

Analysis of Offline Merchant Operations in Small and Medium-sized Cities in China based on the Impact of the Outbreak

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Abstract

The coronavirus malady endemic (COVID-19) has obligated a momentous wave on both the global as well as China economies. Micro, small, and medium-sized businesses stand among chief sufferers of the epidemic. The tenacity of this paper is to evaluate impact of the malady on these firms and to make strategy suggestions to help MSMEs in minimizing trade damages and enduring the predicament. We applied an investigative technique, thoroughly researching the existing literature in the relevant subject, comprising policy documents, research articles, and reports. The findings suggest that prevalent of involving companies have remained badly obstructed and are grappling with a diversity of encounters, such as fiscal distress, stock distraction, reduced demand as well as declined in sales and turnover.

Keywords

COVID-19; MSMEs; China; Crisis; Policy Documents.

1. Introduction

Nowadays, the word "global village" is frequently mentioned. In the new era accompanied by rapid development of information technology, each of us, as an individual of the "global village", is trying to "make the world flat". The flat world witnesses the progression of developing information technology and globalization. In the book named "The World Is Flat", Thomas Federico indicates a possible approach for people to live with satisfaction, which is taking advantage of competitive benefits in the process of international work-division in order to cut down costs as well as enhance efficiency.

The theory "the world is flat" seems undebatable. However, since the outbreak of corona virus, some phenomena showing "the world is not flat" have gradually emerged, mainly reflected in the following five aspects:

First, the labour market suffers. The changes in the labor market are primarily reflected on the delayed work resumption, which means workers were not able to produce in such period of time. Though most of the labour market impacts are temporary, the overall employment growth this year tends to be much lower than before. For example, those who are no longer employed will suffer from declining income. Also, the civil consumption is likely to slip to a lower level.

Second, mobility falls because of the inconvenience faced by freight. As for suppliers, tempo of producing goods slows down since they have to sterilize periodically, use facilities against the epidemic and take measures such as limiting employees' mobility? resulting in less stocks and supply disruption, which curb the need of consumption indirectly.

Third, industrial chains change and purchasing becomes harder. It is owing to the epidemic caused dramatic impacts on global economy, especially on international industrial chains. Due to the policy acquiring enterprises to suspend working, a gap was caused among industrial processes, leading dramatical cancellation in foreign orders. In this situation, risks emerge as slow-moving merchandises increase the cost of storage, which has a negative effect on cash flow and even a bankruptcy.

Fourth, business opportunities are rarer in consequence of the immobility of the society. It is admitted that economy were going down. In other words, business opportunities declined. For instance, commercial organizations such as restaurants were closed, which impaired the economical atmosphere, rendered uncertainty throughout all factories as well as descended people's living standards.

Fifth, government revenue fell. Since the economic downward pressure became serious, In the first half of this year, there were still carry-over factors for the unprecedented 2 trillion yuan of tax cuts and fee reductions last year. In addition, the new 1 trillion yuan tax reduction and fee reduction policy to support the fight against COVID-19 and the resumption of business operations has led to a reduction in government revenue in several areas.

Globalization can mobilize all. Changes in the labor market, in productivity, geospatial configuration of locations, industrial chain layout, consumers' fiscal situation, cost of logistics will have influence on the global economy.

According to the COVID-19 and subsequent events, it is obvious that the global economy has been a unity and individuals can not make economy grow on their own. The reason leading to economical deflation could be lower interacting frequency causing both transportation and consuming ability decrease, the severely devalued overall wealth causing a lack of money to purchase as well as the shrunk wealth cutting down the consuming standard.

In order to deeply explore whether there are new trends in business models after the outbreak of COVID-19, we have carried out field research in different cities. By analyzing the data collected in Hangzhou, Shaoxing in Zhejiang Province, we list the following noteworthy cases.

