

# Analysis on Business model of Chinese Retail Industry in the post-pandemic era: case study of Walmart and Freshippo

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**Abstract:** With the evolvement of COVID-19, the world finally comes to the post-pandemic era. Under this background, the development of retail industry is a hot topic and draws the public attention. The declining traditional retail and ascending new retail gradually becomes a trend. As typical traditional and new retail brands, Walmart and Freshippo are chosen as the object of study. The thesis mainly uses Porter's five forces model to make a detailed analysis of Walmart and Freshippo's competitiveness. Meanwhile, aiming at exploring the Chinese retail industry more deeply, the business model of these two enterprises is compared from five aspects. From the research results, both Walmart and Freshippo have high competitiveness and their own weaknesses. For retailers, the key to success is to adapt to the new changes in the post-pandemic era and continually improve themselves. This paper will not only fill a gap in the relatively few research on the business model analysis of Chinese retail industry, but will provide reference and lessons for the future of Chinese retail industry.

**Keywords:** Retail Industry, Porter's five forces analysis, Walmart, Freshippo.

## 1. Introduction

### 1.1 Definition of business model

In general, A business model describes how an organization creates, delivers, and captures value in different contexts. In the process of analyzing business model, the relationship between enterprises and users, suppliers and other cooperative partners in the market should be attached great importance, especially the physical distribution, information flow and capital flow between each other.<sup>1</sup>

In order to analysis the current situation of the retail industry in China, two representative retail enterprises are selected and studied to help us provide some feasible suggestions for the transformation and development of retail industries in the post-pandemic era.

### 1.2 Introduction of industry

The retail industry in China has a history of nearly 100 years. In the 1980s, the first transformation in this industry were largely completed and department stores quickly became the first choice for people to buy daily necessities. The second and third retail industry transformation which are marked by supermarkets and chains respectively were completed almost simultaneously at the beginning of the 21st century. It was during this period of time that Walmart, one of the focuses of this case study, was actively improving its market share in China. Furthermore, with the development of technology, the format of retail industry has undergone a dramatic change, which meant some companies began to combine e-commerce platforms, logistics and entity stores together. With several decades of expansion and the influx of the competitors, the retail industry has shifted from the seller's market to a buyer's market [1].

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<sup>1</sup> [Business model - Wikipedia](#)

However, the retail industry was severely impacted by the 2020 outbreak, which slowed down the momentum and, coupled with the saturation of the industry, many small-scale retail outlets found it hard to sustain their operations. On the other hand, due to this circumstance, the new retail has made some contributions on business structure to adapt the changes [2].

## 2. Data and method

### 2.1 Data

Under the principle of “saving people’s money so that they can have better life”, Walmart is an American multinational retail company that operates a chain of supercenters, discount department stores and grocery stores from the US. As the representative of the traditional retail, Walmart was founded by Sam Walton in 1962 and became one of the world’s largest corporations then. By January 31, 2022, it has already had 10,593 stores and clubs in 24 countries. According to the Fourth Quarter 2022 Financial reports, the gross revenue of Walmart is 152.9 billion dollars. The key to its success is its special business model, which is Cost Leadership strategy. Known for its cheap, one-stop shopping experience, Walmart swiftly occupies the Chinese market by both reducing costs and increasing efficiency [3].

Freshippo, owned by Alibaba Group, is a fresh retail e-commerce O2O (Online To Online) company hoping to define what the future of retail will look like. Founded in 2015, it is now growing rapidly in China and opening 65 locations in one year. Freshippo’s success cannot be achieved without the New Retail model [4]. There are three pillars to its strategy: serving a place to shop in person, a distribution centre for online orders and the restaurant. The new form of supermarket provides fresh food all over the world and delivers special services through online apps and offline stores. In the realistic context, the outbreak of COVID 19 certainly brought valuable opportunities to the fresh e-commerce. But it does not mean that the future for Freshippo is absolutely bright. How to be competitive enough and sustain a long-term development is still an important issue for Freshippo to think about.

