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PETER MORAN
DANIEL HAN MING CHNG
LIMAN ZHAO

WinChannel's Digital Gambit to Revitalize Rural China (A)

In January 2015, Zhen (Andrew) Cui, Founder and CEO of Beijing WinChannel Software Technology Co., Ltd. (WinChannel), was wondering what strategy would sustain the company's growth and profit in the years to come. Founded in 2000, WinChannel provided fast-moving consumer goods[①] (FMCG) companies in China with information and analytical tools for monitoring and managing their distribution channels. These enabled FMCG companies to analyze, in near real time, distribution channel information, such as sales transactions, replenishment orders, inventory, and promotional activities. WinChannel also helped FMCG companies to promote their products, optimize channel management, streamline their sales process, understand market responses, and thus improve decision making and operational efficiency throughout the entire distribution channel.

At the end of 2014, WinChannel served nearly 200 FMCG companies in China, including leading brands like Unilever, Coca-Cola, Nestlé, Mondelēz, and Mars. For Cui, the company's growth and success to date had been driven by its proactive drive to anticipate FMCG companies' evolving needs. Clearly, one of their biggest challenges was getting their products into the rural, less developed regions of the country. Millions of small, independently owned and operated stores ("mom-and-pop" stores) were still not effectively or efficiently served through the traditional FMCG trade channel. As Cui pondered this problem, he wondered if there was anything WinChannel could do to help these companies extend their reach throughout China.

[①] FMCGs are relatively low-priced products that are purchased and used frequently. Most have a short shelf life, due to a high turnover rate (e.g., toiletries, pre-packaged foods, soft drinks, chocolate, candies, and cleaning products) or because they deteriorate quickly (e.g., meat, fruits and vegetables, dairy products, and baked goods). Although the profit margins for most FMCGs are relatively small, large sales volumes can provide FMCG companies with significant gross profits.

Professor Peter Moran, Professor Daniel Han Ming Chng and Senior Case Writer Dr. Liman Zhao of China Europe International Business School prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by China Europe International Business School and not by the company. CEIBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Background of WinChannel

Founder: Zhen (Andrew) Cui

With a degree in engineering management from Beihang University in Beijing in 1991 and about 10 years of FMCG experience at P&G, Sara Lee, and Reckitt Benckiser, Cui realized in 2000 that most FMCG companies struggled with a highly inefficient Route-to-Market (RTM) model.① He believed that with better information services, FMCG companies could manage their sales and partnerships with manufacturers, distributors, and retailers more effectively and efficiently. In 2000, he left his position as the Sales Director of Reckitt Benckiser to start WinChannel. The founding team included experienced professionals from FMCG companies like P&G, Coca-Cola, and Pfizer and from information technology companies such as Motorola, Microsoft, IBM, and SAP.

Solutions and Services Provided by WinChannel

WinChannel was headquartered in Beijing's Zhongguancun High-Tech Park, often referred to as China's Silicon Valley. In pursuit of its vision "to become the best business solution and service provider for FMCG companies by delivering the most efficient and high value-added information platform and service," WinChannel developed four core systems (described in **Exhibit 1)**. Based on the concept of Efficient Consumer Response (ECR),② these systems helped FMCG companies compile and track data on their distribution channels, in-market activities, and supply chain and sales force management.

As shown in **Exhibit 2**, these core systems formed an "all-in-one" seamless information system that: a) enabled distributors to use their own software; b) connected FMCG companies to key accounts [e.g., Walmart, FamilyMart, and Lianhua] and their more than 110,000 combined stores; c) helped its clients over three-million-strong sales force to cover over two million mom-and-pop stores that were too small to serve via key accounts; and d) supported about 10 million end consumers with a professional customer service team, comprising over 100 employees who spoke multiple languages. WinChannel's 24-hour customer service provided comprehensive support for all aspects of system operations. In addition, it provided value-added services (like retail consulting) to help FMCG companies exploit the growing volume of information that was captured through their information services.

Development of WinChannel

A pioneer in China's information services industry, WinChannel had become a leader in providing innovative and integrated information management solutions to FMCG companies from over 70 countries. In early 2010, WinChannel raised "A" round financing from Intel Capital and SIG in order to speed up the pace of internationalization. Offices in Singapore and Copenhagen were opened to expand and support markets in Singapore, Malaysia, Indonesia, Thailand, the Philippines, India, Vietnam, Australia, and New Zealand. By 2014, WinChannel had over 500

① The RTM model used by many leading FMCG companies was a simple but powerful methodology for taking products and services to market, involving channel partners, market coverage/visits, and capabilities. By providing speedy and effective methods for aligning areas like finance, purchasing, marketing, sales, distribution, and cost optimization, an efficient RTM model could save up to 40% in operating expenses.