2. Cases

2.1. Case one

2.1.1. Industry background

Starbucks is one of the leading companies in the coffee industry and is favored by consumers in the Chinese market. The target consumers of Starbucks are mainly young white-collar workers, business elites, middle class and coffee lovers. "Third space"[1], the company's main business ideas have created a brand tonality, providing a place for long-term stay outside the office and home, attracting a large number of young office workers and business people. When business conditions are perfect, products often sold out. There are often queuing to buy and purchasing agents appeared. However, under the impact of the epidemic, the business model is no longer suitable for the new economic needs.

2.1.2. The status quo

According to the financial report of Starbucks in the third quarter of 2020, the total net revenue of Starbucks in the third quarter was \$4.2 billion, which was 38% lower than that of the previous year due to the impact of public health incidents. The company posted a net loss of \$678 million, compared with a profit of \$1.37 billion a year earlier. Starbucks lost \$704 million in global same-store sales, which fell by 40%. As of the end of April, Starbucks temporarily closed more than half of its stores nationwide in response to the epidemic, and continued to monitor and adjust the opening hours of its stores. The impact of epidemic is expected to last until the end of the year.

In order to deeply discuss the business format and how Starbucks and other food brands copes with the challenge of the epidemic under the changes of international economic development, we specially conducted field research on Starbucks stores in some business districts of Hangzhou city, Zhejiang Province.

In the survey, we found that Starbucks has always been a store with a large passenger flow in the business circle. During holidays and weekends, nearby residents have a lot of leisure time to enter the Starbucks. The shop order queues more than 20 minutes, and the store is often full. Large passenger flow often appears the phenomenon that no cleaning and garbage residual. Waiters need to urge the guest out of the Starbucks when there is a heavy passenger flow at night.

After the outbreak of the epidemic in 2020, there were only a few chain brand stores in the commercial complex to undertake take-out business in February and March, and shops for shopping, catering and entertainment were not open. The customers were mainly online take-out customers, while the offline customer flow was greatly reduced. As a result, Starbucks has almost no customer flow, and some stores even suspend business.

With the resumption of business across the country and the increase in the number of people in shopping malls, Starbucks' sales have not steadily increased. After the epidemic was brought under control, the government promoted consumption by distributing vouchers, other activities to increase customer flow in offline shops. However, compared with the good conditions in recent years, the customer flow of Starbucks stores is still in a small state, and the performance cannot recover quickly. The number of staffs in stores has been reduced, and the take-out model has been popular.

2.1.3. Views

1. Store sales model needs to be reformed urgently

The net profit of the stores plunged mainly because people were asked to stay at home to avoid the epidemic, shops were closed and epidemic preparedness was improved. At the same time, Starbucks always adopts the high-grade positioning strategy of high price, hoping to reflect the value of its high-end brand through high price [2]. And its undiscounted sales model has deterred coffee consumers whose income was reduced during the epidemic. During the epidemic, this created a lot of resistance to store sales.

2. The new coffee brands of online shopping have a great impact on high-end physical brands.

The sales volume of new coffee products on online e-commerce platforms has increased, and its advantages such as fast brewing, convenient carrying, preferential price and guaranteed quality have prompted coffee consumers to downgrade their consumption. New coffee products, such as Satuanbird coffee and Yingji, have been purchased to replace high-end Starbucks with cheap ones. In particular, residents who lost income during the epidemic saw a marked reduction in demand for upmarket Starbucks.

3. The threshold setting of delivery platform will limit the consumption level of consumers.

The delivery fee of Starbucks' delivery APP is higher than that of other platforms, and the delivery fee can be compared with the price of other brands' delivery products. Meanwhile, Starbucks usually does not participate in the delivery platform full reduction activities, and only offers the delivery fee when the delivery date is limited. So most consumers will not choose Starbucks. During the epidemic, the possibility of mass gathering is reduced, and the multi-person package featured on Starbucks' 'special star delivery' and delivery platform obviously does not meet the current needs of consumers.

2.1.4. Adjustment methods

1. Implement and promote the concept of "delivery shop"

The COVID-19 outbreak and changing customer preferences have created demand for Starbucks' central concept of being a "third place" for consumers to unwind away from their offices and apartments. To cope with offline pressure, switching to omni-channel has become an inevitable step for Starbucks. Starbucks plans to accelerate the rollout of the pick-up store concept [3], Starbucks coffee fast "business comprehensive access ele, ALIPAY, taobao and other applications, recommended to the app store consumers use 'Starbucks now' online order in mobile phone, the main function called 'online, to shop'. In the process of the implementation order, taking food without personnel contact, also reduced the consumers in the residence time of the store.

