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Understanding Traditional Retail Dilemma and Identifying Possible Solutions Based on New Retail Model: A Case Study of Chinese Market and Fresh Hema

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Abstract: The COVID-19 pandemic and online shopping have hit traditional retail which is still struggling to transform, while academics lack an up-to-date and systematic summary of the traditional retail dilemma. In addition, the New Retail business model appears as a potential solution. However, it remains to be seen whether it can provide a more effective means for physical retailers to stay competitive. In this instance, this paper attempts to summarise the dilemma of traditional retail from the perspective of CPT theory and to identify potential solutions that emerged from the New Retail model. The author employs the case study approach to investigate the Chinese retail market and Fresh Hema. Also, the Data Analysis Spiral is used to analyse secondary data. The findings demonstrate that the retail dilemma reflects on the channel, individual, tangible, and intangible aspects and that the New Retail model can handle the majority of problems with the exception of corporate awareness and monetary issues.

Keywords: traditional retail; new retail; china; fresh hema; pandemic; e-commerce; technology; logistics; Omni-channel; O2O

1. Introduction

In recent years, there has been a notable surge in predictions forecasting the decline of traditional brick-and-mortar retail (Helm et al., 2020). This trend is underscored by an increasing number of bankruptcies and store closures (Berman, 2019). Notably, physical retail is experiencing modest growth at an average rate of 4%, significantly lower than the 15% growth rate seen in e-commerce (Statista, 2022b). Scholars have investigated various factors contributing to this decline, including the impact of the pandemic, the rise of e-commerce, and evolving consumer preferences. However, a comprehensive analysis that integrates these factors is still lacking. To address the challenges facing traditional retail, the New Retail model has emerged as a promising strategy. This approach offers a holistic solution encompassing channels, technology, and logistics, exemplified by the innovative Chinese retailer Fresh Hema (Li, 2020). Despite extensive research highlighting its innovations compared to traditional retail formats, its effectiveness in mitigating retail decline remains underexplored. This paper aims to bridge this gap by first examining the current challenges in the Chinese retail industry and then evaluating how Fresh Hema exemplifies potential solutions. It seeks to provide a comprehensive understanding and practical insights essential for revitalizing physical retail, a pivotal sector contributing significantly to national economic growth (Knezevic, Renko, and Knego, 2011).

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2. Literature Review

2.1. *The Analysis for Traditional Retail Decline*

The COVID-19 pandemic has emerged as a significant factor exacerbating challenges within traditional retail. Government-imposed lockdowns and restrictions precipitated a sharp decline in foot traffic, leading many businesses to temporarily close their doors and prompting a notable shift towards online shopping platforms (Enoch et al., 2021; Berman, 2019). This transformation highlighted existing vulnerabilities in the sector, compelling smaller retailers to explore online channels as a survival strategy (Bartik et al., 2020; Luke, 2020). Additionally, logistical hurdles such as prolonged delivery times and the complexities of the last mile have compounded challenges for traditional retailers (Bhatti et al., 2020; Maxner et al., 2020).

Even before the pandemic, the rise of e-commerce had begun to erode the market share of traditional retail. The appeal of online shopping lies in its extensive product offerings, transparent pricing structures, and efficient delivery mechanisms, factors that have increasingly diverted consumers away from physical stores (Berman, 2019). Furthermore, technological advancements have not only facilitated the expansion of e-commerce but have also catalyzed digital transformations across industries, presenting further obstacles to traditional retail models (Hagberg et al., 2016).

Scholarly discourse predominantly examines the decline of traditional retail through the lens of external market dynamics, often overlooking the evolving influence of consumer power. The internet's role in augmenting market transparency and empowering consumers with comparison-shopping capabilities has profoundly reshaped the retail landscape (Labrecque et al., 2013; McArthur et al., 2016). This trend underscores the complex interplay between technological advancements, the proliferation of e-commerce platforms, and shifting consumer preferences, thereby emphasizing the multifaceted nature of retail decline.