② ECR was a strategy to increase the level of services to customers (i.e., FMCG companies in WinChannel's case) through close cooperation among retailers, wholesalers, and manufacturers.

employees, five branch offices in Shanghai, Guangzhou, and Xiamen, and a top management team whose members averaged 15 years of experience in consumer products and IT.

Cui hoped to take WinChannel public in the following years. However, given the increasing challenges facing traditional retail and the rapid growth of e-commerce in China's retail landscape, he knew he had more pressing issues to deal with. Cui needed to better understand how China's FMCG market would evolve and how more value could be created in this industry. For him, WinChannel's success was rooted in its deep knowledge of the FMCG industry and the unique information services it offered to leading international FMCG companies.

China's FMCG Industry

China's Retail and FMCG Industry in 2014

China's retail sector exploded in the first decade of the 21st century, as the country's economy experienced double-digit percentage growth. However, as this growth slowed over the last few years, so did the growth in China's retail industry (see **Exhibit 3**). "Brick-and-mortar" retailers (e.g., department stores, supermarkets, and retail stores) experienced the most difficult time in 2014; as growth in consumer demand slowed, operating costs increased, and new challenges emerged from the rapidly growing e-commerce sector.[1] Indeed, 80% of listed Chinese retail companies reported sharp increases in their selling and administrative expenses that far outpaced any increase in sales revenue.[2] The average return on sales for the Chinese retail industry in 2014 was reported to be only 1%.[3]

Large gaps in economic development and income across China's urban, first-tier cities and its less developed rural counties① meant that purchasing power and retail demand also varied greatly across provinces within China. In 2014, country-wide retail sales of consumer goods reached ¥26.2 trillion,② with a year-on-year growth rate of 12% (see **Exhibit 4**), while in rural counties, these sales were only ¥1.14 trillion but increased 48.3% year-on-year.[4] Shrinking disparities between urban and rural consumers were making rural cities more important in the Chinese retail industry.

Government policies also influenced the development of China's retail industry. As the country's economic engine began to shift from manufacturing and exports to domestic consumption, the People's Bank of China adopted monetary policies to stimulate consumption. These included a reduction in interest rates and the easing of loan requirements. The government also partially relaxed the one-child policy in 2013 to spur more births. However, anti-corruption

① China's cities were classified into six tiers. By 2014, Beijing, Shanghai, Guangzhou, and Shenzhen were China's Tier 1 cities—each with a population over 10 million, a GDP over US$300 billion, and direct control by the central government. Tier 2 cities (e.g., Hangzhou, Chengdu, Nanjing, and Wuhan) numbered about 30. These were typically provincial capitals controlled by the provincial government, with 3–15 million people and a GDP of US$68–299 billion. There were about 60 Tier 3 cities (e.g., Daqing, Changzhou, and Wuhu), which were controlled by the prefecture government, with 150,000 to 3 million people and a GDP of US$18–67 billion. There were about 115 Tier 4 cities (e.g., Anshan, Chaozhou, and Jilin) controlled by county governments, with less than 150,000 people and a GDP less than US$17 billion. Tier 5 and Tier 6 cities, usually called counties, towns, and villages, numbered around 360 at the county level, and over 40,000 at the township level. The gap in economic wealth between rural and urban areas was huge. For example, in 2014 the per capita disposable income was ¥29,381 for urban households but only ¥9,892 for rural households.

② ¥ = CNY = Chinese yuan renminbi; ¥ 1 = approximately US$0.1610 on December 31, 2014.

initiatives and prudent spending policies significantly dampened demand for high-end consumer products and services.

China's retail industry was highly fragmented, comprising millions of retailers of varying formats, sizes, geographical coverage, and experience. Competition was fierce in every segment and the competitive landscape was changing. Although larger national retailers—such as department stores (e.g., Shanghai Friendship Department Store and Chongqing Department Store), hyper/supermarkets (e.g., Carrefour, Walmart, and Yonghui Superstores), and modern convenience store franchises (such as FamilyMart, LAWSON, and KEDI)—still played a dominant role (especially in Tier 1 and 2 cities)[5] and accounted for the majority of China's overall retail revenues, e-commerce had grown very quickly over the last five years. Of the top 100 retailers, which accounted for 26% of total retail sales in 2014 (see **Exhibit 5**), 93 were traditional brick-and-mortar retailers. They generated approximately ¥22.5 trillion in sales but were growing at only 5.6% annually. In comparison, the seven largest e-commerce platforms generated ¥11.05 trillion in revenue, with a year-on-year increase of 110.1%. The 19 retailers in the top 100 that were foreign-funded (e.g., Walmart, Carrefour, and Metro) were losing market share. As a group, they generated only 12.8% of total sales in 2014 and their annual growth rate fell to 2.2% from 10.4% in 2013.[6]