2. Increase discounts on delivery fees for delivery apps.

APP members should increase cooperation with Banks and regularly issue coupons for new products. After the outbreak was under control, Starbucks recommended the multi-person meal delivery service of "Coffee Parter Set", and carried out the "Star Dash" member gift activity to activate the motivation of original customer groups, so as to increase customer stickiness and improve customer loyalty.

3. Comprehensively reduce costs and avoid risks

Starbucks has a sound industrial chain and can control the cost of its upstream raw materials. Starbucks has opened flagship stores in recent years to slow the expansion of its smaller stores [4] and arranged training to optimize the coffee making process and strengthened the take-out service. The expansion policy shifted from weight to quality. In case of high risk, the shop should be closed to reduce the rental cost. At the same time, it reduces the cost of brand advertising, and social media accounts are replaced by member apps to precisely improve consumer loyalty and buyback rate.

2.1.5. The summary

Affected by the outbreak risk and other sudden risks, for coffee brands like Starbucks, the lack of customers does not coffee itself, but a kind of brand tonality and lifestyle. Therefore, the reform of business operation management mode is very necessary. Especially in the diversification of product sales model and channels, middle and high-end commercial brands such as Starbucks should timely change their management model, adjust their management concepts, face up to their shortcomings, and accurately improve them to resolve the crisis.

2.2. Case two

2.2.1. Industry background

In recent years, beverage industry has grown rapidly in China, and entail shops have accelerated the market's sinking. According to the China Beverage Industry Trends Report in 2019, the number of existing beverage shops reached 410,000 in 2018 in the whole country, which is 74% more than the previous year.

As a witness of rapidly developing beverage industry, HEYTEA aims to extend from China to oversea countries. There are over 220 HEYTEA stores in the year of 2020, and the areas include

China mainland, Hong Kong, Singapore, etc. Also, the novel service mode named the Self-take Shelf was put in use to reduce consumers' waiting time initially, starting from July 30th, 2019. In the same year, 2020, another famous beverage firm named Ancient Tea has had more than 3,000 stores across the country. By integrating supply chains, setting its own refrigerated freights, having ingredient-delivery service every two days to supply ingredients such as dairy products and fruits to each store, Ancient Tea is able to take advantage of the fruit-teas' freshness and make its beverages cost-effective.

According to the data, in the first quarter of 2020, HEYTEA sales decreased by 46.4% while Ancient Tea sales decreased by 51.2% affected by the COVID-19.

2.2.2. Status quo

In order to figure out the subsequent impacts to the beverage industry, we did field research at HEYTEA and Ancient Tea in INTIME shopping mall, Shaoxing.

1. HEY TEA.

Investigation time: 14:00-17:00 pm, March 28th (Saturday), 2020.

Counts: the number of people appeared in the store was 31.

Order number: 69 (including 21 online orders, 2 in-store orders and 46 take-out orders)

Average waiting time: 3 minutes (no queues in the store)

Investigation time: 14:0-17:00 pm, June 28th (Sunday), 2020.

Counts: the number of people appeared in store was 251.

Order number: 401 (including 201 online orders, 36 in-store orders and 164 take-out orders)

Average waiting time: 17 minutes (once up to 40 customers standing in line)

2. Ancient Tea.

Investigation time: 14:00-17:00 pm, March 28th (Saturday), 2020.

Counts: the number of people appeared in the store was 33.

Order number: 56 (including 32 online orders, 24 in-store orders and 48 take-out orders)

Average waiting time: 2.5 minutes (no queues in the store)

Investigation time: 14:0-17:00 pm, June 28th, 2020.

Counts: the number of people appeared in store was 104.

