



A Study on Changes in China's Distribution Market and Firms' Response Strategies*

Byoung-Goo KIM

Associate Professor, Department of International Trade, Korea National Open University, Korea.

Email: bgkim@knou.ac.kr

Received: October 22, 2021. Revised: November 04, 2021. Accepted: November 10, 2021.

Abstract

Purpose – This study investigated the development process of the Chinese distribution industry and analyzed the current status of China's offline and online distribution industries under the development process of the Chinese distribution industry. In addition, the current status of offline distributors in China and representative companies were analyzed as case studies.

Research design, data, and methodology – This study analyzed the overall environment of the Chinese distribution industry by using literature data. Then, this study conducted a case analysis using RT Mart and Jingdong, major companies in the distribution industry.

Result –The main research results of this study show that the Chinese distribution market has already matured, and retailers are fiercely competing to secure sales and operating profits through various methods such as finding new management methods, improving awareness and customer loyalty by expanding the number of stores.

Conclusion –Recently, the characteristic of China's distribution industry is that the boundaries of distribution are breaking down. Chinese retailers are taking strategies to expand the scope of services by erasing the boundaries of distribution. In other words, distribution companies are promoting a borderless distribution strategy in which consumers purchase products online and offline without restrictions on time and space. In addition, small stores in residential areas are on the rise compared to large-scale stores in the city center. The existing distribution industry operates various types of distribution stores to prepare for the post-COVID-19 crisis.

Keywords: Distribution Industry, China, Firm Strategy, RT-Mart, JD.COM

JEL Classification Code: L11, L10, M31

* This research was supported by Korea National Open University Research Fund

© Copyright: The Author(s)

This is an Open Access article distributed under the terms of the Creative Commons Attribution Non-Commercial License (<http://creativecommons.org/licenses/by-nc/4.0/>) which permits unrestricted noncommercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

1. Introduction

The Chinese distribution industry became the center of economic policy as the transition to a "socialist market economy system" was formalized at the 14th National Congress of the Chinese Communist Party in 1992 after the reform and opening policy in 1978. Since then, the Chinese government has opened the distribution market with the perception that distribution is a major sector of the economy that smoothly connects production and consumption and enables economic balance between regions with severe regional variations by realizing rational allocation of resources. With the joining of the WTO in December 2001, the distribution industry was partially opened, and from December 2004, wholesale and retail commercial companies could be established by full investment by foreign companies, which is the core of the innovative distribution opening policy on December 1, 2004 (Lee & Kim, 2014).

As China's distribution industry gradually opened, restructuring was carried out rapidly throughout the distribution sector due to the full-fledged entry of multinational retailers with advanced management techniques and strong financial power and the rapid growth of distribution institutions in China. In addition, with the successful hosting of the 2008 Beijing Olympics and the 2010 Shanghai Expo, a number of foreign multinational retailers such as Wal-Mart, Carrefour, and Metro have entered an era of infinite competition, and the Chinese distribution market has become a venue for distributors around the world so far.

China's distribution market is expected to continue to grow high in the future as China is actively implementing policies to revitalize the domestic market, high growth potential, increased purchasing power due to an average annual economic growth rate of 7-9%. Such a strong central government's policy to revitalize the domestic market will certainly serve as an opportunity factor for the growth of the domestic market, which will certainly work in a significant advantage for domestic retailers to enter the Chinese market.

However, China's distribution market has many advantages like this, so it is also an opportunity market for domestic distribution companies, but if looking closely, it is true that there are many risks. In other words, since the Chinese distribution market has as many changes as opportunities, looking at the factors of change in the Chinese distribution market at this point is also very important in terms of providing differentiated marketing strategies necessary to achieve the epitome of opportunity creation and successful entry.

Recently, the Chinese government is doing its best to overhaul closed policies and systems to revitalize the distribution industry and advance the underdeveloped market structure, and as a result, the Chinese distribution market is rapidly advancing. In recent years, not only the offline distribution market but also the online distribution market is changing rapidly. However, looking at previous studies, there are not many studies on changes, opportunities, and risk factors in the Chinese distribution market. Kim (2005) identifies the current status of the Chinese distribution market and the characteristics of each retail industry and suggests strategies for Korean companies to enter the Chinese distribution market. Kang (2006)'s study analyzes foreign distributors' entry strategies in the Chinese market following the opening of the Chinese distribution market and suggests various entry strategies for domestic companies' entry into the Chinese distribution market. According to Shim (2008), after analyzing the characteristics, status, and problems of the Chinese distribution market, various strategies such as localization strategies, competitiveness securing strategies. In particular, this study raises the need for cross-border foreign and trade policies to lower barriers to the Chinese distribution market. Oh (2010) presented only general matters about Korean distribution companies' entry into the Chinese distribution market.

As such, existing studies have limitations in that they cannot analyze the recent changes in the Chinese distribution market environment. Therefore, in order to overcome the limitations of these existing studies, this study aims to identify changes in the offline and online distribution markets and provide practical implications for Korean companies entering the Chinese distribution market in the future through case analysis of recent offline and online companies.

