract more potential customers in areas not covered by the stores and put forward the suggestions that retailers need to carry out digital transformation and innovation in the future continuously, the continuous promotion of online e-commerce platforms, the aging offline layout, and the opening of a new track for pre-prepared dishes.

Keywords: New retail, Business model, Value chain, Digital transformation.

1. Introduction

The relationship between the Internet and e-commerce has attracted attention with the advancement of Internet technology, the use of big data, and the rapid development of e-commerce platforms. The innovation of Internet technology and the integration of e-commerce with existing models have increased the size of Internet users, and in turn, the increase in Internet users has further driven the advancement of Internet technology and the integration of e-commerce with offline models. According to the National Bureau of Statistics, China's online retail sales amounted to RMB 154,264 billion in 2023, of which online retail sales of physical goods accounted for 27.6% of total retail sales of consumer goods, an increase of 11% compared to 2022 [1]. Online retail sales play an important role in the national economy, and online shopping is becoming more and more common and important in people's lives.

Various e-commerce platforms have emerged one after another in recent years so that consumers are no longer confined to physical stores. The traditional retail industry has been subjected to a huge impact, facing the development dilemma of lack of competitiveness, such as difficulty in controlling costs, low operational efficiency, and inability to meet consumer demand. Therefore, traditional retail enterprises began to seek opportunities and methods of transformation and change, looking for a new sales model that adapts to the development of the times. The digital economy has provided effective technical support for the transformation of the global retail industry, and a new retail model has emerged. 2016 Jack Ma proposed the concept of new retail in Hangzhou, that is, the traditional retail industry is no longer confined to the sales model of physical stores and has begun to develop a multi-channel sales model. Started to develop a multi-channel sales model, both offline stores close to the market, to create advantages brought about by the proximity of consumers, while developing online sales, through the O2O mode, and B2C mode to seize the network market resources, to improve their competitiveness [2].

In recent years, the rapid development of the Internet has triggered a new sales model that poses a great threat to the traditional retail industry, and retailers have been pondering the issue of transformation. The transformation in foreign countries is relatively early compared to China, where shopping via the Internet was introduced nearly 30 years ago, and China has a relatively late start. As the online shopping mode has a great impact on physical retail enterprises, many scholars have studied
the retail industry in the context of the Internet and believe that physical retail enterprises need to change to e-commerce and put forward their thoughts on it.

The development of the industry is constantly advancing with the progress of the times. The dialectical law of the negation of negation in the development of the retail industry leads to the emergence of various new retail business forms in turn. The emergence of new retail business forms is with the progress of society, based on the old retail forms of the original model to take the essence of the dregs, and then in line with the changes of the times to absorb the fresh nutrients, the formation of a new retail model. Han on the enterprise through the application of Internet cloud computing and big data, can more accurately understand the consumer needs of the buyer, and consumption habits, to target different groups of people for the characteristics of the sales to increase the chances of sales success [3]. Holmes found that the development of the Internet has had a great impact on brick-and-mortar enterprises, and he analyzed the strategies and environment of the traditional retail industry change, to provide theoretical support for the change of brick-and-mortar retail enterprises [4]. Park researched the purchaser as a starting point and found that when the two modes of online and offline are combined, it is more secure for the purchasers it is safer, more secure, and has a higher and better sense of experience. Purchasers prefer this kind of service with less risk and better experience [5]. Yang et al., in comparing the development of traditional retail and new retail enterprises, measured the transformation efficiency of 65 Chinese listed enterprises by establishing a DEA model and the Malmquist index method and finally concluded that enterprises adopting the new retail model have higher operational efficiency than enterprises adopting the traditional retail model [6]. Do Vale et al. argued that the change of the physical retail industry to the online sales model is the future direction of development, and in the future Internet sales will pose a great threat to the traditional model, and if they do not take advantage of the transition, they will not be able to keep up with the times and will be eliminated [7]. Liu et al. investigated and researched China's brick-and-mortar retail industry and the environment of the Internet sales market and argued that China's brick-and-mortar retail industry should be transformed into e-commerce, found the dilemmas that will be faced during the change and give reasonable solutions, and believed that increasing the cultivation of talents and the establishment of information system would be helpful [8].