Order number: 266 (including 196 online orders, 29 in-store orders and 41 take-out orders)

Average waiting time: 7 minutes (once up to 25 customers standing in line)

2.2.3. The point of view

Online promotion has a great impact on sales during the epidemic.

Integrate with social media to create a new media brand. [5]

"HEATEA GP" official account in WeChat attracted over 21.5 million users (including 15.82 million new users in 2019). The most popular passage has over 990 billion clicks. However, Ancient Tea did not imply online promotion, which is possibly a reason for their popularity.

2. The selling mode has a great impact on sales during the epidemic.

Offline and online composite channels are adopted. [6]

In the epoch of info-tech, smart phones and social softwares become common, making more opportunities for online orders such as beverage. Statistic shows that 82.31 percent of customers prefer online orders for HEYTEA, while 59.21 percent of customers do that for Ancient Tea. It is notable that about 5% customers are children under 14 or the elder over 60, which indicates both of them become potential customers due to the Internet. Accordingly, the up-to-date selling mode undoubtedly makes a difference.

3. Service innovation has a great impact on sales during the epidemic.

With the fierce market competition, it is very important to improve the service quality, which is also the cornerstone for enterprises to implement differentiation strategy. [7]

The Self-take Shelf invented by HEYTEA not only saves time, but also avoids contagion especially when COVID-19 spread rampantly. Compared to traditional service applied by Ancient Tea, innovative service is more accepted by buyers, so it is significant to innovate service in beverage industry.

2.2.4. The adjustment method

1. To take full use of online promotion and make the brand well-known.
2. To reform selling mode and find potential customers.
3. To streamline the process of purchasing and provide innovative service that attracts customers.

2.2.5. Summary

The global economic surges at present. In this business atmosphere, the impossibilities faced by enterprises also increase. For the beverage industry, it is imperative to enhance promotion ability, reform selling mode and optimize resources as well as provide appealing service to respond to underlying crisis.

2.3. Case three

2.3.1. Industry background

In recent years, convenience stores, self-service vending machines, unmanned supermarkets wave again and again hit offline physical supermarkets. E-commerce logistics is booming, but the sales of large supermarket chains are declining, many well-known supermarket chains can't survive so that they close some of their physical stores. E-commerce with its low prices and diverse choices satisfy the consumers better, and thus further seize market share.

2.3.2. Status quo

The wave of supermarket chains closing in 2019 continues, with traditional chains such as Wal-Mart positioning themselves to meet the needs of local consumer groups and quickly being replaced by local supermarket chains and Wal-Mart closed 15 stores in the first half of 2019. CR Vanguard has also closed four stores in Shandong and Beijing and no longer in this two areas. Supply and marketing supermarkets will also close a number of stores in 2019, while Yonghui supermarket Yonghui first-half revenue of 41.17 billion yuan, the full year opened 167 new stores. Because of the need for epidemic prevention and control, consumers rarely go out, leading to a decline in business opportunities, increasing the pressure on supermarket chains to change.

In order to deeply explore how to deal with the challenges of innovation and new business opportunities under the background of economic globalization, the research was carried out specifically for Yonghui superstores, CR Vanguard and other supermarkets in the blue sky business district of Shaoxing City, Zhejiang Province.

2.3.3. The point of view

1. Income levels and the location affect consumer' choices in the market.

The agglomeration and dispersion effect is the result of the concentration and diffusion of social and economic activities and various resource elements in urban areas

At the same time, it is the decisive force that affects the formation and development of cities. The formation and change of agglomeration and dispersion effect is determined by the spatial distribution of residents, manufacturers and relevant socio-economic factors in urban areas. As a constraint factor of urban formation and development, it is the regulatory force of the spatial distribution of the above factors. [8]

From the perspective of the online market, with the increase in consumer income, people prefer to pay more attention to the quality of goods. Some consumers think that through online platforms can not control the quality of food, especially fresh goods. Therefore, some consumers hold a skeptical attitude of this way of buying, preferring to buy out on their own rather than online. From the point of view of the offline market, the blue sky business circle is not only located in the school district but also located next to the subway station, so the location is perfect and the residents there have the economic power to buy things they want. This factor largely determines whether consumers buy fruits and vegetables at Yonghui superstores rather than choosing to go to distant vegetable markets.

