

Research on Cost Control under the Background of "Internet +" -- Taking YH Supermarket as an Example

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Abstract

This paper selects YH Supermarket as the research object, explores the cost composition of the enterprise in multiple operational links such as procurement, logistics and marketing, and analyzes it based on the cost control theory, and explores the key problems in cost control of the case enterprise by analyzing its data. In addition, this paper relies on the era of big data and "Internet+" to sort out the operation mode of YH Supermarket, which effectively combines offline and online business, and utilizes the method of value chain management to put forward targeted opinions on its cost control. By analyzing the comprehensive cost control of the case company, we hope to build a more complete cost control system for YH Supermarket, so that it can further enhance its market competitiveness while reducing its operating costs, thus standing out and occupying an advantageous position in the increasingly fierce competition in the industry.

Keywords

Business Administration; Corporate Cost Control; Value Chain; Internet +.

1. Introduction

Driven by Internet technology, e-commerce platforms have launched more convenient online supermarkets, bringing unprecedented challenges and pressure to the survival of offline supermarkets. In order to cope with this situation, many supermarkets and e-commerce platforms have adopted a new retail model combining offline and online. However, in an increasingly competitive market environment, major retailers are facing the challenge of highly similar commodities and the gradual convergence of distribution methods. In this context, in order to compete for market share and dominant position, cost control strategy is particularly important. Major supermarkets can only maintain their leading position in the market competition by optimizing operating costs and improving operational efficiency.

In view of this, this paper studies the cost management status quo of YH Supermarket in the context of the "Internet Plus" era, points out some problems in the process of cost management, and from the perspective of the internal and external value chain, provides practical solutions and strategic recommendations for the challenges faced by YH Supermarket in cost management. This study aims to help YH Supermarket optimize its cost structure and improve its operational efficiency so as to gain an advantageous position in the fierce market competition.

2. Background

Retail industry, as one of the main supports in the global economic system, is also a fundamental industry to meet the daily needs of the people. The foreign retail industry has been integrating online and offline marketing strategies to minimize costs and maximize benefits for many years,

which provides valuable reference for the transformation and upgrading of China's retail industry.⁰ This provides valuable reference for the transformation and upgrading of China's retail industry. With the rapid development of China's economy and the significant improvement of people's material level, the retail industry has developed rapidly. After entering the 21st century, especially in the era of "Internet+", the operation mode of retail industry has experienced profound changes. The rise of e-tailers has brought unprecedented challenges to traditional brick-and-mortar stores, which have seen a significant decrease in customer traffic and a downward trend in sales performance. However, the current situation does not mean that retail enterprises have no development opportunities.

In order to cope with market changes, retail enterprises have begun to explore the combination of online and offline operation modes, supplemented by efficient logistics and distribution systems. Under this model, cost control becomes the core element of business operation.^[2] In this model, cost control becomes the core element of business operation. In view of the cruelty of competition in the retail market and the increasing homogenization of goods and services, retail enterprises seeking development can maximize profits while maintaining price competitiveness if they implement effective cost control strategies, or further expand their market share through price advantages, thus promoting the development and expansion of the enterprise scale. Therefore, cost control has been regarded as a key capability for retailers to stand out in the competitive environment.^[3].

3. Company Profile

Since its establishment in 2001, YH Supermarket, after 21 years of development, has successfully ranked among China's top 500 enterprises and was listed on the Shanghai Stock Exchange in 2010, becoming a well-known supermarket chain brand in the industry. Under the wave of rapid development of Internet technology, YH Supermarket has keenly captured the opportunity of the change of the times and taken the lead in embarking on the exploration of new retail operation mode. Thanks to its forward-looking transformation strategy, YH Supermarket has made remarkable achievements in its industry and successfully constructed a set of perfect logistics system. It is especially worth mentioning that the supermarket features fresh agricultural products as its operational specialty, demonstrating its unique market positioning and competitive advantages.

With the steady growth in performance, YH Supermarket has gradually accelerated the pace of expansion nationwide. Up to now, YH Supermarket has opened more than 400 large and medium-sized supermarkets and more than 700 mini-supermarkets in nearly 30 provinces across the country, with a total business area of more than 3.5 million square meters. In 2015, with the widespread popularization of 4G network and the rapid growth of cell phone terminal shopping, YH Supermarket keenly captured the market changes and further adjusted its corporate strategy by establishing an online sales platform, realizing the fusion of online and offline sales of fresh food products, and gradually promoting the in-depth integration of online and offline sales.