2. Theoretical Background

2.1. Definition of Distribution

Distribution can be defined as a comprehensive concept of all activities that effectively create tangible and intangible phenomena in which products and services are transferred from producers to consumers, and the utility provided by the distribution industry is to efficiently transfer ownership of products or services from producers to consumers. The role of distribution is emerging as very important throughout economic society because it can satisfy consumer's needs by increasing the economic added value generated in the process of transferring products and services from

producers to consumers (Kim et al., 2008). Distribution is largely divided into commercial distribution and physical distribution. Commercial distribution is a higher concept of material distribution, and has transfer and trading functions. The concept of distribution, which is currently used in Korea as the term distribution, is variously defined in countries around the world by making some modifications to the concept of distribution.

In the case of the United States, marketing and distribution are used interchangeably, and distribution is often used as a concept contrasting with Channel. In addition, the two are clearly distinguished by expressing distribution as macro marketing from a macroscopic point of view and micro-marketing from a corporate management point of view. However, in Japan, distribution from a national economic point of view and marketing from a management point of view of individual companies are strictly used.

2.2. Current Status of Distribution Industry in China

2.2.1. The Development Process of the Chinese Distribution Industry

After reform and opening up, China's economy developed rapidly. Distributors have expanded from department stores. The development of the Chinese distribution industry is as follows.

First, it is a rudimentary development period after the foundation, from the foundation in 1949 to the first reform and opening in 1978. During this period, after the founding of China in 1949, department stores played a role in stabilizing supply and prices. In the Chinese market, there were few competitors in department stores because the conditions for new companies to appear in an unopened environment were not suitable.

Second, it is the initial development period after reform and opening, and it is the period from the first reform and opening in 1978 to the 90s. During this period, department stores are the main companies. Due to reform and opening up, China's economy has developed significantly, and the people have changed their demands on products. As a result, department stores developed more rapidly. Incremental liberalization of distribution helped companies diversify, and the first chain mart opened in 1990. The first supermarket opened in 1991, and convenience stores also appeared in 1994. Since 1992, foreign capital companies have actively entered the Chinese distribution market. Since 1995, the world's top retailers such as Wal-mart, Carrefour, and Metro have been in China. As a result, various companies appeared and competitive relationships were formed. Since the 1990s, the development of the Internet has created storeless companies, and the proportion of sales is light, but it has had a positive impact on the development of the Chinese distribution industry.

Third, it is the rapid development period (2001-2011) after joining the WTO. As the degree of openness of the Chinese distribution industry intensified, the world's leading retailers gradually entered the Chinese market, and the Chinese distribution industry entered a period of rapid growth and fierce competition. On the one hand, advanced foreign distribution management technologies not only promoted the upgrade of the municipal structure of domestic distributors in China, but also improved the level of modernization of domestic distributors and promoted the rise of new distribution paradigms such as franchises, logistics, and delivery. At the same time, however, it shocked distributors with low competitiveness in China. During this period, the Chinese distribution industry has four characteristics. First, the distribution legal system is becoming more and more complete, and the degree of cooperative management by the administrative department has been improved. Second, the level of chain-up of distributors and the concentration of industries increased rapidly, and the degree of organization and concentration of the distribution industry gradually increased. Third, the level of modernization management of distributors has risen rapidly, and modern information network technology has been widely applied to distributors and distribution efficiency has been significantly improved. Fourth, during this period, the distribution industry was diversified and developed, and emerging distribution industries such as e-commerce developed rapidly.

Fourth, it is the development period of online distribution. Based on the rapid development and widespread application of Chinese Internet information technology, the entire distribution industry is undergoing fundamental changes. By flexibly using various information technologies for each online distribution transaction, innovation of distribution information flow and business flow channels is realized. Currently, China's distribution industry has undergone changes in industries, and the division of labor in various services is becoming more sophisticated and meets the personalized needs of consumers. The specific e-commerce transaction model directly changed the traditional distribution model. It also provided effective support for the cooperative development of Chinese distribution agencies. The online distribution and trading industry not only changed traditional consumer business models and promoted the development of agriculture, industry, service industry, and other industries, but also created many employment opportunities for young people, becoming an important driving force for China's continued economic growth.

2.2.2. Status of Offline Distribution Industry in China

In the traditional distribution background, distribution is located at the 'rear production'. In the context of the traditional offline distribution industry, distribution is located "after production". The industrialization process has continuously changed business relationships. Due to the establishment of modern production methods and the breakthrough development of production scale, the dominant position of commerce-related industries has risen significantly (Park & Lee, 2017). Commercial capital is increasingly subordinate to industrial capital, and large companies are trying to internalize or serialize distribution functions, but small and medium-sized retailers have to rely on manufacturers' exclusive sales networks. Manufacturers value distribution channels and regard them as basic tools for value creation and added value.