2.2. *The Strategy for Decline: New Retail*

The decline of retail stores has spurred numerous proposed solutions in recent research. These include strategies like enhancing channel integration and synergies (Berman, 2019), improving logistics efficiency (Grant et al., 2021), implementing O2O services (Pan et al., 2017), personalizing strategies (Peacock, 2016), and integrating new technologies (Porter & Heppelmann, 2017; Parise et al., 2016). In contrast to these specific strategies, the New Retail business model represents a holistic approach. Coined by Jack Ma in 2016, New Retail integrates offline, online, and logistics operations (Chen et al., 2018). Initially defined as combining O2O services and efficient logistics, New Retail has evolved into a comprehensive retail format catering to consumer expectations for shopping, entertainment, and social interaction (Wang, 2017). Further interpretations by Zhao and Xu (2017) emphasize applying modern internet technologies to innovate traditional retail practices, reflecting rapid advancements in data and technology (SIKOSA et al., 2019). This evolution has led to concepts like "Internet+" and the application of emerging technologies within New Retail (Chen et al., 2018). The New Retail model aims to provide a seamless shopping experience through Omni-channel strategies, smart logistics, and O2O services, driven by cutting-edge technology to enhance retail ecosystems (Ding et al., 2022). Recent exploratory research has focused on defining and comparing New Retail. Studies often employ case studies, such as comparing Amazon Fresh and Fresh Hema to analyze adoption and impacts (Lingyu et al., 2019). Comparative analyses, like those using Porter's Five Forces, contrast traditional retail with New Retail models (Liu et al., 2022). Fresh Hema, an Alibaba Group investment, exemplifies the New Retail model, blending online and offline retail with rapid delivery services (Lu, Tao, & Shen, 2020). It serves as a benchmark for understanding how New Retail principles can reshape consumer experiences and supply chain management (Chen et al., 2022; Yang & Peng, 2021). Despite these advancements,

there remains a need for comprehensive studies bridging New Retail with traditional retail challenges and offering multifaceted solutions. While some scholars propose applying New Retail insights to supply chains and digital innovations in traditional retail (Lin et al., 2019; Wang & Coe, 2021), holistic analyses integrating all facets of New Retail's potential impact on traditional retail competitiveness are still lacking.

From the two sections of the literature review shown above, it appears that a comprehensive analysis of the traditional retail decline is still lacking. Recent research is limited to established retail markets, while emerging markets are ignored. In addition, New Retail research is still exploratory. Insufficient research has been conducted on the link between traditional retail and New Retail. To fill the gap, this project tries to answer to main research questions:

- (i) What challenges does traditional retail face now, and what causes these challenges?
- (ii) What solutions can the New Retail model offer to solve decline issues, and whether the New Retail model can provide a more effective way for traditional retailers to respond to challenges?

3. Methodology

3.1. Research Design

This project employs a qualitative approach. Comparatively to quantitative data, qualitative data can be interpreted from multiple perspectives to provide more comprehensive information (Curral, 1999). Given the complexity of the retail environment and the immaturity of the new business model, the rich content interpreted from qualitative data could be useful in developing an interpretive framework for establishing the relationship between the decline of traditional retail and the New Retail model.

In addition, this essay adopts a single case study approach to investigate the retail decline and New Retail. Among qualitative methods, case study, archival analysis, and interviews are favoured because they facilitate the development of a theory by gathering and documenting information. However, the interview approach is used to acquire primary data. Although primary data may offer a direct picture of the decline of physical retail and the development of New Retail, it is often collected through interviews with smaller groups (Rahman, 2017). It suggests that the information received from primary data may be limited. Due to the complexity of the retail environment, it may be insufficient to rely on interviews to understand the retail decline and identify potential solutions. Therefore, archival analysis and case studies that provide secondary data are preferable because they allow us to collect data from as many channels as possible. However, the relevant archives may have outdated or insufficient data problems, because the retail industry is constantly changing, and the New Retail model has been established recently. Consequently, the case study methodology is advantageous, as it ensures not only the timeliness and diversity of information acquired, but also the thoroughness of the investigation.

3.2. Data Collection

3.2.1. The Subjects of Data Collection

As discussed previously, this project is divided into two sections: a discussion of the traditional retail dilemma and an analysis of the New Retail Model. Regarding data collection, the first section will examine the Chinese traditional retail industry, and the second section will study a Chinese store, Fresh Hema.

3.2.2. The Resources of Data Collection

Table 1. The Distribution of Data Sources.

Theme	Source Type	Data Volume
Chinese Traditional Retail Decline	News	26
	Media Interviews	2
	Government Reports	4
	Total	32
Fresh Hema	News	13
	Government Reports	2
	Academic Research	11
	Total	26

To ensure the timeliness of the data, this project mainly collects data from the last six years (the New Retail model was proposed in 2016), and the distribution of data sources for retail decline and Fresh Hema is displayed in the Table 1 above.