### 2.2 Method

First published in Harvard Business Review in 1979 by Michael E. Porter, Porter’s five forces model is an effective tool for analyzing and evaluating the environment of a business. It consists of five forces, which are Industry Rivalry, Threat of New Entrants, Threat of Substitutes, Bargaining Power of Suppliers and Bargaining Power of Buyers. Based on this model, the analysis of the retail industry in China is as follows.<sup>2</sup>

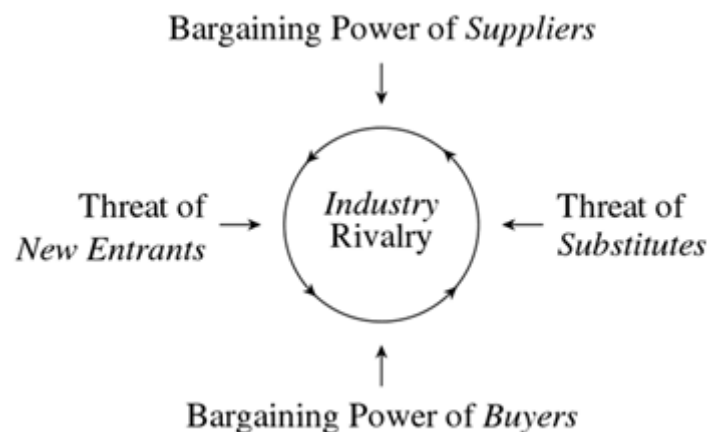


Figure 1. Graph of Porter’s five forces model

<sup>2</sup> [Porter's five forces analysis - Wikipedia](#)

Data source: Wikipedia

### **3. Result and discussion**

#### **3.1 Detailed Porter's five forces analysis**

##### **3.1.1 Competitive Rivalry**

According to the Chinese Retail Industry Development report (2018/2019), by the end of 2018, there were 20.8 million retail operating units in China, and the numbers saw year-on-year rises of 7.8 percent, up 0.9 percentage points compared to last year. The numbers are so large that it surely reflects the fierce competition in the retail industry.

Up to now, almost all the 50 largest global retail enterprises have entered the Chinese market. Retail giants such as Walmart, Carrefour and Metro have already made up a huge part of the market. In addition to the foreign capital magnate, local retail businesses have also sprung up and developed a lot. Companies like China Resources Vanguard have been able to build enough consumer base and compete with others.

With the outbreak of the pandemic and development of the Internet, new retail enterprises like Freshippo are brought into the public view. Simply traditional retail cannot satisfy the customers any longer. To stand out from the market, enterprises improve their technology, services, or try to realize transformation, which makes the competition of the retail industry more intense.

##### **3.1.2 Threat of new entrants**

At present, some large-scale retail enterprises have a considerable market share with the unique business model and complete supply chain, which aid assistance to control the prime of the products and attract customers at low prices. This requires abundant prophase investment and opportunities. Moreover, the facade of these large enterprises has covered most cities in China and has a stable customers basement, which means space left for the new company to develop is very limited. Therefore, the entry threshold of traditional retail industry is high. But for Walmart, the threat brought by the potential competitors is small.

Freshippo is less likely to be impacted by new entrants. It is dispensable for online retail companies to possess a wide range of hypostatic stores, stable passenger flow and sufficiently competitive online platforms [5]. Next in importance, both building Internet platform and contracting Intelligent logistics are difficult to achieve in a short time, this is another obstacle to the new entrants. The longer time of the platform construction takes, the fewer opportunities left for new entrants to expand their market share. What is more, due to the pandemic, the investment environment is worse. At the same time, the upstream and downstream industries of the retail industry have been impacted, too. Without doubt, these changes are expected make the entry threshold much higher than before.

##### **3.1.3 Substitutes**

In the current environment, Walmart is faced with the threat brought by its substitutes. Through decades of development, the retail market is tending to be saturated [6]. With the diversification of commodities, the competition of products with the same price is very fierce, which end in changing the competition among retailers in the industry from chasing high market share to providing qualified service. Because of this, more and more retailers begin to innovate in order to find new kinds of business models to make them more competitive. They are trying to reach the combination of retail with canteen and entertainment, which brings challenge to traditional retailers like Walmart. At the same time, as the middle class expands, more and more consumers are no longer satisfied with mass-produced products, and start to pursue characteristics. Hypermarkets are no longer their first choice for purchasing daily necessities.

As a representative of new retail industry, Freshippo faces less pressure from its substitutes in the same industry. While paying attention to some E-commerce companies is needed. Freshippo relies

on an internet platform to complete the trades and offers qualified delivery service, because of which the commodities' prices are higher than average level [7]. But with the development of science and technology, more and more online shops appear and have the capability to replace some functions of it. They can not only provide customers with some mid-end or high-end commodities at a lower price, but also rely on established logistics networks to create economies of scale. Some of them have established a regional supply and marketing chain like retailers, which has a great impact on retail industry. Finally, under the influence of the epidemic, more and more people are willing to choose the online platform to buy daily necessities or even fresh food with a short shelf life and this may result in less patronage to the entity retailers.