2. There are also some differences in consumption preferences between different genders.

Zhao Jinxuan (2009) proposed that the study of consumers' consumption behavior and consumption preferences should start from the perspective of self-concept, the difference of self-concept is an important reason for the different consumption preferences of men and women. As a result, there are also significant differences in consumer behaviour between the sexes. [9]

The number of men buy fruits and vegetables is increasing. However, men prefer to buy fruit, which means women are still the main consumers of vegetables. Men prefer to buy more fruit, vegetables, in contrast, women prefer to buy more vegetables, less fruit types. In the past, men were considered to be the main consumers of tobacco and alcohol, but as society progressed, men's purchases of food gradually increased.

3. The external environment on the supermarket passenger flow has a certain impact.

SWOT analysis was first put forward by Professor wihrich of the University of San Francisco in the early 1980s. The so-called SWOT analysis method is a method that comprehensively considers various factors of the enterprise's internal conditions and external environment, carries out systematic evaluation, and selects the best business strategy. Here, s refers to the strengths within the enterprise, w refers to the weaknesses within the enterprise, O refers to the opportunities of the external environment of the enterprise, and t refers to the threats of the external environment of the enterprise. Opportunities in the external environment of an enterprise refer to the favorable factors in the environment, such as government support, application of high-tech, good relationship between buyers and suppliers, etc. [10]

During the epidemic, almost all industries in our lives have been a huge impact, before this trend has not passed, the real economy has been more or less affected, the number of consumers in malls, stores and supermarket chains have significantly reduced, whether it is holidays or preferential days, the sale is not as good as before.

As the epidemic improved, the restaurant industry began to gradually improve and the crowd of supermarket is also gradually recovering. On the one hand, the development of the catering industry provides the basis for supermarket traffic. On the other hand, supermarkets can promote the development of other forms of business, such as: catering, shopping and so on.

2.3.4. The adjustment method

1. Consider the surrounding location of the supermarket and accurately grasp the positioning of the market.

Yonghui superstores catch up the consumer needs by focusing on fresh business. Fresh business is Yonghui's biggest feature. The fresh business in Yonghui superstores occupying more than 40%. It's fresh business is about fruits, vegetables, poultry, meat, eggs, fish and other varieties. Whether during the outbreak or not, grain and oil rice noodles, vegetables and fruits are essential in people's lives.

2. Reduce the costs and change the focus of physical sales to online platforms gradually.

In the early stages of the outbreak, it is a little difficult for people in some areas with serious conditions to buy food. At that time, Tmall supermarket, JD.com home, Shanghai Yi is an Agel

Ecommerce Ltd, box horse and other online food delivery software began to be popular, people buy food through the online delivery platform. This can not only reduce the risk of travel and infection, but also makes it easier and faster to buy what you need.

3. Looking for related industries so that they can drive their development, grasp the similarities and differences of related industries and their characteristics to carry out reform.

It is observed that a large amount of the flow of consumers from the surrounding catering industry. After eating, people are willing to choose to go shopping or go to the supermarket. Affected by the outbreak, the enthusiasm of consumers to go out for entertainment has decreased to a certain degree. As the epidemic improved, the restaurant industry began to warm up and supermarket crowd began to recover gradually.

2.3.5. Summary

Affected by sudden risks like the COVID-19, it is an opportunity for the large supermarket chain industry, which already has a trend of change. In this way, they can expand their business channels. then, the focus of physical sales slowly shifted to online platforms, so that they can have a larger share in the industry.

3. Summary

Through the above cases we can know, compared with Starbucks and the general tea industry, like Starbucks and other high-end brands should change the management mode gradually by adjusting the management concept and facing up to their own short board. Tea companies such as HEY TEA and Ancient Tea need to enhance promotion ability, optimize sales channels or innovate services to effectively address potential risks. On the contrary, the large supermarket chain industry should firstly expand its business channels and adapt to the trend of development. After that, they can change the focus of physical retail to the online platform so that they can expand market share.

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