In traditional distribution organizations, the organizational entities are mainly manufacturers, wholesalers, and retailers, and manufacturers play a major role. Large producers and merchants have invested their own funds in product distribution to increase channel control by reducing distribution links. This method reduces distribution links and improves distribution efficiency, but the company's capital cycle changes to some extent slowly due to the expansion of production and intensifying market competition, and affects the company's overall economic interests (Kim & Choi, 2010). So wholesale and retail companies are often in a passive position compared to manufacturers. Both the variety, quantity, and quality of the product are managed by the manufacturer. Distributors are not highly active in participating in feedback information and production activities through product sales.

This distribution organization system was directly related to China's lack of product and supply of industrial products at the time, and the government was still exclusively securing the right to place production and living data through a rigid distribution system, which dampened industrial companies' position (Choi, 2017). As market opening expands and private commercial activities become active, the existing distribution system is broken, creating a new distribution organization that leads the market. In addition, as China's labor productivity improved rapidly, the investment efficiency of industrial capital was higher than that of commercial capital. As a result, as industrial companies pushed the self-employed sector to the market and were in charge of production, specialized distribution organizations became the real main body of market distribution.

Representative distributors in China include CR Vanguard(华润万家), RT-MART(大润发), and LINHUA(联华). First, the CR Vanguard was first founded in Hong Kong in 1984 and entered China in 1992. Over the next 30 years, it has developed a lot and has now become a representative distributor in China. CR Vanguard has acquired companies such as SUGUO(苏果) and JIASHIJIE(家世界) since 2002, and in 2012, it ranked first in the Chinese distributor Top 100. That year, sales amounted to about 94.1 million yuan and were the highest brand value in the Chinese distribution market. CR Vanguard is China. It has entered 31 provinces and 288 cities, with more than 260,000 employees.

Second, RT-MART(大润发) is a large discount store in Taiwan founded in 1996 by Runtai Company. Taiwan's economy stagnated in the 1990s due to the rise in labor costs of low-cost overseas marketing in the textile industry. In such a situation, Runtai, which mainly operated the textile industry, found a way to respond to rapid changes. RT-MART has entered the Chinese market, has 24 stores in Taiwan, and Carrefour is the only competitor in the Taiwanese market. It entered the Chinese market in 1997 and by 2012, the number of stores in the Chinese market was 219. In 2010, it achieved sales of 50.22 million yuan, leading overseas retailers in China on behalf of Carrefour.

Third, LINHUA(联华) was established in May 1991. It is a large-scale general mart and is currently a large distribution company in the Chinese distribution market. It is operated in various business conditions such as hypermarkets and convenience stores. It is located in other regions such as Beijing, Shanghai, and Shandong Province and more than 100 cities, and is a company favored and trusted by consumers. LINHUA has sales of 6,573,015 million yuan until 2012, has 4,762 stores, and is the strongest leader in the Chinese distribution industry.

2.2.3. Status of Online Distribution Industry in China

According to the 44th "China Internet Network Development Statistical Report" released by China's CNNIC, as of June 2019, the number of subscribers to Chinese Internet shopping malls is 639 million. In 2019, the number of Internet shopping subscribers in China was estimated to be 639 million, an increase of 6.39% year-on-year. Internet retail transactions amounted to 10.63 trillion won, up 18.1% from a year earlier. The figure is down 7.4 percentage points from 2018. It accounted for 25.8% of the total social consumption retail sales in 2019.

From 2011 to 2019, China's e-commerce transactions continued to increase. In 2019, China's e-commerce volume rose 13.1% year-on-year to 36.8 trillion won. According to the major segmental market structure of the Chinese e-commerce industry in 2019, the B2B industry still accounted for a large portion of the transaction, followed by the retail e-commerce industry.

As online distribution became more active, the survival space of traditional distributors was greatly shocked. This shock will not significantly change the structure of market share, but it has a significant impact on management mindset and vision prospects. Many Chinese retailers have begun attempting and developing online marketing businesses, including a series of related derivatives such as product development, manufacturing and management, as well as online procurement and sales.

According to China's Ministry of Commerce's "E-Commerce Development 2025 Vision Survey," China's Internet retail sales reached 10.6 trillion won in 2019. Among them, online retail sales of real products reached 45.7% of the increase in retail sales of social consumer goods during the same period. E-commerce has already become a major channel for Chinese consumption. As the development of online and offline convergence intensifies and a new paradigm of crossover emerges, e-commerce is becoming a new support for China's economic growth. Support systems such as e-commerce services, credit services, electronic payments, and modern logistics have been reorganized as support requirements for online distribution.

As of December 31, 2019, 66 companies are listed on the stock market in China's online distribution industry, according to data on e-commerce conditions conducted by China's Statistical Office on Chinese companies in 2019. Among them, there are 28 retail online distribution industry operators, 21 living service online distribution industry operators, 10 industrial online distribution industry operators, and 7 crossover online distribution industry operators. In terms of regional distribution of listed companies in the online distribution industry, 22 in Beijing accounted for 33.33%, 12 in Shanghai 18.18%, and 9 in Hangzhou 13.64%. The number of online distribution industry companies listed in Beijing, Shanghai, and Hangzhou exceeds 60%, has excellent geographic resources, is a major source of online distribution industry companies, and is leading the development of the online distribution industry.