### **3.1.4 Bargaining Power of Suppliers**

As fresh food is an important commercial sector of Freshippo, the suppliers in the field of fresh food are irreplaceable. Stable suppliers and high-quality food play a great role. Therefore, the supplier has strong bargaining power for Freshippo. Freshippo gave full play to the advantages of Alibaba in e-commerce logistics, made a series of innovations in production, logistics and stores, and achieved certain results. In terms of procurement, Freshippo strives to cultivate its own supply brand and integrate it with the direct purchase from the origin. As a result, it objectively reduces the cost, makes the product more cost-effective and improves the competitiveness of the enterprise. However, this business model and bundling relationship make the bargaining power of suppliers stronger, and weaken the bargaining power of Freshippo.

Walmart, by comparison, has a broader business scope. The monopoly in a certain field and the formation of scale effect will improve the bargaining power of upstream suppliers. In addition to fresh products, upstream enterprises in fields of household appliances, processed food, clothing, toys and so on are highly competitive, and few enterprises have formed a monopoly in China. It makes suppliers almost in a weak position, while large commercial supermarkets have rich choices [8]. And many products and suppliers with bargaining power in the field of food have the halo of "import", which means that Walmart, as a multinational enterprise, has unique advantages in bargaining with foreign brands. It is worth mentioning that Walmart has paid considerable attention to suppliers and manufacturers as early as the last century. Walmart is a successful case in the upstream and downstream supply chain. It has created a special measure of information sharing so that suppliers can enter the system to optimize the allocation of resources. As a price, the supplier needs to transfer certain independent rights [5]. Walmart also proposed that for a certain type of products, only manufacturers are allowed to provide a quantity not exceeding 2.5% of their total demand, so as to avoid over reliance on a certain manufacturer.

### **3.1.5 Bargaining Power of Buyers**

In Porter's five forces model, bargaining power of buyers is mainly determined by product quantity and its type, price and consumption capacity. It is speculated that in China customer base of Freshippo is mainly the middle and high-income groups in medium or large cities. Among them, main customers of Freshippo are white-collar workers born after 1980. On the one hand, they value quality of life, especially food health, and are not very sensitive to price changes. On the other hand, with the development of economy in recent years, the purchasing power and consumption level of Chinese residents have been continuously improved. Figure 2 shows that in 2020, the median per capita disposable income of residents in China was 27540 yuan, increased about 3.8%. At the same time, people's consumption concept also changes, and consumption upgrading has become a trend. During the period of COVID-19, many users developed the habit of buying fresh products online. All in all, the above factors lead to the low bargaining power of buyers.

Average and median per capita disposable income of national residents

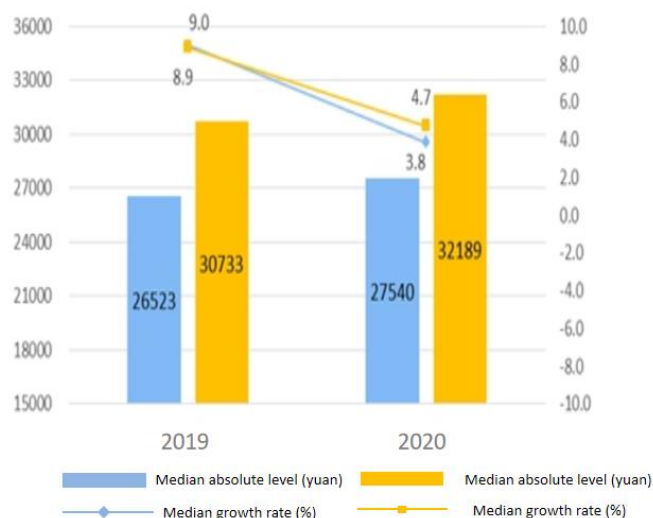


Figure 2. Average and median per capita disposable income of national residents

Data source: official account number of Qujing daily

The slogan of Walmart in the U.S. is "daily parity". Now, under the background of consumption upgrading in China, Walmart's potential customer base is also shrinking. At present, as a representative of traditional retail industry, Walmart's business scope is wider than that of Freshippo, so there are more competitors [9]. In addition, in recent years, domestic investment has begun to enter the medium and high-end retail market, in addition to Walmart and Freshippo, Costco and other supermarkets have gradually laid out the domestic market. Local supermarkets and fresh food selling markets in cities are mixed together, e-commerce and logistics industry have developed rapidly in recent years. Objectively the situation enriches the buyer's choice and improves the buyer's bargaining power [10].