To summarize, the traditional retail industry has suffered from the impact of e-commerce platforms, which has led to a decline in market share and sales over the years but will not be completely replaced after all. The emergence of new industry models is closely related to consumers' purchasing patterns and purchasing power levels. Consumers' demand for more product samples has led to more business models, and changes in business models have also prompted changes in consumption patterns. But the physical retail stores for shopping experience and security the network sales cannot have, so traditional retail enterprises should be based on their advantages, combined with the convenience of the Internet to adjust the development mode, to achieve a win-win situation.

As mentioned above, the previous studies focus on the development of Internet technology will have a huge impact on the traditional retail industry, few suggest that China's brick-and-mortar retail industry should be transformed into e-commerce. Therefore, this paper is going to study Walmart's business model as well as compare it with Yonghui Superstores and conduct a value chain analysis and SWOT analysis of Walmart to explore the necessity and possible effects of digital transformation of enterprises in the new retail model.

2. Business Model

2.1. Analysis of the Development History of Walmart's New Retail Business Model in China

2.1.1. Adaptation stage of Walmart's e-commerce

At the end of 2010, Walmart began to try to carry out the integration mode with the online network stores, hoping to enter the e-commerce platform through the purchase of equity, chose the No. 1 store
as the target to implement the purchase of equity, and as a start to gradually carry out the strategy of its entry into the e-commerce platform [3].

2.1.2. Walmart attempted to enter the e-commerce stage through acquisition

In October 2012, Walmart Stores Inc. further increased its equity purchase of No.1 Store, replacing the self-built platform with an acquisition, reducing its development costs while absorbing No.1 Store's own customer traffic, logistics system, etc. In April 2014, Walmart's Sam's Club APP was officially launched for operation, and the client increased Sam's Club's shopping channels, supplementing the customer due to the store's inability to cover the area of customer traffic [9]. However, Walmart's plan did not get the desired effect, after the acquisition of the No. 1 store, its e-commerce model did not achieve the expected increase in sales, and Walmart Inc. began to think of new ways to promote the e-commerce process.

2.1.3. Walmart and JD Mall implemented a strategic cooperation phase

In June 2016, Walmart and JD Mall reached a series of strategic cooperation and obtained 5% of the newly offered equity of JD Mall. At this time, Walmart realized that JD Mall's e-commerce platform could not be accessed through holding, so it is strategic cooperation with JD instead of again wanting to hold JD Mall. In October 2016, Walmart Inc. signed a cooperation agreement with JD Mall in e-commerce, O2O platform, and many other aspects, and successfully stationed in the JD to home. Walmart further utilizes JD Mall's huge warehousing system and perfect logistics system for the integration of online and offline. In May 2017, Walmart's five official flagship stores officially opened for business on JD Mall's platform, so far, Walmart Inc. has completed the goal of being comprehensively stationed in JD Mall [3]. Walmart is not using the same way of acquiring equity in the holding of JD, but rather, Walmart uses the same way of acquiring equity to hold JD but adopts the strategy of strategic cooperation with JD Mall, and the resources of both sides complement each other. cooperation, the two sides of the resources complement each other.

2.2. Business Model Comparison between Walmart and Yonghui Superstores

Walmart and Yonghui Superstores are two giants in China's retail industry, and their business models and financial data have different characteristics. The following is a comparative analysis of them.

2.2.1. Gross and net profit margins

Walmart's gross profit margin is stable at around 25%, while Yonghui Superstores' gross profit margin averages around 20%. This indicates that Walmart has more efficiency in merchandise purchasing and pricing and can realize sales at a higher gross margin. However, in terms of net profit margin, Walmart only exceeded 2% in one year while the other years were basically below 2%, while Wing Fai Supermarket was above 2% in two years. This suggests that Walmart may have some problems with cost control and expense management, resulting in a lower net margin.

2.2.2. Inventory turnover and receivables turnover

Walmart's inventory turnover days are around 30 days and receivables turnover days are around 4 days. This means that Walmart sells all its merchandise on the shelves in about a month and collects all the money it owes in 4 days. In contrast, Yonghui Superstores' inventory turnover days are more than 42 days, the longest receivable turnover days are more than 7 days and the shortest is less than one day. This indicates that Yonghui Superstores has some problems in merchandising and collection, which may lead to a longer time of capital occupation and affect the operational efficiency of the enterprise.