Growth in FMCG, which accounted for about 15% of China's retail sales, was slowing in Tier 1 and 2 cities. Although FMCG growth rates at the county level had increased from 8.2% in 2013 to 8.8% in 2014, rates were declining in Tier 1 cities (from 4% in 2013 to 0.9% in 2014) and Tier 2 cities (from 7.4% in 2013 to 2.5% in 2014). Kantar Worldpanel, a leading global retail research firm, reported that total FMCG revenue in China increased by only 5.4% in 2014, less than the 7.4% growth in GDP. Kantar Worldpanel predicted that overall industry growth would remain at this moderate rate over the next few years and that FMCG sales would continue to shift from the more developed Tier 1 and 2 cities to rural, less developed counties.[7]

Distribution Channels in China's FMCG Industry

Two distribution channels had long dominated the way FMCG companies sold their products—the traditional trade and modern trade channels. The first accounted for 54.9% of FMCG revenue in 2014.[8] Via this channel, FMCG companies used their own sales forces (typically organized by geographical region), as well as distributors and wholesalers, to reach independently owned and operated mom-and-pop stores, including small grocery stores, convenience stores, and wine and tobacco stores (see **Exhibit 6**). Most of these mom-and-pop stores were less than 200 square meters, with at most a few thousand stock keeping units. Estimates of their number in China varied from over five million to more than six million.[9] While they were present throughout China, these stores were more concentrated in less developed cities and rural counties.

Accounting for 40.2% of FMCG revenue in 2014,[10] the modern trade channel was highly concentrated, with relatively few major retailers in China. All were served by the FMCG companies' key account sales forces, who would arrange direct distribution. They included hypermarkets (e.g., Carrefour, Walmart, and Yonghui Superstores), supermarkets (e.g., Hualian, Lianhua, and Wu Mart), warehouse stores (e.g., Metro and Sam's Club), convenience store chains (e.g., 7-Eleven, FamilyMart, and Lawson), and category specialists like beauty and healthcare (e.g., Watsons) or electronics (e.g., Gome and Suning) stores.

The development and rapid growth of e-commerce platforms over the past decade had allowed FMCG companies to add business-to-consumer (B2C) businesses that also sold directly to consumers. Major third party e-commerce platforms in China included Taobao.com, Tmall, and JD.com. In 2014, e-commerce accounted for only 4.9% of total FMCG revenue but was expected to grow significantly in the future.[11]

Since 2010, sales through the modern trade and e-commerce channels had grown. While offline retailers in China's Tier 1 and 2 cities struggled with growth from in-store traffic, e-commerce sales realized a compound annual growth rate (CAGR) of 34% in 2014 (see **Exhibit 7**). Mobile commerce had also taken off as more and more consumers used their mobile phones to make purchases. A survey in 2014 showed that about 80% of Chinese consumers who shopped online did so via their mobile phones at least once.[12]

FMCG companies had embraced e-commerce, as it not only opened up a new channel to drive additional sales, but more importantly, it played a crucial role in helping them build their brand image, awareness, and equity in a more direct and efficient way, especially in less developed rural counties, where the modern trade channel was not well developed.[13]

The slowdown in sales growth varied across the different FMCG channels. In the face of strong online momentum (see **Exhibit 7**), the CAGR of hypermarkets, mostly in Tier 1 and 2 cities, declined from 7.9% in 2013 to 3.7% in 2014. In contrast, consumer demand at smaller-format supermarkets, mini-marts, and convenience stores remained relatively stable.[14] China's lower-tier cities, where mom-and-pop stores dominated, experienced healthy sales growth (8%) compared with Tier 1 and 2 cities (2%).[15] Although the modern trade and e-commerce channels were attracting more and more attention and resources from FMCG companies, the traditional trade channel remained the biggest in China's retail industry. Over half of the FMCG companies generated more than 60% of their revenue from the traditional trade channel. In rural counties, mom-and-pop stores not only provided a physical space for sales but also served as a valued place for residents to meet and socialize. In this way, the traditional trade channel often complemented the modern and e-commerce channels.