### 3.2 Business model comparison

#### 3.2.1 Value Proposition

As a traditional retail brand, Walmart is committed to saving people money so that they can live a better life. This kind of value proposition can be summarized into low prices and customer satisfaction. Not only can customers buy products at discounted prices, but they can enjoy high-quality service and select a wide range of products.

In contrast, Freshippo is committed to creating a one-stop new retail experience center for consumers in a community, bringing people a "delicious life" with technology and humanity. It redefines catering services and store functions by utilizing an Online-to-Offline model [11], which combines traditional offline sales with online retail of Hema APP. There is no doubt that Freshippo's brand-new value proposition and precise target leads its success in the post-pandemic era.

#### 3.2.2 Target Customer Segments

Insisting on the ideal of "Customer foremost", Walmart always emphasizes an abiding determination to serve their customers. Because of its low-price strategy, Walmart focuses on the Chinese mass market and its main customers are divided into three groups: low-income brand pursuers, price shoppers and value seekers.

By comparison, Freshippo is more customer-oriented and pay close attention to the customers' demand for freshness, convenience and efficiency. To achieve it, Freshippo promises to deliver the products in thirty minutes and within five kilometers. It mainly serves the high- and middle- income community, which are domestic consumers, white collars and leisure groups. According to research, most of them are low price-sensitive, valuing the quality of life and having high purchasing power.

### 3.2.3 Logistics and Partner network

There are a lot of differences between Walmart and Freshippo in logistics. Walmart mainly relies on its own delivery system to transport products to subbranches, while Freshippo establishes a composited logistics system, which can help it finish the transportation between each branch and its customers.

In recent years, Walmart has focused on globalization and has expanded its product supply chain around the world. It has also established its own fleet supported by global positioning technology, which ensures the fleet is always work efficiently, fast and with fully loaded state. Moreover, Walmart's strategy of direct sourcing and selling reduces the possibility of intermediate consumption. According to statistics, Walmart's stocking costs are only 3% of the total, while competitors need 4.5% to 5%. Walmart has paid considerable attention to suppliers and manufacturers. As early as the last century, it has innovated the storage and distribution system, which is beneficial to itself and upstream suppliers at the same time. Walmart is also a successful case in the upstream and downstream supply chain. It has created a special measure of information sharing so that suppliers can enter the system to optimize the allocation of resources. As a price, the supplier needs to transfer certain independent rights. Walmart also put forward the "Buy America" plan in the 1980s to pursue a win-win situation for suppliers and retail enterprises [12].

After five-years exploration, Freshippo has built a three-tier supply chain that closely integrates suppliers, hypostatic stores and consumers [11]. Freshippo chooses to source directly from planting bases and local wholesale markets. Relying on Alibaba, who is used to purchase resources from all over the world, Freshippo gradually cooperated with many foreign manufactures and conducted its own agricultural bases all over the world. Furthermore, the hypostatic shops are logistics centers that not only stock products but also provide emergency transfers for other shops, thus coordinating the rational allocation. Freshippo is different from Walmart in partner mode. In the upstream, Freshippo has realized the integration and innovation of big data and manual buyers as to realize the prediction of consumer demand and preference. The key performance indicator (KPI) of buyers is related to product sales. In terms of procurement, Freshippo strives to cultivate its own supply brand and integrate it with the way of direct purchase from the origin [13]. In the middle and lower reaches, the store design fully combines the needs of young people, realizes the integration of offline store storage, and effectively reduces the logistics cost combined with data algorithm technology; The store actively cooperates with brand catering and realizes free entry for some catering brands, which is a win-win model [14].

### 3.2.4 Income model

According to the following annual report, among Walmart's revenue, operating income (retail sales revenue) accounts for the largest proportion. In addition, Walmart also generates revenue by creating its own brand.

**Table 1.** Main profit data of Walmart in fiscal year 2022

Year (2022)	Financial statements	Financial statements for three quarters
Operating income (USD)	567 billion 762 million	416 billion 237 million
Other income (USD)	4 billion 992 million	3 billion 646 million
Total operating income (USD)	572 billion 754 million	419 billion 883 million
Operating cost (USD)	429 billion	313 billion 478 million
Gross operating profit (USD)	143 billion 754 million	106 billion 405 million

data source: [10jqka.com.cn](http://10jqka.com.cn)

The profit income of Freshippo also mainly comes from sales, in addition to membership fees, service and food processing fees, venue rental fees, etc. In order to reduce costs, Freshippo innovated the profit model, proposed to measure the profit degree with "Turnover per unit area (ping xiao)" [7], and included the online revenue into the measurement model.