3. Current Status of Offline Distributors in China and Case Study

3.1. Status of offline distributors in China

Recently, Chinese offline retailers have increased their small stores in residential areas and are integrating online and offline sales channels. In particular, the combination of big data, AI, and retail and distribution industries is acting as a new opportunity factor. With the spread of Covid 19 throughout China, most offline retail and distribution stores were unable to operate normally during the spring season of 2020, but the number of store visitors has gradually recovered since March, due to promotions such as shopping events and discount coupons held by region to promote consumption.

The current status of major offline distribution companies is as follows. According to sales of major retail stores reported by China's Commercial Information Network(中商情报网) in 2019, the Sun Art Retail Group(高鑫零售) surpassed 100 billion yuan, surpassing CR Vanguard(华润万家, 95.1 billion yuan). Seven distribution stores, including Yonghui Supermarket(永辉超市) and Wal-Mart(沃尔玛), recorded more than 50 billion yuan in sales. Carrefour(家乐福), ranked 12th in 2018, ranked 21st overall in 2019, falling in sales.

Major warehouse-type hypermarkets in China include Wal-Mart, Carrefour, Metro, and Tesco. Wal-Mart, an American retailer, operates about 500 distribution stores of brands such as Sams Club and Trust Mart in 170 cities in China. Wal-Mart plans to increase 500 different types of stores within the next five to seven years, and plans to establish a direct sales system for fresh agricultural products and expand the supply of unmanned payment systems.

According to CNRETAIL(中国零售网), SUNING(苏宁易购), which recorded 269.2 billion yuan in sales in 2019, acquired and operates Carrefour, and operates 4,586 stores, including direct management stores and franchise stores across China. Metro, a German warehouse-type hypermarket that entered the Chinese market in 1996, also operates 86 stores across China and has about 5 million customers. These warehouse-type hypermarkets have recently increased their competitiveness with detailed delivery services such as delivery within 1 hour, delivery within 12 hours, and receipt of stores after ordering.

3.2. Case Study of China's Major Offline Distributors: RT-Mart

RT-mart(大润发) is a latecomer to the Chinese mart market and ranked first in market share 10 years after entering the Chinese market. RT-mart is a supermarket founded in 1996 by Taiwanese conglomerate Ruentex Group(潤泰集團), and is also called RT Mart by abbreviating the English name of Ruentex Group. It entered the Chinese market during the reform and opening of China and opened its first store in Shanghai in 1997. Compared to Carrefour's 14th

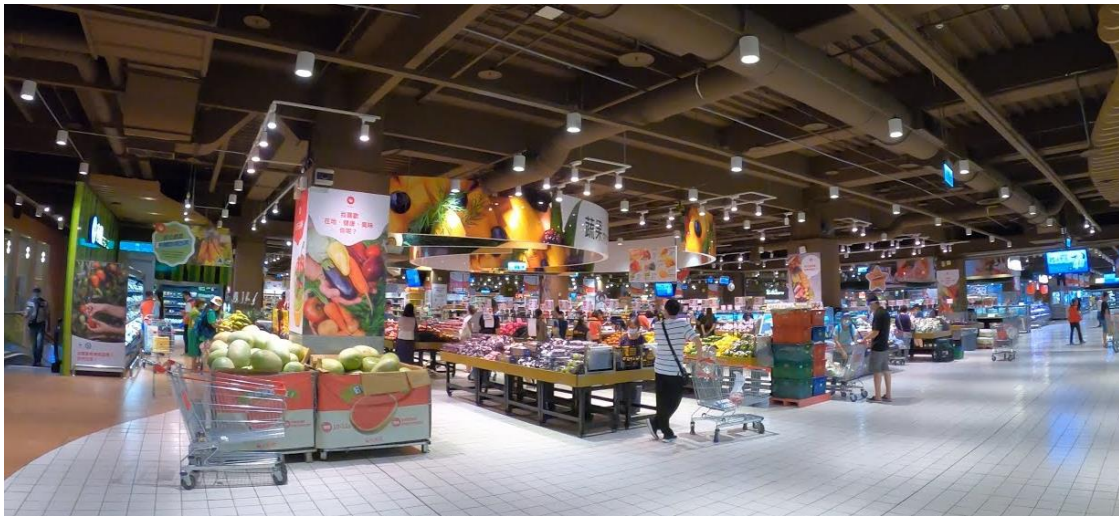
ores in eight cities, including Beijing, Shanghai, and Chongqing, RT-mart's entry into China was a latecomer far behind.



Figure 1: Logo of Rt-Mart

In accordance with the Chinese market, Rt-Mart started management by mixing the headquarters-centered management method and the branch authority holding method. In other words, the headquarters mainly manages, but the branch was able to adjust the management method if necessary according to the regional characteristics. By the end of 2019, the total number of stores in China will reach 409.