4. Current Status and Problems of the Company

4.1. Development of YH Supermarkets in the "Internet+ Environment"

YH Supermarket launched the exploration of new retail model in 2013 and started to build an online shopping platform. Since 2015, its transformation process has been increased, but from the current development situation, YH Supermarket has achieved some results, but the overall development rate is relatively slow. Currently, the development strategy of YH Supermarket still focuses on the expansion of the offline market, but the actual effect of this strategy is not

ideal. In fact, YH Supermarket has put forward the strategic policy of integrating online and offline, but it has not been fully and effectively implemented in the actual execution. The details are as follows.

First, YH Supermarket has introduced an information management system within the enterprise to further promote the development of the new retail model, aiming at the systematic and efficient management of resources. However, in actual application, managers do not utilize the system efficiently, but rely more on traditional management experience and methods, and the application of big data technology appears relatively limited.

Secondly, with the continuous expansion of the number of physical stores, the significant increase in labor costs has led to limitations in the overall profitability of the enterprise, making it difficult to obtain sufficient capital investment in a timely manner for the expansion of the online market. In the logistics sector, YH Supermarket has built multiple distribution hubs to support the distribution needs of its stores across the region as well as its online shopping platform. Although many intelligent facilities have been introduced into the warehouses, this initiative has led to a corresponding increase in labor costs, and the potential effectiveness of intelligent equipment has not yet been fully activated. In addition, the current design of logistics and distribution routes is still not reasonable enough, which also leads to the ineffective loss of some resources. To summarize, although YH Supermarket has invested a lot in promoting the new retail model, the development speed is relatively slow. It can be said that YH Supermarket has already possessed the characteristics of new retail in form, but it has not fully grasped the core of new retail in substance.

4.2. Current Situation of Cost Control in YH Supermarket

4.2.1. Operating Costs

The total cost structure of YH Supermarket mainly consists of four core segments: procurement, sales, management and logistics. From 2018 to 2021, the total cost of YH Supermarket has shown a rising trend year by year. This growth trend is mainly attributable to three factors: firstly, as the scale of the enterprise continues to expand, the corresponding various types of costs also show a rising trend; secondly, in the process of continuous expansion, the imperfections in the company's management processes and the potential waste of resources that have always existed have not been properly resolved, thus further exacerbating the growth of costs. In addition, with the rise in purchasing volume, YH Supermarket's purchasing tasks have also increased, which further pushes its purchasing costs to show a significant upward trend. Details can be found in Table 1.

Table 1. YH Supermarkets Cost Components 2018-2021 In Millions of Dollars

particular year	Procurement costs	Cost of sales	management costs	logistics costs	total costs
2018	4896977	816454	228795	54581	5996807
2019	5588644	945242	278439	66574	6878899
2020	6432852	1257829	401631	99208	8191520
2021	6829894	1398227	588792	125126	8942039

From Table 1 and Figure 1, the proportion of purchasing cost has become a gradually decreasing trend in the total cost, but it still dominates the overall position due to its large volume. This is followed by the cost of sales, which accounted for more than 15% of the total cost from 2018 onwards. This was due to the fact that as the competitive pressure in the market faced by YH Supermarkets gradually increased in recent years, the Company raised the cost of investment in sales areas such as advertising in order to expand sales. As for the management cost and logistics cost, although they do not account for a high percentage, both of them are increasing year by year.

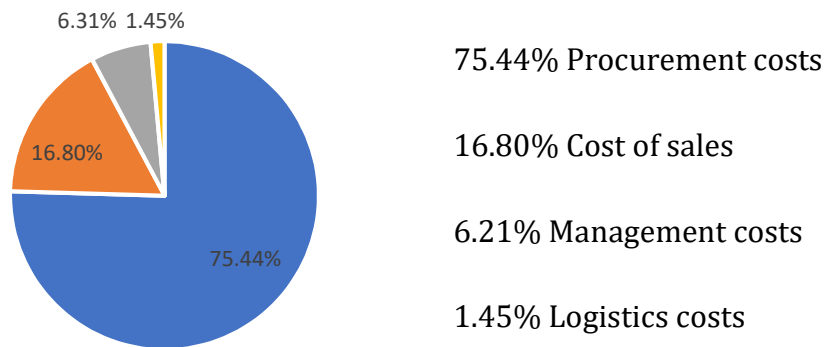


Figure 1. YH Supermarkets Cost Share by Component, 2018-2021

4.2.2. Current Situation of Cost Management in Various Segments of YH Supermarkets

The company's total cost structure covers the four areas of purchasing, selling, management and logistics, and the company has unique considerations for controlling costs in each of these areas. Since purchasing costs and selling costs account for a larger share of the total cost structure, we will focus on analyzing them below:

(1) Procurement costs

Purchasing cost accounts for more than 70% of the company's total cost, ranking first among all kinds of costs, so the control of purchasing cost is the core and key of enterprise cost control. In order to reduce this part of the cost, the company's main strategy is to screen and cooperate with high-quality suppliers, reduce the purchasing price through centralized purchasing, and accurately adjust the purchasing volume according to the actual sales situation. In addition, YH Supermarket takes fresh products as its core selling point. As fresh products have a large sales volume, relatively low price and high sales revenue, the Company has performed particularly well in cost control of fresh products, with specialized suppliers, cold chain transportation system and storage warehouses. However, in other product categories, the effect of cost control is slightly less effective.

In practice, despite the fact that most brick-and-mortar stores have followed the headquarters' purchasing protocols, there are still challenges such as a high number of purchases, heavy inventory backlogs and disorganized supplier management. These issues have led to escalating procurement costs, which have had a negative impact on the store's operating margins. In view of this, YH Supermarket still needs to further optimize and improve the management of procurement costs. More sophisticated strategies need to be developed to minimize waste in the purchasing process and to reduce overall costs in a more reasonable manner.

(2) Logistics costs

The company has increased its investment in warehousing and logistics since 2017 in order to implement its strategic measure of online and offline integration. In 2019, the company has successfully built a logistics network of over 550,000 square meters. Considering that YH Supermarket focuses on fresh products, and taking into account the climatic characteristics of different regions, its logistics centers are subdivided into two categories: room temperature distribution centers and cold chain distribution centers, which specifically include 19 room temperature distribution centers and 6 cold chain distribution centers. Compared with room temperature distribution, cold chain distribution has higher equipment requirements and maintenance costs, which results in higher logistics costs for YH Supermarket compared to other supermarkets.

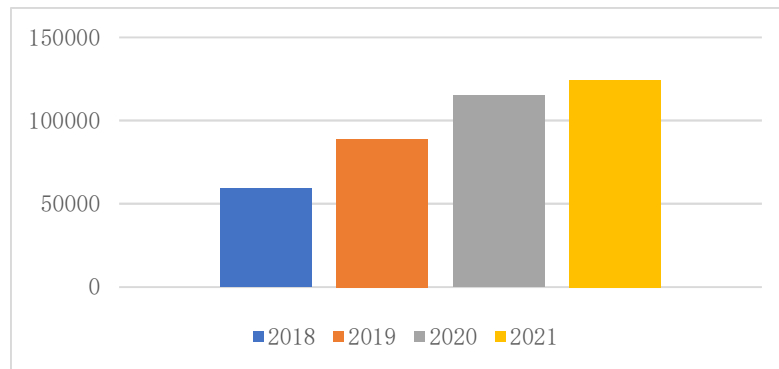


Figure 2. YH Supermarket Warehouse and Logistics Costs, 2018-2021

As can be seen in Figure 2, the warehousing and logistics costs of supermarkets have shown an upward trend year after year. This trend mainly stems from two factors: first, with more and more stores, the number of commodities to be purchased increases, resulting in more transportation costs. Secondly, the relatively high cost of cold chain transportation is also a factor that cannot be ignored. Although YH Supermarket has many years of experience in cold chain transportation, it has not made significant progress in updating and upgrading its cold chain equipment, which directly contributes to the persistently high storage and transportation costs of fresh products.

4.2.3. Problems of Cost Control in YH Supermarkets

YH Supermarket has accumulated experience over the years, and its procurement process has become quite mature. The current procurement program is smooth and stable, basically no major problems occur, and the quality of goods is always maintained at a high level, which provides a strong guarantee for the stability of the source of goods for each store. However, after careful analysis of YH Supermarket's procurement costs, there are still some issues of concern.