2.2.3. Revenue growth

According to the financial data released by Walmart, its revenue in the Chinese market has shown steady growth. This is mainly due to its strong brand influence and the advantages of its membership-based business. In contrast, Yonghui Superstores' revenue growth was more volatile, but the overall
trend is still growing. This was mainly due to its continuous efforts in accumulating commodity resources and improving operational efficiency.

To summarize, there are obvious differences between Walmart and Yonghui Superstores in terms of business models and financial data. Walmart realizes sales with higher gross margins and faster merchandise turnover efficiency, but it has some problems in cost control and expense management. On the other hand, Yonghui Superstores pays more attention to the accumulation of commodity resources and the improvement of operational efficiency, but it has some problems in commodity sales and collection. Therefore, the two companies need to continuously adjust and optimize their business models according to their own characteristics and market demand to improve their competitiveness and profitability.

2.3. Value Chain Analysis of Walmart

Walmart eliminates non-value-added behaviors by integrating suppliers and customers into the value chain with the core value of low-priced goods. By building information flow, real-time transmission of sales information and customer needs is realized to reduce waste. Walmart adopts the strategy of selling at thin margins and buying directly from factories to build a short-chain economy. The core of the value chain is value, through a systematic approach to identify problem points and focus points, optimize the supply chain, and strengthen field management.

As shown in Fig.1, Walmart's value chain analysis includes primary and support activities. Walmart's primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and services. Walmart has a competitive advantage in supply chain management and can keep prices low through efficient inventory management and long-term relationships with suppliers. For operations, Walmart primarily converts incoming merchandise into finished goods through in-store support and merchandise assortment. For outbound logistics, Walmart uses a cross-docking inventory strategy to effectively reduce inventory storage and transportation costs. For marketing and sales, Walmart relies on word-of-mouth promotions but still spends billions of dollars annually on marketing. In terms of service, Walmart provides limited services to its customers, but after-sales service is not excellent. Support activities include company infrastructure, technology development, human resource development, and purchasing. Walmart's infrastructure, technology development and human resource management policies are constantly being improved to gain a competitive advantage.

In recent years, Walmart China's frequent store closures and declining growth in operating results have also caused concern. While Walmart's hypermarket business is less profitable than expected, Walmart China's Sam's Club business is doing well. Retail giant Walmart closed its hypermarkets while vigorously developing Sam's Club stores, and by the end of 2022, Sam's Club supermarkets had opened 42 stores in 25 cities in China, with a membership of more than 4 million people. Membership fee revenue was $2.6 billion for fiscal 2023, $2.2 Membership fee revenue was $2.6
billion for fiscal 2023, $2.2 billion for fiscal 2022, and $1.7 billion for fiscal 2021. Membership revenue still only accounts for a small portion of Walmart's global revenue, and for Walmart, the membership model like Sam's Supermarkets is just one of the innovative directions of retail transformation and will not be the only one. For Walmart, a membership model like Sam's is just one of the innovative directions for retail transformation, and it won't be the only one. Walmart is now vigorously developing its e-commerce platform in China to rescue its declining performance.

3. SWOT Analysis of Walmart in China Market

3.1. Strengths of Walmart in China Market

3.1.1. The growth momentum of the e-commerce business was favorable

In 2020, online shopping became the main choice of consumers, and the growth rate of Walmart's e-commerce net sales rose sharply to 97.4%. in the same year, Walmart strengthened its cooperation with third-party platforms to further expand its online sales channels. Walmart's online business maintained a strong growth momentum [9].

3.1.2. Omnichannel development

Walmart's omnichannel is developing steadily, with more comfortable offline and healthy growth online. Walmart upgraded and remodeled its offline stores and carefully designed concise motion lines to enhance the consumer shopping experience. It continued to invest in its e-commerce business to optimize the selection strategy and overall fulfillment efficiency of online products.

3.1.3. Development of digitalization

Walmart has invested a significant amount of capital and resources to develop advanced data analysis capabilities, which enable Walmart to better understand consumer needs and behavior. Walmart also actively explores and adopts the latest technologies, such as AI, IoT, and big data, to improve the efficiency and effectiveness of its business.