In 2001, Ruentex Group began to grow Rt-Mart into an international distributor by accepting distribution know-how and technology from developed countries in collaboration with French Auchan Group, a latecomer of French retailers with over 40 years of retail distribution experience. In 2010, Ruentex Group and Auchan Group planned to be jointly listed and listed shares of the joint venture Sun Art Retail Group on the Hong Kong Exchange on July 27, 2011. On the first day of listing, the stock price closed 41% higher than the public offering price, raising HK\$7.1 billion (1.1 trillion won).



Source: <https://www.youtube.com/watch?v=3t7G6OiX4ec>

Figure 2: Rt-Mart 내부 전경

Second, it is a thorough consumer understanding. The biggest difference between China and foreign distribution markets is the demand for fresh food. Unlike Western consumers who buy ingredients once a week and prefer frozen foods, Chinese consumers buy fresh ingredients every day. RT-mart, which thoroughly studied Chinese shopping habits, displayed fresh food on the first floor for the convenience of customers, accounting for 30-40% of the total display area of products. However, Carrefour, Wal-Mart, and TESCO had a small proportion of fresh food in stores and often displayed fresh food on the second floor or underground. On the other hand, RT-mart created a modern shopping environment with a wide, comfortable and bright feeling and designed a simple and convenient shopping route. Food courts, luxury shelves, and children's playgrounds were provided at the entrance to provide customers with a comfortable and enjoyable space at the same time as shopping. According to the customer's lifestyle, additional facilities such as motorcycles and bicycle parking lots were prepared as well as pharmacies and post offices.

Third, it is to maintain a friendly relationship with suppliers. RT-mart signed a contract to grow together with suppliers and helped enhance competitiveness. Compared to other retailers, entry costs and other costs are lower, and the delivery amount is paid at the same time as delivery to maintain a smooth relationship with suppliers. On the contrary, in the case of Carrefour, the delivery payment deadline is generally three months, and the collection of various miscellaneous expenses is increasing the financial risk of small suppliers and worsening the relationship. Recently, Carrefour has faced financial difficulties due to rising operating costs, and the number of suppliers withdrawing Carrefour's entry by transferring each cost and responsibility to suppliers is significant.



Source: https://commons.wikimedia.org/wiki/File:RT-MART_Chiayi_Store_20160326.jpg

Figure 3: Motorcycle parking lot

Fourth, there are efforts to introduce advanced technologies and localize them. RT-mart dispatched a large number of employees to learn distribution know-how in the early stages of its joint venture with Auchan Mart in France, and divided China into five regions: Huadong, Huabei, Huazhong, Huananan, and Dongbei to implement strategies suitable for the local market.

Fifth, there is RT-mart's efforts to strengthen employee treatment. RT-mart is an employee stockownership plan (ESOP) that promotes a sense of ownership by sharing performance with employees, and implemented a democratic evaluation system in which employees reversely evaluate executives. In order to prevent theft by employees, the difference between the loss prevention rate and the goal was investigated and incentives or deductions were provided to employees as much as performance. As a result, the loss rate is 2-3%, which is significantly lower than the average loss rate of 10% at other marts, saving hundreds of millions of yuan every year.

Seventh, it is the best location selection. Before the opening of the new store, RT-mart thoroughly conducted a preliminary survey and selected the site. RT-mart is famous for not opening unless it is the best site, and top executives went on a direct inspection before opening. RT-mart believes that even if the number of stores is not the highest, stores cannot be opened anywhere, and in fact, the store has never been closed due to low sales after RT-mart's opening. This is in contrast to other marts, which are focusing on unconditionally increasing the number of stores and closing some stores in the future.

4. Current Status of Online Distributors in China and Case Study

4.1. Status of online distributors in China

As of 2019, the number of Chinese Internet users exceeded 900 million and the Internet penetration rate reached 64.5%, and the number of e-commerce users is also increasing. In 2019, e-commerce transactions in China surpassed 34.81 trillion yuan, up 6.7% year-on-year, and the number of major Internet distribution platforms (including services) in China was 146.9 million, up 3.4% from the same period last year-on-year. Among them, the actual number of

f stores selling tangible products was 90.7 million, accounting for 46.2%. The number of Chinese Internet shopping customers was 710 million, an increase of 100 million from the end of 2018. By product, clothing fabrics, daily necessities, household electronic and video devices were the top 3 among online retail categories, accounting for 24.5%, 15.3%, and 12.4%, respectively.

China's online shopping market continues to increase in size due to improved purchasing power and changes in shopping patterns as buyers' income increases. The online shopping mall market is not only growing stably, but also diversifying purchase items. As demands are gradually changing from quantitative satisfaction to qualitative satisfaction, online shopping mall companies are further optimizing and improving the sales method and structure of products (Kwon, 2015).

SNS e-commerce and live e-commerce have become new drivers of online consumption growth (Park, Hui, & Choi, 2012; Choe, 2014; Lee & Choi, 2015). As a new online consumption model, innovative SNS e-commerce and live broadcast e-commerce effectively promote consumption and have become an important part of online consumption (Zhang, Hwang, & Moon, 2014). The rapid growth of SNS e-commerce was a new driving force behind the development of online consumption, and in 2019, the volume of SNS e-commerce increased by more than 60% compared to the previous year, far higher than the overall growth rate of online retail nationwide. SNS e-commerce has achieved innovation in traditional e-commerce through sharing and content creation using social media. Live broadcasting e-commerce continues to expand online consumption space, and as of 2020, the number of e-commerce live broadcasting users reached 262 million, accounting for 37.2% of online shopping users and 47.3% of live broadcasting users. Live broadcast e-commerce stimulates users' impulse consumption and improves purchase conversion rates and user experience through real-time interaction of content promotions.