Value Chain of the Traditional Trade Channel

The traditional trade channel's value chain began with the FMCG companies, then continued with distributors, wholesalers, and mom-and-pop stores, before reaching end consumers (see **Exhibit 8**). A distributor acted as a business partner with FMCG companies to distribute their non-competing products and services to others in the supply chain. Many distributors maintained exclusive buying contracts that limited the number of participants or enabled distributors to cover certain regions. With their distributors, FMCG companies were able to cover approximately two million or about 35% of mom-and-pop stores in China. In return, the distributor received a percentage discount on the factory price. The more products the distributors sold, the greater the discounts and profit margins. Distributors usually agreed to certain sales terms, like FMCG companies' pricing policies, and to provide logistics infrastructure (i.e., their warehouse, network of retailers, and efficient handling and supply of products) and distribution management. Distributors also carried out product promotions and handled customer service, working as business partners and representatives of the FMCG companies. Given that China had more than 650 cities, nearly half of which had a population of over one million, distributors differed in size and scale according to their geographical coverage (e.g., national distributor, provincial distributor, and city distributor).

Wholesalers purchased products in large quantities from distributors without any obligation to the FMCG companies and distributed them to the rest of the mom-and-pop stores (approximately four million or 75%) in geographical markets (mostly in rural counties) not covered by FMCG companies and their distributors. Unlike distributors, they did not provide product promotions or customer service. Wholesalers were divided into categories, by geographic locations (i.e., primary or secondary wholesalers) or by the way they delivered products—1) tradesmen/sedentary merchants (坐商) had fixed locations (e.g., wholesale markets) and 2) itinerant merchants (行商) would visit retail outlets to sell their products. In general, wholesalers had lower costs than distributors, as they did not need to invest heavily in fixed assets (e.g., large warehouses) or hire large numbers of employees.

While the traditional trade channel's value chain was well established, many challenges persisted for the different players.[16] Many FMCG companies maintained a large direct sales force to serve the needs of mom-and-pop stores, even though this was very costly and inefficient. The largest FMCG company with the biggest sales force in China could only cover approximately 25% of all mom-and-pop stores. FMCG companies deployed their sales forces not just to monitor sales, identify market needs, and develop promotion activities, but also to understand how this important distribution channel worked. To serve the rest of the mom-and-pop stores throughout China, FMCG companies had to partner with a large number of distributors. It was estimated that there were well over 10,000 distributors and over 100,000 wholesalers in China. According to a survey by Kantar Retail,[①] over 50% of the FMCG companies worked with more than 200 distributors in the traditional trade channel.[17] For example, Unilever had about 700 distributors, with the major ones covering about 400,000 mom-and-pop stores, while secondary ones, together with some wholesalers, could cover about 800,000 mom-and-pop stores.[18]

The many layers and the large number of players in the traditional FMCG distribution channel resulted in lower efficiency and profitability for many. Critical information was incomplete, infrequently updated, and often inaccurate. This made it hard for the FMCG companies to effectively allocate marketing and sales resources, conduct in-store promotional activities, and control distribution costs. Moreover, due to the lack of integrated and traceable data about mom-and-pop stores' transactions, FMCG companies faced challenges in launching new products. The service quality provided by different distributors and wholesalers also varied significantly, and FMCG companies' dependency on distributors and wholesalers to cover regions that they could not serve directly weakened their relative bargaining power and eroded their control over prices. Moreover, frequent sales of expired or even imitation products of lower quality (i.e., products that looked similar and had similar-sounding names) (see **Exhibit 9**) by wholesalers tarnished FMCG companies' brand image among both consumers and the owners of many mom-and-pop stores.

As for distributors, many suffered from high capital investments and operational costs and constant pressure from FMCG companies to sell more products. As intermediaries, they often felt squeezed by both FMCG companies, with whom they needed to negotiate discounts, and wholesalers, who asked for lower prices, longer credit terms, and more sales and promotional support. As a result, many distributors struggled with high operational costs (e.g., logistics and distribution) and low working capital (e.g., cash flow problems).

In the case of wholesalers, they had even lower profit margins (about 1–2%) compared to distributors (about 3–4%). Wholesalers needed to secure longer credit terms from distributors and turn over their inventory more quickly with mom-and-pop stores. To earn more profits, many would carry imitation products because of the steep discounts offered by their manufacturers. They would also seek sales and promotional incentives from distributors without passing them onto the

① Kantar Retail was a part of Kantar Worldpanel. It was one of the world's leading retail data, insight, and consultancy companies.

mom-and-pop stores. Worse still, they could cheat mom-and-pop stores by selling expired products, passing on imitation products as real products, or under-counting products when they were delivered.

Lastly, the mom-and-pop stores had the lowest bargaining power in the entire FMCG industry value chain and therefore the least profit. Most, especially those in less developed cities and rural counties (approximately four million), had limited information about or access to FMCG companies and their distributors. They were dependent on wholesalers and often struggled with the cumbersome process of travelling to a wholesale market to purchase goods in person and often had to pay upfront in cash. They also suffered from inaccurate information or even misinformation, a limited range of products, and poor quality or even fake products that they believed were genuine. Moreover, owners of mom-and-pop stores in rural areas (see **Exhibit 10**) had little know-how about choosing the right FMCG products to sell, displaying products in their stores, managing inventory, or otherwise operating their store in a cost-effective manner. In addition, financial constraints hindered the growth of many mom-and-pop stores, especially those in rural counties.