3.2. Disadvantages of Walmart in the Chinese market

After Walmart Stores Inc. entered the Chinese market, its profit did not meet expectations, and its development in China was not smooth.

3.2.1. Low degree of localization

Although Walmart has carried out a certain degree of localization improvement after entering the Chinese market, its degree of localization is still not high enough compared with local retailers, such as Suning.com and JD. Walmart still needs to be closer to the needs and culture of the Chinese market in terms of product sourcing, store layout, and marketing strategies.

3.2.2. Declining price competitiveness

With the rise of local retailers in China, Walmart has gradually fallen behind in terms of price competitiveness. Some local retailers are doing better in the supply chain and cost control, and can offer more competitive prices, which puts some pressure on Walmart's market share and profits.

3.2.3. Changes in the type of consumer groups

With the arrival of the new consumer era, the mainstream consumer groups have changed, and the basic image and consumer values of consumers have also differed greatly, with young consumers shifting to online channels for shopping and elderly consumers gradually becoming the main source of customers in the offline market, Walmart needs to focus on the new crowd, gain insight into the new needs and adjust its strategic layout.
3.3. Opportunities for Walmart in the Chinese Market

3.3.1. Policy support

The growing acceptance of foreign brands by Chinese consumers and the government's more generous policies toward foreign companies have been more favorable to Walmart. In 2020, the General Office of the State Council, in its Opinions on Accelerating the Development of New Consumption Led by New Forms of Business and New Modes, proposed that it would further promote the digital transformation of the service industry and cultivate new growth points such as smart logistics, demonstrating the government's strong support for the service industry's transformation to digitalization [10].

3.3.2. The increase of management talents in China

In recent years, China has attached more and more importance to education and has cultivated a batch of senior management personnel, who understand China's national conditions and can manage the enterprise efficiently according to local conditions, which is a non-losable opportunity for Walmart.

3.3.3. Walmart has more investment opportunities

In promoting the process of Walmart in the Chinese market, some aspects can be chosen to acquire domestic enterprises to reduce the cost, for example, the rental cost of the site selection, the negotiation cost of the upstream suppliers, and the direct utilization of their resources. China also has many e-commerce platforms and logistics platforms that can complement its resources and reduce its operating costs.

3.4. Challenges for Walmart in the Chinese Market

Opportunities and challenges coexist, Walmart in the Chinese market has both development space and potential risks, as shown in Table 1.

Table 1. Online retailing in China

<table>
<thead>
<tr>
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<th>2023</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online retail sales (RMB hundred million)</td>
<td>130174</td>
<td>119642</td>
<td>108042</td>
<td>97590</td>
<td>85239</td>
</tr>
<tr>
<td>Growth rate of online retail sales (%)</td>
<td>8.4</td>
<td>6.2</td>
<td>12.0</td>
<td>14.8</td>
<td>19.5</td>
</tr>
<tr>
<td>Share of online retail sales in total consumer goods (%)</td>
<td>27.6</td>
<td>27.2</td>
<td>24.5</td>
<td>24.9</td>
<td>20.7</td>
</tr>
</tbody>
</table>

3.4.1. Need to seek more channels

More and more e-commerce platforms appear, and more and more popular cell phone payment methods have made China's online shopping develop rapidly, which has a great impact on the traditional retail industry. As shown in Table 1, in recent years, China's online retail sales have continued to increase, and accounted for the proportion of total social consumption is also growing, people are more inclined to rely on online shopping this way, which for Walmart, the development of the Chinese market can not only rely on physical stores to sell, to seek more channels to seize the market to retain customers [11].

3.4.2. China's local retail industry is growing rapidly

There are many local retailers in China, who know more about the consumption situation in China, and it is easier for them to occupy the market in terms of consumer psychology, they are closer to the consumer groups than Walmart's large shopping malls, so how to expand the business and attract more potential customers in the areas that are not covered by the outlets is a challenge for Walmart China.
4. Prospect

Based on the above analysis of the Walmart (China) case, omnichannel is the future of the retail industry. Walmart's big data application is essentially solving the long-tail problem and discovering the potential needs of each user through data collection and in-depth mining, which is where the value of big data lies. Retailers in the future need to continue to carry out digital transformation and innovation, the continuous promotion of online e-commerce platforms, aging offline layout, and open new tracks of pre-made dishes. In the field of retail, the change in consumer demand drives the change in China's retail industry, even if online consumption soars, offline is still the core, the intervention of the Internet is changing the consumption channels and consumption habits, but the consumer's demand for consumer experience is also higher and higher, close to and perceive the needs of consumers is particularly important. Whether it is digital products or digital innovation, the key point is that only scale can better create value for customers and members. Therefore, technology should be constantly innovated, in terms of omnichannel, new business, differentiated goods and services, through its own technological innovation and external cooperation, to continue to bring customers leading services and smooth shopping experience.