China's online shopping market B2C share is as follows. In the case of China's B2C online shopping mall market in the first half of 2019, TMALL topped the list, more than half with a market share of 53%, Jingdong(京东) ranked second with 29%, and Pinduoduo(拼多多) ranked third with 10%. Looking at the current situation, TOP3 platform companies are leading the overall market, accounting for more than 90% of the total online market in China. Each company is actively preparing to enter overseas markets such as international work, expanding its business through customer segmentation such as rural online shopping malls, infant online shopping malls, and pharmaceutical online shopping malls, and constantly researching and developing its business structure.

4.2. Case Study of China's Major Online Distributors: JD.com

Jingdong(京东) is the second-largest company with a 19% market share in the e-commerce market. It started as an electronic component agent in 1999 and grew by expanding its e-commerce B2C business in 2004. It has strengths in selling expensive products such as consumer electronics and household appliances, and focuses on building its own logistics network to enhance services, covering most cities in China with same-day delivery.

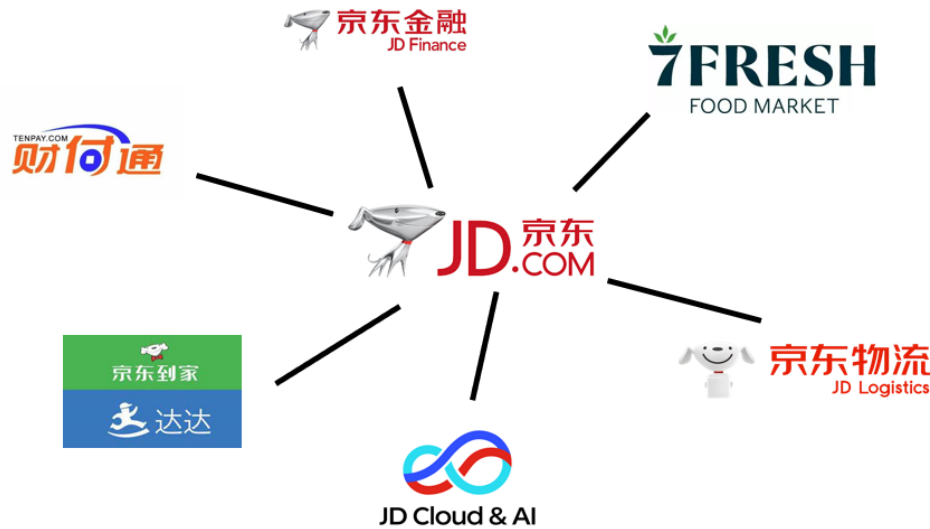


Figure 4: Homepage of JD.com

Jingdong has grown by directly purchasing and establishing a nationwide logistics network to build consumer trust. As a B2C business model, it is the second-largest company in the industry, accounting for 19% of the Chinese e-c

ommerce market share and 24% of the B2C market share. As of the first quarter of 2019, the number of companies operating on the Jingdong online platform reached 22,000 companies.

Jingdong's business model has the strength of high consumption per capita, but its profitability is lower than that of competitors centered on e-commerce brokerage services due to the cost burden. To improve this, Jingdong seeks to strengthen brokerage services and diversify handling items, and seeks to transform its business model. As of 2018, the proportion of brokerage services in Total GMV(Gross Merchandise Volume) increased to 44.5% and the proportion of non-electronic products increased to 32.7%, confirming a gradual improvement trend.



Source: Each homepage

Figure 5: Jingdong affiliates

The main shareholders of Jingdong include Tencent and Wal-Mart. Tencent became the largest shareholder after investing in Jingdong in 2014, and founder Liu Qiangdong(刘强东) is currently the second-largest shareholder. At that time, Tencent transferred its own e-commerce platform, Paipail(拍拍网), and QQ Online Shopping Mall to Jingdong. Wal-Mart joined as a major shareholder through equity investment in 2016. In May 2019, Jingdong announced the strengthening of cooperation with major shareholders by announcing the stipulation of customer support through We Chat platform and delivery of 270 Wal-Mart stores through the renewal of strategic cooperation with Tencent for 3 years.

The company achieved high growth in sales with a business strategy that values consumer trust, but the low margin structure of the direct purchase model and increased logistics costs are delaying profit improvement. Previously, despite the deficit, the value of the second-largest market share was recognized, but its position is at stake as the recent e-commerce trend has shifted to marketplaces and social commerce. Although it remained second in the industry with 1.67 trillion yuan in 2018, the annual number of customers with purchasing experience fell to third place in the industry after Pinduoduo(拼多多) due to the emergence of social commerce following the development of SNS.