The primary problem lies in the disorganization of supplier management. The instability of suppliers leads to high volatility in supply prices. In addition, the non-direct costs incurred by supermarkets in the procurement process are also more obvious, especially in ordering costs and logistics expenses. Although these do not dominate the overall purchasing costs, their impact on the overall operating costs of the company cannot be ignored.

The reasons for the increasing indirect costs are manifold. The primary factor is that management has not developed sufficient awareness of them and lacks appropriate control measures. In addition, the defects of the procurement system should not be ignored, especially in the procurement process, there are such phenomena as the procurement staff accepting improper benefits from suppliers and other hidden cost increases. These together lead to the rise of the company's procurement indirect costs, thus making its cost structure presents an unreasonable state, and the effectiveness of the cost control work fails to achieve the expected results. To address these problems, YH Supermarket needs to make in-depth improvements in the areas of management cognition, procurement system improvement, etc., in order to realize the effective control of procurement costs.

5. Optimization Programme

5.1. Internal Value Chain Cost Control Program

5.1.1. Potential Efficiency Gains from Logistics Work Optimization

Based on traditional technology, combined with a more refined management strategy and the empowerment of artificial intelligence, for enterprises to reduce the cost of expenditure, and

create more value[4] . Firstly, barcode management system is introduced to improve work efficiency by applying barcode technology. Secondly, with the help of commodity bar code to realize the information sharing of logistics departments, to ensure that any department can timely grasp the dynamics of commodities, and then optimize the workflow of each department. Third, in the warehouse management, according to the commodity shipment data planning the layout of goods in the warehouse. Specifically, special areas should be set up according to the characteristics of the goods to achieve the optimization of the storage and distribution process. Thus ensuring a smooth and efficient supply chain. At the same time, we can actively seek collaboration with third-party partners to continuously improve the efficiency of logistics and distribution. Committed to the minimum cost to achieve efficient distribution, to ensure that logistics costs are maintained in an economic and reasonable range, so as to protect the overall effectiveness of logistics operations.[5] For example, YH Supermarket can consider the possibility of utilizing the logistics distribution system in the supermarket. For example, YH Supermarket can consider setting up a centralized pickup point in a specific area to unify the distribution of orders in the region, thus enhancing the overall distribution efficiency and cost-effectiveness.

5.1.2. Procurement Cost Control Measures

In terms of procurement auditing, a dynamic management strategy that is closely aligned with actual market conditions can be adopted to ensure that commodity procurement is carried out in an optimal and cost-effective manner through the careful selection of suppliers. In process management, it is important to eliminate all forms of waste, especially to prevent non-transparent operations by purchasing staff, to effectively reduce potential hidden costs.[6] . In order to realize effective dynamic management, attention should be paid to the following three key aspects: first, a flexible management planning and scheduling strategy should be constructed, which needs to be closely integrated with the strategic objectives and expected results of the enterprise, so as to ensure the rationality and effectiveness of the procurement plan. Secondly, advanced information technology can be used to analyze and monitor market trends in real time, in order to accurately capture market dynamics and trends, so as to flexibly adjust the procurement strategy to cope with market changes. Finally, in order to ensure the smooth implementation of the plan, it is necessary to establish a sound procurement system, clarify the procurement process, standardize the procurement behavior, and provide clear guidance and support to the relevant personnel, so as to ensure the compliance and efficiency of procurement activities.

5.1.3. Employee Perspective to Achieve Full Participation in Cost Control

In order to ensure the efficient implementation of target cost control, all departments and their employees need to work together to define and set up cost control objectives. At the same time, a solid cost-control philosophy is a key cornerstone to support the effective implementation of this cost-control strategy.[7] In order to popularize the concept of cost control among all employees In order to popularize the concept of cost control among all employees, staff training activities can be carried out to emphasize the value of cost control to the long-term strategic planning of the enterprise, and deepen the staff's understanding of its importance. In the training session, employees should know that cost control is not simply reducing expenses, but a process of optimizing resource allocation and achieving efficient use of resources. In addition, employees should realize that the object of cost control is not only limited to the direct costs incurred in the current work, but also need to be alert to the potential hidden losses in the workflow. Through process optimization and production process upgrading, these losses can be significantly reduced. Especially frontline employees, who are more likely to detect waste in their daily work, should be cultivated to improve their awareness and encouraged to actively identify and eliminate potential waste to achieve the overall optimization of cost control.