3.2.3. The Process of Data Collection

To gain a basic understanding of the retail decline, we first examine news about Chinese retail on Baidu, the most popular Chinese search engine, and academic resources on the website of The Library of Warwick. After reviewing the pertinent literature, we are inspired by Christaller's central place theory (CPT) to collect information about retail decline from Threshold and Rnge perspectives. We find the CPT theory could provide a clear guidance on the direction of data collection. Christaller analyses the hierarchical structure of retail (and other industries) using Threshold and Range components (Christaller, 1933). The threshold is the lowest level of consumption required for a business to exist, while the Range means the maximum distance consumers are willing to travel (Beckers et al., 2021). Physical stores can only survive if their consumption threshold is satisfied within the consumers' willingness to travel distance (Beckers et al., 2021). That is, Range and Threshold can be seen as the measure of business survival. In this case, we are expected to collect data on how external and internal factors affect the retail survival that is measured by rang and threshold components.

Second, the direction of data collection about Fresh Hema will follow the four elements of New Retail (O2O, Omni-channel, Logistics, and Technology). We will search for solutions in the four elements based on the problems that arise in traditional retail. In other words, if traditional retail faces issues in channel cost, this project would narrow the sample to the elements related to the channel, such as O2O and Omni-channel, to collect as much data as possible until the framework is developed.

3.3. Data Analysis

The strategy for data analysis is the Data Analysis Spiral. The Excerpts of the coding process are attached in Appendices.

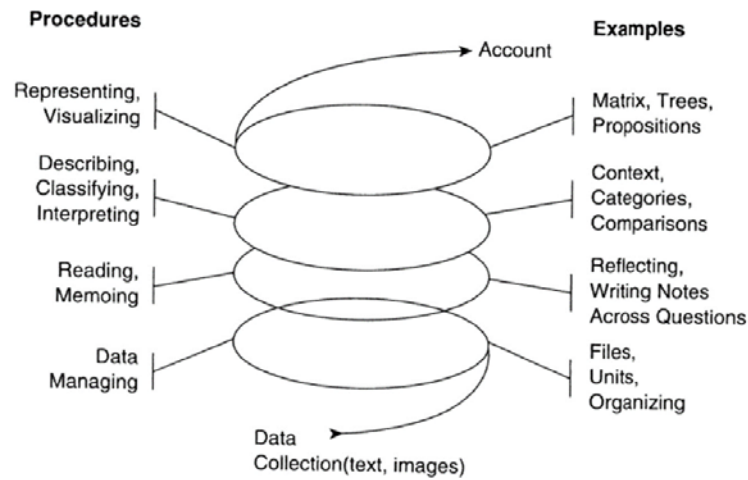


Figure 1. Creswell. (2007) The Data Analysis Spiral.

As shown in Figure 1, data management is the first loop in the spiral. It is required to name the file system at the beginning of data analysis. For Theme 1 (Traditional Retail Dilemma), this project will classify files into "Range" and "Threshold" two sections. For Theme 2 (New Retail), the classification will follow the four elements of this model. Then the data collected is organised into prepared files.

Second, we are expected to understand the data by reading information and memoing emerging ideas. In the third phase, we work on memoing words to name initial codes. Then, we scan the codes to summarise the main dilemma and establish the code categories for the framework development. Furthermore, the second and third loops are cycled to code the New Retail data and complete the framework. Finally, the data analysis-derived framework will be shown visually as the final loop appears.