With the rapid development of intelligent terminals and mobile Internet, the integration of online and offline has become a major trend in the development of the retail industry. Offline entity retail enterprises should actively embrace Internet technology, online retail e-commerce should also seek to land cooperation with offline, the industry has entered the stage of dual-line integration development. The digital channel from consumers' demand preferences to the manufacturing side will be opened, and consumers will be directly involved in the whole process of production-logistics-sales, and the new retail form will be further extended to the "new manufacturing", and the enterprises that can provide multi-scene omnichannel shopping experience, digitalization, and supply chain capabilities will be further extended. Enterprises that can provide a multi-scene omni-channel shopping experience, leading digitalization construction, and strong supply chain capability are expected to stand out.

Retail enterprises need to consider digital transformation when they are in the following states. That is, market competition has intensified, changes in consumer behavior have made the traditional retail model no longer able to meet consumer demand, and the development of digital technology has driven the digital transformation has become a necessary means for retail enterprises to enhance efficiency and competitiveness, and increased cost pressure has made it necessary for retail enterprises to look for more efficient and cost-saving operation modes, and so on. Digital transformation can help enterprises achieve intelligent management, accurate marketing and optimization of the supply chain and other aspects of the enhancement, reduce enterprise operating costs, improve operational efficiency, help enterprises better adapt to market changes and understand consumer demand, enhance competitiveness and innovation, to achieve sustainable development.

![Mathematical Intelligence for People](image1)

- Consumer Behavior Data
- Membership Data
- ...

![Digital Intelligence for Goods](image2)

- Commodity Management Data
- Supply Chain Data
- ...

![Digital Intelligence in the Field](image3)

- Media Channel Data
- Store Terminal Data
- E-commerce Platform Data
- ...

**Figure 2. Construction of a new retail digital intelligence ecosystem**

As shown in Fig.2, in the wave of digital intelligence in the retail industry, the digital intelligence transformation process of people, goods, and venues is deepening, and digital intelligence changes are constantly optimizing the management of people, goods, and venues. In the future, the digital
intelligence of retail enterprises will not only focus on a certain part but also integrate all the data of people, goods, and venues to realize a truly new retail digital intelligence ecosystem. In addition to relying on digital intelligence to make decisions on marketing strategies, it will also realize intelligence and automation in channel spreading, store management, supply chain management, and industrial research and development. In the construction of the digital intelligence ecosystem in the new retail era, user data will become the key to opening the "people, goods, and field", and the value of users will become more and more significant.

5. Conclusion

By studying Walmart's business model and comparing it with Yonghui Superstores, this paper conducts a value chain analysis and SWOT analysis of Walmart, and mainly finds out that in the rapid development of China's local retail enterprises, the development of the Chinese market for Walmart can not only rely on physical stores to sell, but also through omnichannel to seize the market and retain customers. How to expand its business and utilize its strengths to attract more potential customers in areas not covered by the store for Walmart urgently needs to be resolved.

At present, China's supermarket industry is at the historical opportunity point of "cross-regional expansion + new business format landing + omnichannel integration", and the industry is differentiated. Under the new retail boom, e-commerce platforms have begun offline layout plans, while offline traditional supermarkets are also seeking online breakthroughs. Retailers need to realize refined operations and services through digital transformation and should have a fine layout in digital transformation, in terms of omni-channels, new formats, differentiated goods, and services, through their own technological innovation and external cooperation, to continue to bring customers leading services and a smooth shopping experience. Digital technology is being integrated into all aspects of the retail industry, and the advent of the consumer era has prompted the mid-range supply chain system to become more flexible, and the flexible supply chain system can reduce inventory, improve turnover for enterprises, and satisfy more diversified consumer demand.

References