5.2. External Value Chain Cost Control Program

For enterprises like YH Supermarket, the importance of consumers is obvious, both online and offline customers. In the context of the "Internet +" era, the widespread application of Internet technology has enabled supermarkets to expand their coverage several times, and the consumer base has also increased significantly. Although the size of the consumer group facing the store is relatively limited, through the construction of customer relationship management system, supermarkets can effectively maintain customers. In addition, through the implementation of cost control in the external value chain, supermarkets can significantly improve their asset management capabilities and inventory turnover, thereby realizing cost reduction and cost control objectives.[8] Cost Reduction and Cost Control Objectives. In order to achieve this goal, supermarkets can adopt the following strategies: firstly, they can use the private domain for refined operation. Supermarkets divert consumers from the public domain to the private domain through measures such as sweeping codes to receive membership rewards, and then support jumping between platforms by linking small programs, APPs, and communities, so as to more efficiently collect users' data and purchase goods according to users' preferences. Secondly, after a large number of consumers flock to the private domain in the early stage, enterprises can publicize online through the WeChat public number and community, thus reducing their marketing costs. Finally, as the collection of customer information is more convenient and complete, it also helps enterprises to optimize and improve the after-sales service for consumers and increase the stickiness between customers and supermarkets.

6. Conclusion

After in-depth analysis of the evolution of retailers under the background of "Internet +" and the specific operation of YH Supermarket, this paper draws the following conclusions:

6.1. Prospects for the Development of New Retail Models are Promising

In the current "Internet +" technology booming background, the domestic retail supermarket industry is experiencing a profound change, many companies have to take online and offline integration of innovative development strategies to adapt to the rapid changes in the market. At the same time, thanks to the help of national policies and the continuous improvement of people's consumption level, the total retail sales of consumer goods has continued to grow, which provides a broad space for the development of the new retail model and good market opportunities. Under the background of the current Internet environment, with the help of advanced network technology and other means, enterprises can efficiently screen and deeply analyze all kinds of information of suppliers, which provides a powerful support for optimizing supply chain management and improving operational efficiency. This not only helps enterprises to reasonably control procurement costs, but also significantly improve the procurement efficiency, and thus realize the effective management of the overall cost of the enterprise.[9] This transformation and integration not only reflects the retailer's ability to control procurement costs, but also significantly improves procurement efficiency, thereby realizing effective management of overall costs within the enterprise. This transformation and integration not only reflects the innovation of the retail industry, but also brings more development opportunities for enterprises.

6.2. The Company Should have a Clear Understanding of its Situation

YH Supermarket has encountered difficulties in cost control, the main root cause of which is the lack of a detailed understanding of total cost control within the company, and the company's over-simplistic pursuit of cost reduction, rather than the construction of a comprehensive and systematic cost control system. Although the company has introduced an information

management system, the system has not been fully utilized and has not fully demonstrated its effectiveness in cost control. In addition, there are obvious shortcomings in the procurement management strategy. From the perspective of the external value chain, a long-term and solid collaborative relationship has not yet been established with suppliers, which directly leads to chaotic supplier management and escalating transaction costs. In terms of talent management, the same irrationality is evident. Specifically manifested in the labor costs in the total costs accounted for a relatively high proportion, and the phenomenon of frequent brain drain, to the stable development of the enterprise has brought considerable challenges. More critically, the composite talents required for the integration of online and offline have not been fully explored and utilized, which to a certain extent restricts the innovation ability and market competitiveness of enterprises. In view of the complex market competition environment and intense competitive pressure in the current retail industry, YH Supermarket must develop more targeted and innovative strategies and tactics if it wants to occupy a place in the market.[10] In order to take its place in the market, YH Supermarket must develop more targeted and innovative strategies and tactics.

6.3. Relevant Safeguards

In order to ensure the effective implementation of cost control strategy in YH supermarket, a series of safeguard measures need to be taken. The first priority is that enterprises need to strengthen training to enhance the deep understanding and recognition of all employees of the total cost control strategy, and then form a unified cost control awareness. Secondly, the establishment of a scientific and reasonable assessment and incentive mechanism is essential, which not only helps to promote the implementation of total cost control, but also ensures that the control strategy to achieve the desired results. Finally, the existing information system of the enterprise should be fully utilized to maximize its effectiveness, provide a strong guarantee for cost control, and promote the efficient implementation of the cost control strategy.[11] The cost control strategy should be implemented efficiently.

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