WinChannel's Challenge

Cui could see that the future of the traditional trade channel was being threatened by the large online e-commerce players and others, who were aggressively expanding in the B2C and B2B segments. As an experienced IT service provider, Cui knew the logistics benefits that online transactions offered. He also understood the power of digital technologies and the innovations they made possible. In particular, he noted two approaches to transformation that were challenging the traditional trade channel and WinChannel.

First, modern retail companies were adopting omni-channel strategies that combined both online and offline channels (commonly referred to as an online-to-offline or O2O model). These included retail stores like Gome, Suning, and Wangfujing; shopping centers like Joy City and Wanda; hypermarkets and supermarkets like Carrefour and RT-Mart; and e-commerce platforms like JD.com and Alibaba; as well as consumer product companies like Gree, Haier, and Watsons (see **Exhibit 11**). For instance, JD.com used its e-commerce platform to sell FMCG products in over 15 cities and collaborate with thousands of mom-and-pop stores to deliver the products to consumers from their physical stores.[19]

Second, new players from different parts of the industry value chain were starting to build online FMCG B2B platforms. In 2013 and 2014, nine B2B companies raised funds to cover about 130,000 mom-and-pop stores.[20] There were 10 such platforms by the end of 2013 and 29 one year later, accounting for ¥4.5 trillion in GMV (Gross Merchandise Volume) . Examples included Ling Shou Tong (零售通), launched by Alibaba; Zhanghetianxia (掌合天下), launched by China Federation of Supply and Marketing Cooperatives and Hainan Airline Group; and Huimin.com (中商惠民) (see **Exhibit 12**). Founded by Yichun Zhang in May 2013 as an O2O platform for community-based stores to order products, Huimin.com received ¥600 million in 2014 for its "A" round funding from multiple well-known institutional investors, such as Fortune Capital and Fosun Capital. Zhanghetianxia, a start-up founded in July 2013, covered over 100 cities in 15 provinces by the end of 2014. These companies all aimed to use advances in digital information and communication technologies to address FMCG distribution channel pain points.

Cui knew how important the traditional trade channel was, both as a major source of revenue for FMCG companies (e.g., still accounting for 80% for one leading global firm, compared with 15% from the modern trade channel and only 1% from e-commerce) and a source of livelihood for many rural inhabitants. Despite its importance, it was also very costly to serve (where distribution costs—including salesmen's salaries, transportation, and promotion costs—could easily chew up 20–30% of revenue). And too often, its value was misappropriated. It was easy for wholesalers to profit more by selling to mom-and-pop stores either genuine products priced at an excessive premium or fake or imitation products with high margins, even when priced much lower.

Cui wondered what WinChannel could do. He sensed that there was an opportunity to help the FMCG brands expand into the huge but poorly served rural areas. But how could WinChannel help them reach the large number of mom-and-pop stores that accounted for over 50% of their sales? He believed that this would require an active presence—something with which an IT service provider like WinChannel had little experience.

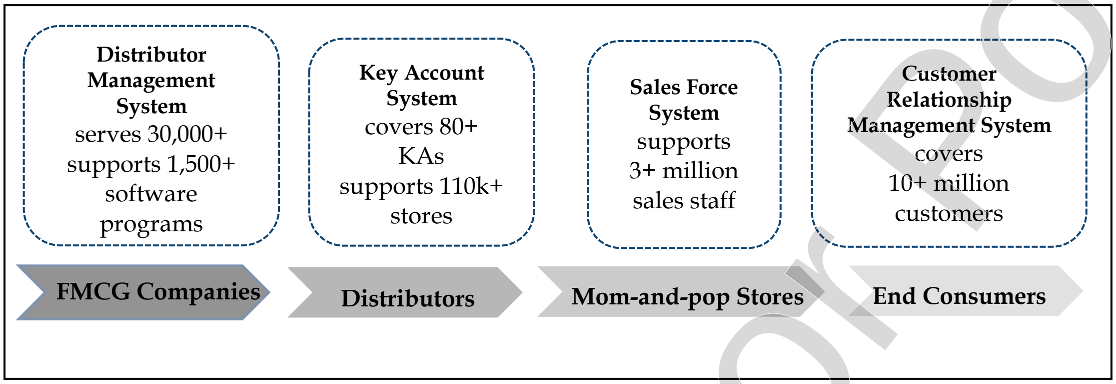
Noting that the mission of Zhanghetianxia, one of the fastest growing start-ups, was to help millions of mom-and-pop stores through its supply chain and service, Cui wondered if there were ways that WinChannel could help mom-and-pop store owners too. Should WinChannel enter the B2B market? How could it compete with the growing number of well-financed players who had already entered? Could digital technologies be harnessed to help revitalize rural China? Despite these uncertainties, one thing was clear to Cui. For WinChannel to succeed, he must have an idea about how to solve the many serious problems vexing the traditional trade channel.