Various factors, such as a shift in industrial trends, threats to new entrants, and an increase in the burden of logistics costs, are lowering the value of Jingdong. However, considering the growth of the Chinese consumer market, support from major shareholder Tencent, 15 years of e-commerce business know-how, and long-term high-tech investment, the position of the No. 2 player will not collapse easily. As Jingdong also feels a sense of crisis and is looking for ways to overcome marketplace sales and diversify products, the rate of return is being confirmed.

The growth strategy of recent Jingdong is as follows. First, it is trying to shift its business model from quality-oriented to profitability-oriented. Jingdong's e-commerce business model focuses on direct purchase of expensive home appliances and establishment of nationwide delivery networks. However, as China's e-commerce industry develops around platform services (marketplace) and social commerce, Jingdong is also pushing for a shift from direct purchase of existing home appliances to strengthening its marketplace business and diversifying products. In addition, it is trying to strengthen the position of the second-largest company by strengthening detailed e-commerce sectors such as luxury, fresh food, and joint purchase.

Second, global leading companies such as Tencent, Wal-Mart, and Google are strengthening cooperation with Jingdong. They are paying attention to Jingdong's potential with a distribution ecosystem that can respond to Alibaba. Synergy effects such as Tencent's smart retail, Wal-Mart's Chinese e-commerce platform and delivery support, and Google shopping cooperation are expected in the future.

Third, it is breaking down the boundaries of distribution. Jingdong is taking a strategy to expand the scope of services by erasing the boundaries of distribution.



Source: www.jd.com

Figure 6: The interior view of the unmanned Super X

Jingdong is launching third-party delivery services by modernizing distribution infrastructure, promoting borderless distribution strategies for consumers to purchase products without restrictions on time and offline, and presenting a new business blueprint as a retail service provider that consults on distribution experiences. Jingdong announced its Boundaryless Retail strategy in 2017 and is expanding fresh food stores and unmanned stores. This is a strategy to respond to Alibaba's New Retail, providing consumers with an unrestricted consumption environment online and offline by modernizing distribution infrastructure. Fresh Food opened its first 7fresh store in Beijing in December 2017, and as of March 2019, it has operated 13 stores in eight cities.

5. Conclusions

In this study, the overall development process of the Chinese distribution industry was examined. In the process of developing the Chinese distribution industry, the current status of China's offline and online distribution industries was analyzed. In addition, RT-Mart companies were analyzed by reviewing the current status of offline distributors in China and Jingdong (JD.Com) was analyzed by looking at the current status of Chinese online distributors.

China's distribution industry is currently rapidly changing not only offline but also online distribution. China's IT infrastructure expansion and technology development are playing a major role in these changes. In this situation, changes in the Chinese distribution industry will act as a threat and opportunity factor for online and offline distributors. The following characteristics of the Chinese distribution industry can be seen through case analysis of Chinese distribution companies. First, the Chinese mart market has already matured, and it is in the stage of securing sales and operating profit through various methods such as finding new management methods, advancing through mergers and acquisitions, improving awareness and customer loyalty by expanding the number of stores. Since the first-line cities are saturated, it is necessary to expand stores to suit the characteristics of consumption in each region by seeking to advance into the second to fourth-line cities. Companies that have succeeded in rapid expansion and stabilization in the third-line to fourth-line cities will be able to survive in the Chinese distribution market and maintain continuous development.

Second, Chinese retailers will be able to sustainable growth amid these changes only when they reduce costs through informatization, automation, and enhancing employee expertise, and monitor their work status through real-time information analysis to improve efficiency.

Third, offline stores have the advantage that online shopping cannot give in that they can see and touch products with their own eyes. In addition, membership warehouse-type stores began to gain attention as consumers gradually considered cost-effectiveness and valued offline customer experiences. In particular, generations born in the 80s and 90s, who emerged as major consumers, are not simply expensive products, but have a high preference for premium products and a stronger tendency to invest generation in consumption for themselves.

Fourth, despite the continued increasing trend of warehouse-type marts, the diversity of products in membership marts is somewhat lacking, and PB products are gradually homogenizing and are not showing much differentiation. Accordingly, companies are strengthening their strategies to target consumers by procuring overseas premium products. In particular, as demand and interest in overseas premium products are steadily increasing, distribution companies need to seek opportunities to enter the market through research on trends in the Chinese market and demand for premium consumer goods.

Lastly, in line with the trend of revitalizing online shopping, foreign companies are also building and actively utilizing online service platforms to enhance their competitiveness. Metro, in cooperation with Dmall(多点), a digital retail service platform, provides delivery services within an hour to areas located within 5km of the store. Sams Club has also launched a separate app since 2017 to expand its online sales channel, and has been building and operating rapid delivery systems in 30 Chinese cities, including Beijing, Shanghai, and Guangzhou, in cooperation with Dada(达达), a short-range delivery service platform.