4. Finding and Discussion

4.1. External Challenges

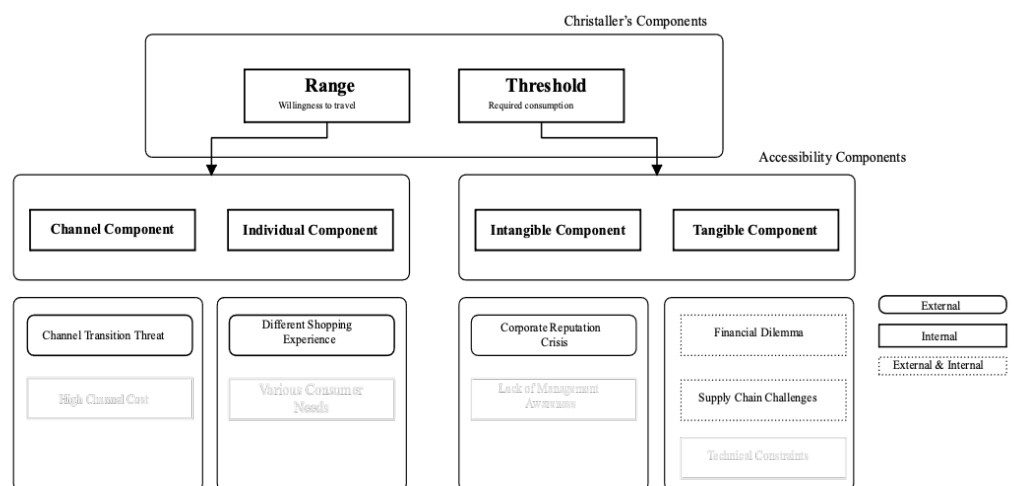


Figure 2. The Framework for Traditional Retail Dilemma.

The Framework for Traditional Retail Dilemma can be seen in Figure 2.

Channel Transition Threat: Internet technology provides consumers with opportunities to compare prices from different channels and makes the cost of channel transition

almost negligible. Additionally, compared with e-commerce, the price offered by traditional retail is relatively less competitive due to the higher fixed cost. Also, influenced by the social distancing and travel ban during the pandemic, consumers have turned to online shopping to meet their basic needs. These three factors facilitate a seamless transition of consumers between channels, further intensifying the traditional retail crisis.

Different Shopping Experience: In most brick-and-mortar stores, the consumer experience is identical due to the homogeneity of the store's design and sales patterns. Different shopping experiences offered through online promotion (such as Double 11), live commerce, and other new retail formats attract consumers and threaten traditional retail.

Corporate Reputation Crisis: The news about the detection of COVID-19 on imported food and packaging has increased consumers' worry about imported food, ultimately undermining the reputation of physical retailers involved in imported food. In addition, COVID-19 infections among staff may discourage customers from entering the store out of fear of being infected.

Financial Dilemma: The social distancing and travel ban results in a considerable decrease in footfall and then a reduction in revenue for physical stores in the affected area. The rapid expansion of online shopping has further impacted traditional retail sales. In addition, owing to the ban, the affected enterprises have to cease operations while continuing to pay high expenses such as salaries, loan interest, and rent. Overall, low revenue and high costs contribute to traditional retail's financial dilemma.

Supply Chain Challenges: On the one hand, the pandemic has disrupted the production of downstream companies, resulting in longer stocking cycles for retailers. In addition, the sharp decline in retail sales has led to an inventory backlog and increased pressure to destock. On the other hand, the COVID-19 pandemic has compelled brick-and-mortar retailers to establish online operations. However, the travel ban causes a shortage of delivery staff and increased expenses due to longer delivery periods.

4.2. Internal Challenges

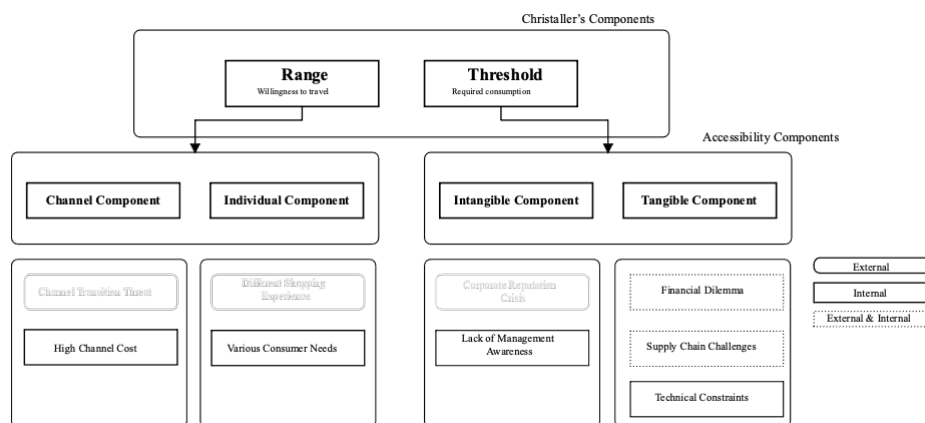


Figure 3. The Framework for Traditional Retail Dilemma (Internal).

The Framework for Traditional Retail Dilemma (Internal) can be seen in Figure 3.

High Channel Cost: It does not imply that traditional retailers are unaware of channel synergy. However, channel synergy requires channel construction and the maintenance of online and offline channels. The high cost of channel construction and maintenance has become a significant barrier for traditional retailers, particularly small and medium-sized enterprises.