Exhibit 1: WinChannel's Core Systems (in 2014)

Core Systems	Overview	Benefits	Key Features
Distributor Management System	Enables FMCGs to achieve excellent channel visibility, adapt to market changes, and make faster and better decisions.	• Able to track first-hand distributor transaction data. • Gains visibility of product flow across sales channels. • Able to monitor trade inventory. • Captures market trends in a timely fashion. • Enables faster and better decision-making.	• Compatible with various existing enterprise resource planning (ERP) systems. • Fast implementation on massive base. • Able to integrate data with the existing system.
Sales Force Automation	A mobile sales force management system that combines innovative 3G mobile and Wi-Fi technology with best practices in the consumer goods industry. It effectively standardizes the sales call process, improves sales call efficiency, and promptly collects data from retail outlets.	• Extends sales force management and enhances call efficiency. • Standardizes and optimizes field sales execution. • Provide timely access to competitive information at a retail level. • Achieves effective communication between headquarters and field sales staff. • Reduces administrative paperwork and costs.	• Supports various mobile operating systems (including iPhone iOS, Android, Symbian, etc.). • User-friendly interface with ease of use. • Comprehensive functional modules at both front and back ends.
Promoter and Merchandiser Management System	A promoter and merchandiser team management system that employs the latest mobility technology.	• Timely access to first-hand data from field activities. • Enhances quality of event execution. • Effective communication between headquarters and field promoters.	• Supports all types of cell phones (except PHS) and various telecom platforms. • Avoids data loss and dirty data while increasing data usability.
Customer Service System	Takes care of all aspects of project delivery, system roll-out, post-implementation support, and ongoing system operations.	• Set up based on international standards. • Well-established call logging and resolution procedures, escalation pathways, and incident tracking systems.	• Enables coverage of customers in 600+ cities with high level of ongoing customer support. • Features a 400-toll-free call center and a customer-exclusive service team.

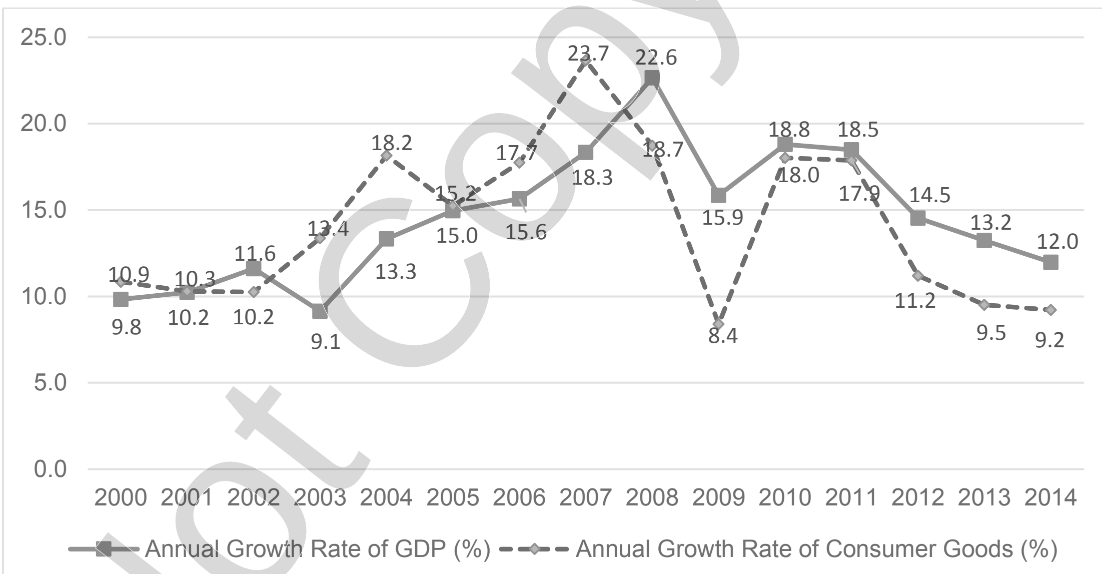
Source: Provided by WinChannel.