Overall, based on Porter's five forces analysis and the comparison, it can be concluded that both traditional and new retail have their pros and cons with Walmart and Freshippo as examples. In the post-pandemic era, not only the traditional retailers, but the new retailers are confronted with challenges. It is necessary for both of them to learn from each other and improve themselves to adapt to the new environment.

### 3.3 Discussion

Taking Walmart and Freshippo as examples, the purpose of this paper is to analyze the business model of Chinese retail industry in the post-pandemic era by using Porter's five forces model. On the basis of analysis, there are relative suggestions for the development of the retail industry. And it turns out that whether in traditional retail or new retail, new entrants are faced with fierce competition. Besides abundant local retail enterprises, a large number of foreign-funded enterprises and multinational corporations have entered this field. Under their impact, traditional retail giant like Walmart is the most threatened. Meanwhile, the analysis shows that Walmart and Freshippo have their own competitive edge. Advantages of Walmart are mainly reflected in its strong bargaining power for suppliers and buyers, while Freshippo stands out in Chinese new retail market for its excellent logistics, e-commerce capabilities, a wide range of entities and online stores. The differences of the two are competitive rivalry, value proposition, logistics, partner network, revenue model and so on. Finally, based on their situation, there are some practical suggestions for the future of Chinese retail industry, which are Online-Merge-Offline, improvement of supply chain and cost control.

## 4. Conclusions

According to the analysis above, there are several practical suggestions for the development of Chinese retail industry.

To begin with, in the new environment, Online-Merge-Offline (OMO) is a key way to realize business model transformation. As Internet plays an increasingly important role in the society, online platform becomes one of the main channels for consumption, which greatly influenced the traditional retail industry. Meanwhile, the outbreak of pandemic makes OMO a more suitable choice for retailers. To adapt to the new pattern of consumption and lifestyle of people, retailers should connect offline stores with online business, providing all-around services of high quality for the customers. First, it is necessary to transform the thinking mode, actively change the traditional retail forms and adopt "Internet +". Not only can it optimize and integrate both the online and offline resources, strengthen cooperation and communication, but can satisfy the different needs of users and thus improve the competitiveness of retail enterprises. In addition, keeping renovating and promoting technology is highly suggested, especially for new retailers. To be specific, retailers are supposed to increase input in innovation and optimize the e-commerce platform with new technology, which offers the premium products and services to the customers. In this way, the retail industry will maintain healthy development in the post-pandemic era.

Secondly, in response to market impact, retailers can actively promote cost management. As mentioned before, increasing investment in science and technology is a quite direct and effective way to control costs. With the assistance of digital management platform, the retailers can reduce the number of the employees and improve management efficiency to some extent. At the same time, retailers are expected to cut down the cost of business activities. The downward pressure on the economy has seriously affected many traditional industries. If retailers maintain the previous advertising and marketing expenditure, it is predicted that serious pressure will be brought to the overall operation of the enterprises. Also, it's crucial for enterprises to do merchandising operations through free online media platform and strive for higher benefits at a lower cost. What's more, retailers can utilize the scale effect and strengthen the upstream and downstream construction of enterprises to reduce the total cost.

Last but not least, retailers should adjust their supply chain models in the post epidemic era. Research found that providers and buyers of new retail enterprises have strong bargaining power and retailers are now at disadvantaged. Therefore, retailers can strengthen their power by optimizing the configuration and composition of upstream and downstream supply chains. For example, relying on the e-commerce platform, Freshippo has established a three-tier supply chain, which meant it built close connection with the upstream wholesale market and downstream physical stores, and created its own brand. Besides, new retailers in particular can also innovate in cold chain logistics technology. The half-way cold chain method and the insulation that mainly used for long distance transportation and short-distance delivery might lead to damage to the products, so in order to provide qualified products and promote the image of company, developing transport technology is recommended. Different from new retail, Chinese traditional retail enterprises is expected to choose to introduce advanced technology. Combining logistics with data algorithms and cooperating with local communities to establish a diversified distribution model is a fabulous way to increase efficiency. Lastly, retail enterprises need to pay attention to the construction of logistics system and independent distribution system between themselves and customers.

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