In addition to the characteristics of the Chinese distribution industry, the recent changes brought to offline distribution stores due to COVID-19 were very significant. First, small stores in residential areas are on the rise compared to large stores in the city center. Just as BAINIANWANJIA Supermarket(百年万嘉), a large Chinese retailer, started its convenience store business and operated BuyLike(便利客), the existing distribution industry operates various types of distribution stores to prepare for COVID-19. Distribution companies are expected to respond through various methods as they have been hit hard by large stores crowded with COVID-19. Sun Art Retail Group(高鑫零售), which operates RT-MART, a large distribution store, opened RT-mini(小润发), a small distribution store, on a trial basis in Nantong, Jiangsu Province. It plans to expand the existing method of operating stores in major commercial districts in the city to residential areas.

Second, expansion of order and delivery services through integration of online and offline sales channels can be cited. Customer data management and utilization, which used to be centered on department stores and large discount stores, are expanding to supermarkets and convenience stores. Supermarkets such as YoungHui Superstores(永辉超市) and JIAJIAYUE Hypermarket(家家悦) have also increased consumer satisfaction by adding functions such as product introduction, purchase, and delivery through apps, and the effect is appearing in online and offline stores. Traditional retailers operating offline stores are threatened by COVID-19, but investment will be needed to build an online and offline platform that can search and pay for products in the future, reduce the size of stores, and secure online and offline supply chains instead.

The following implications can be derived based on the characteristics of the above changes in the Chinese distribution industry. In the future, the combination of AI and retail and distribution industries in China will accelerate, and the market size of the distribution industry that combines AI technology will grow rapidly. Existing offline-based distribution businesses such as marts, convenience stores, and traditional markets will be able to grow through combination with online services.

As the combination of online and offline order delivery services in China expands to the overall distribution industry trend, offline stores are expected to have a relatively large function as an "experience center" where you can feel new products or brands in the future. O2O services that combine online and offline, including small and medium-sized retailers, are expected to become increasingly common.

In addition, China's distribution environment is changing from large-scale distribution stores such as hypermarkets and department stores to small and medium-sized distribution stores such as supermarkets and convenience stores near residential areas. Korean companies need to utilize the popularity of these small and medium-sized distribution stores. These distribution stores are recently increasing sales in the form of PB products that combine their brands and overseas products, which can also be considered to export them through this.

Recently, Chinese local governments have participated in a large number of offline retailers in the region along with online live platforms for each region to hold promotional events, which are expected to expand business opportunities for Korean consumer goods companies to enter China.

Despite the above research implications, this study has the following limitations. First of all, this study examines the macroscopic environmental changes in the Chinese distribution industry. However, in future studies, it will be necessary to analyze in consideration of microscopic factors.

Second, this study conducted a brief case analysis based on representative companies among China's online and offline distribution companies. In the future, it will be necessary to derive implications through in-depth analysis of r

representative companies and case analysis.

References

- Choe, J. M. (2014). The framework for the choice of e-commerce strategy in manufacturing firms. *Journal of Information System*, 23(2), 25-47.
- Choi, J. S. (2017). Analysis of Chinese distribution industry and economic effect. *Journal of sinology*, 56(1), 165-180.
- Kang Y. M. (2006). China's distribution market opening policy and Korean companies' response strategies. *International Commerce and Information Review*, 8(3), 277~297.
- Kim, H. J. (2005). A study on the current status of the Chinese distribution market and the characteristics of each retail industry. *Industrial Research*, 18(1), 205-23.
- Kim, J. S., Kim, P. J., Yoon, M. G., Bae, J. Y. (2008). Theory of new distribution. Book Publishing Dunam: Seoul.
- Kim, Y. J. & Choi, J. S. (2010). Role of the China distribution industry analysis. *Journal of International Area Studies*, 9(1), 99-118.
- Kwon, S. K. (2015). The strategies for the export vitalization of cross-border E-commerce of Korean products to the conclusion of the Korea-China FTA. *Journal of Korea Research Society for Customs*, 6(2), 97-118.
- Lee, C. W., & Kim, M. C. (2014). The changes in the trade structure of intermediate products between Korea and China. *Journal of Chinese Studies*, 70(1), 309-329.
- Lee, N. J., & Choi, J. S. (2015). Development and growth factors of Chinese online business industry focused on Alibaba. *Korea Logistics Review*, 25(1), 133-143.
- Oh, S. G. (2010). A study on the entry strategy of Chinese distribution market in Korea company. *Journal of Korea Research Society for Customs*, 1(3), 321-350.
- Park, D. K., & Lee, H. J. (2017). A study on strategies for Chinese market based on big data analysis. *Korea Logistics Review*, 27(2), 105-115
- Park, J. H., Hui D., & Choi, S. B. (2012). A study on the status and development strategy of Chinese B2C online shopping mall. *Journal of Internet Electronic Commerce Research*, 12(8), 71-93.
- Shim, J. H. (2008). The development of the Chinese distribution market and the entry strategy of Korean companies. *Journal of Northeast Asian Studies*, 48(3), 77~98.
- Zhang, P., Hwang, J. T., & Moon, H. C. (2014). A comparative study on the online shopping performance of three C2C open markets in China. *Journal of E-Business*, 15(4), 383-404.