Exhibit 2: Impact of WinChannel's Core Systems on FMCG Value Chain Efficiency



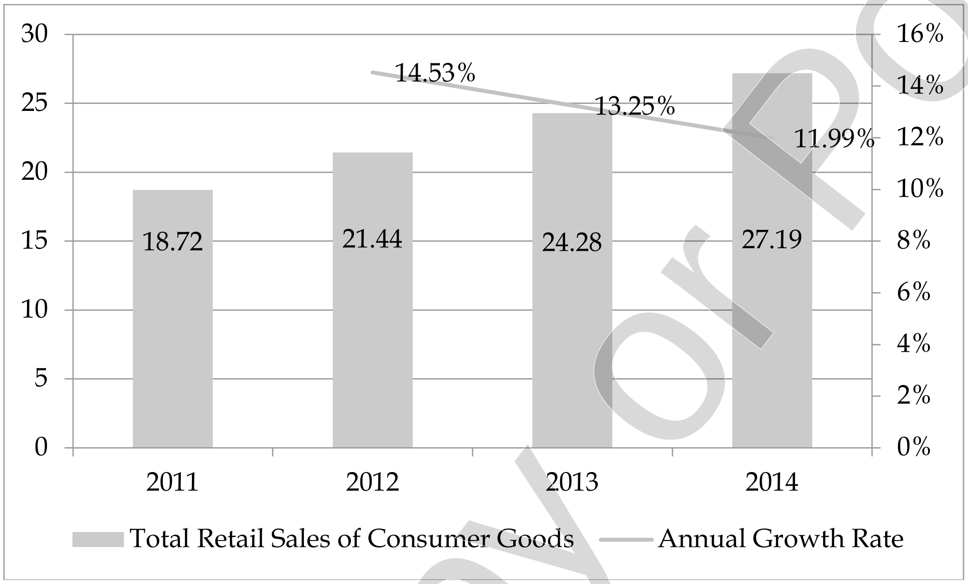
Source: Provided by WinChannel.

Exhibit 3: Annual Growth Rates (%) of GDP and Consumer Goods in China (2000–2014)



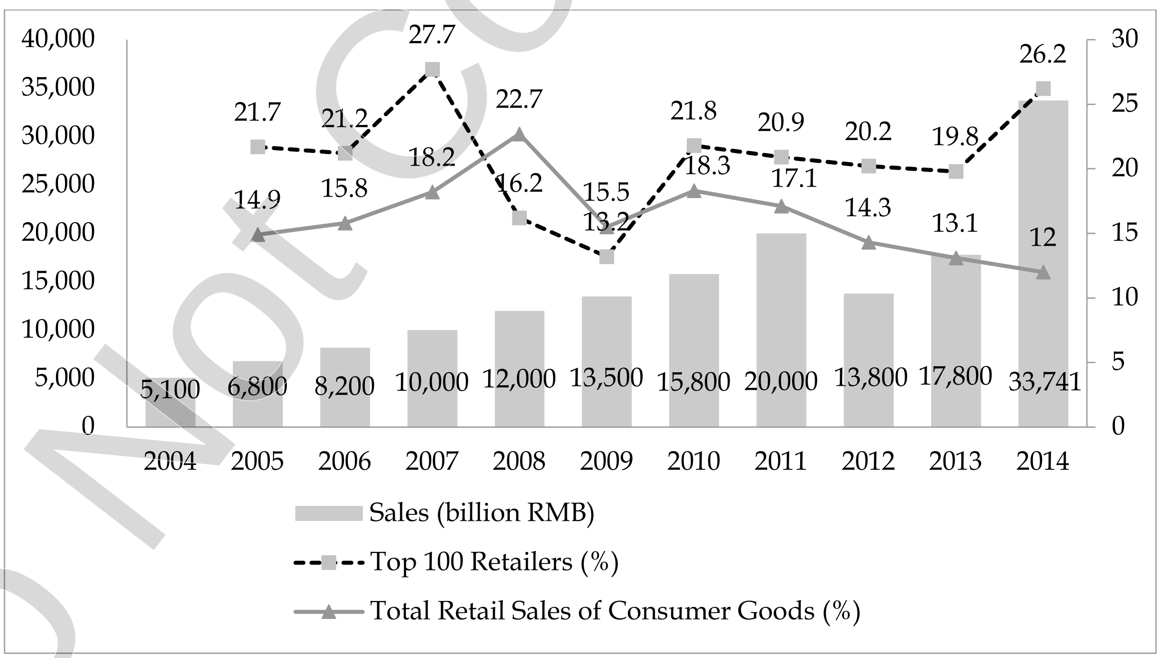
Source: National Bureau of Statistics of China, Indicators, Total Retail Sales of Consumer Goods, 'Total Retail Sales of Consumer Goods (100 million yuan)', 2008-2017. http://data.stats.gov.cn/english/easyquery.htm?cn=C01. Accessed 6th Dec, 2018.