Various Consumer Needs: Different channels' consumers have different needs. Retailers need to adapt their product layouts to accommodate various consumer needs. Specifically, if offline stores are designed to provide inventory for online sales, which requires

a comprehensive plan for resource allocation. Therefore, it has become a dilemma for retail to effectively utilise limited resources to suit the diverse needs of numerous consumer groups.

Lack of Management Awareness: On the one hand, most Chinese physical retailers are unaware of risk management necessity and devote all of their resources to company operations, leaving them unable to cope with risks when a rapid pandemic comes and proposing immediate and efficient solutions to the difficulties. On the other hand, retail transformation, such as digitisation, is fundamentally a process of management philosophy and workflow change, frequently constrained by mental and behavioural inertia.

Technical Constraints: Retail transformation is inseparable from technical support. However, the implementation of new ear technology in enterprises requires incremental efforts and iterative innovation, which are supported by abundant human capital, substantial investment, and related infrastructure. In this case, the transition is difficult to achieve rapidly.

Financial Dilemma: Most retail business expenses are caused by fixed costs, making it difficult to transform the retail sector. Under the traditional retail business model, the primary expenses are labour and rent. However, retail transformation requires substantial monetary assistance for channel establishment and maintenance, technological development, talent recruitment, etc.

Supply Chain Challenge: The development of online channels for traditional retailers unavoidably leads to high supply chain costs. In the online channel, consumers are more dispersed. The required delivery services place higher demands on retailers' logistics capabilities and response speed.

4.3. Possible Solutions

Online-To-Offline (O2O): The O2O model is defined as the business strategy used to attract potential online customers to brick-and-mortar stores (Pan et al., 2017). Fresh Hema attracts online customers with its quick delivery and variety of products. Then, the combination of "Click and Collect" and "Supermarket + Restaurant" builds the connection between offline stores and the online shop. Additionally, the comfortable retail environment, clear product layouts, and interactive shopping experience increase customer loyalty. Clearly, the O2O model is an effective solution for the channel transition concern. It enables businesses to take advantage of the online channel to attract consumers and then bring footfall traffic to physical stores.

Omni-channel: Fresh Hema utilises and integrates multiple channels to provide products and services for consumers with a seamless shopping experience. Several examples of Omni-channel applications are depicted in the preceding Table 2. However, not all channels are included. Fresh Hema achieves online and offline integration and simultaneous operations, mitigating the threat of channel transition. In addition, It permeates the entire consumption process: Attraction (attract people through marketing tools), Purchase, and Consume (consume foods in restaurants) to give a seamless shopping experience.

Table 2. The Examples of Omni-channel Application in Fresh Hema.

Channels	Examples
Marketing Channel	Fresh Hema conducts marketing promotions through multiple channels, including online communities and offline advertisements.
Merchandising Channel	Fresh Hema combines supermarkets and restaurants. That is, consumers can directly enjoy Fresh Hema products after shopping.
Buying Channel	Also, Fresh Hema as the end retailer skips out the intermediate and directly purchases food from sources (such as farmers).

Simultaneous Operation	The application of internet technology and big data enables Fresh Hema to analyse the preference of consumers to update online and offline products.
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Logistics: Fresh Hema adopts a self-operated logistics model and has established an automated logistics system across China. Several possible solutions to retail decline are shown below.

Technology: The application of the technology is mentioned in the explanation of the preceding three elements more or less. In addition to the technologies stated, this research examines other technologies to offer constructive suggestions.

5. Conclusion

Using Data Analysis Spiral to construct a framework inductively, this study summarises the traditional retail dilemma from the Range and Threshold perspectives and identifies potential solutions from the New Retail model. The analysis in this paper demonstrates that the New Retail model can address the majority of problems, despite its lack of ideological guidance and the high expense. For the physical retail industry development, not only should businesses improve their self-management, but the government should also adopt policies that foster the ideal environment. Nevertheless, this study is subject to a variety of restrictions. First, although this project uses Data Analysis Spiral to analyse data systematically, subjectivity is unavoidable during the coding process. Thus, the complete reliability of coding data is not guaranteed. Second, New Retail model is incompletely understood because this study analyses the model from the perspective of addressing retail decline issues. In reality, the New Retail model emerges not only as a potential retail transformation solution, but also as a consequence of economic and technological progress. Therefore, a comprehensive analysis of the New Retail model mechanism is still required for future research.

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