Exhibit 4: Aggregate Value of China's Total Retail Sales of Consumer Goods (Unit: Trillion Yuan)



Source: Created by the authors based on the public data from: National Bureau of Statistics of China, Annual Data on Total Retail Sales of Consumer Goods, accessed November 7, 2018, http://data.stats.gov.cn/english/easyquery.htm?cn=C01.

Exhibit 5: Growth of China's Retail Industry



Source: Jia Sun, "Analysis on China's Top 100 Retailers in 2014," *Linkshop*, July 9, 2015, accessed September 11, 2017, www.linkshop.com.cn/web/archives/2015/329105.shtml.

Exhibit 6: Multi-channel Landscape of China's Retail Industry

Traditional Trade

- "Mom & Pop" stores, owners is the clerk
- Store size varies, generally < 200 sqm
- No checkout counters
- Offering groceries, wine, and tobacco

e-Commerce

- C2C
- B2C
  - Platform
  - BBC
    1. Pure Play
    2. Brick & Clicks
    3. Vertical
    4. WeCommerce

Examples:
Taobao.com; TMall.com, JD.com
Suning.com

Modern Trade

Hypermarket

- Store size over 6,000 sqm
- 20 checkout counters or more
- Over 10,000+ SKU, offering a full selection of grocery items and general merchandise

Cash & Carry

- Store size over 9,000 to 20,000 sqm
- 20 checkout counters or more
- 4,000-20,000 SKU, offering large pack sizes and a combination of private label products
- Membership card required

Discount Store

- Store size from 250 to 1,000 sqm
- 3,000-8,000 SKU, including a wide collection of private label products
- Strong budget position

Supermarket

Standard Supermarket
- Typically 1,000-5,000 sqm
- 8,000-10,000 SKU
- >3 checkout counters

Mini Supermarket
- Typically 200-1,000 sqm
- 2,000-5,000 SKU
- Nearby neighborhood
- ≤3 checkout counters

Preminum Supermarket
- Typically 2,000-5,000 sqm
- Over 405 imported products
- 8,000-10,000 SKU

Convenience Store

- Below 250 sqm
- 24-hour operation (18 hours in selected regions)
- 1,000-4,000 SKU
- Chain operations, usually more than 20 chain stores
- ≤ 3 checkout counters
- Various value added services provided

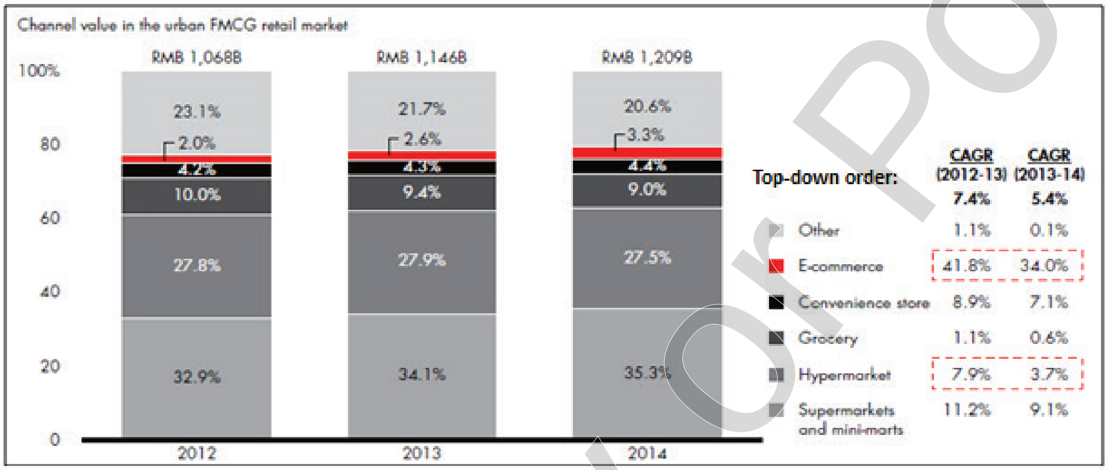
Category Specialist

- This channel includes stores that focus on a single or closely related categories
- Categories include
  - Health and Beauty
  - Electronics
  - Baby Specialists

Note: In the past, the modern trade channel mainly covered Tier 1 & 2 cities. As the gap in GDP between Tier 1/2 cities and Tier 3/4 cities had decreased, the modern trade channel began expanding into Tier 3/4 cities. The traditional trade channel (mom-and-pop stores) mostly served consumers in Tier 4–6 cities.

Source: Kantar Retail, 2016 FMCG Online B2B Market Study: Summarized Report (December 2016), http://cn-en.kantar.com/media/1476516/kantar_retail_2016_fmcg_online_b2b_market_study_summarized_report.pdf. (with permission to use)

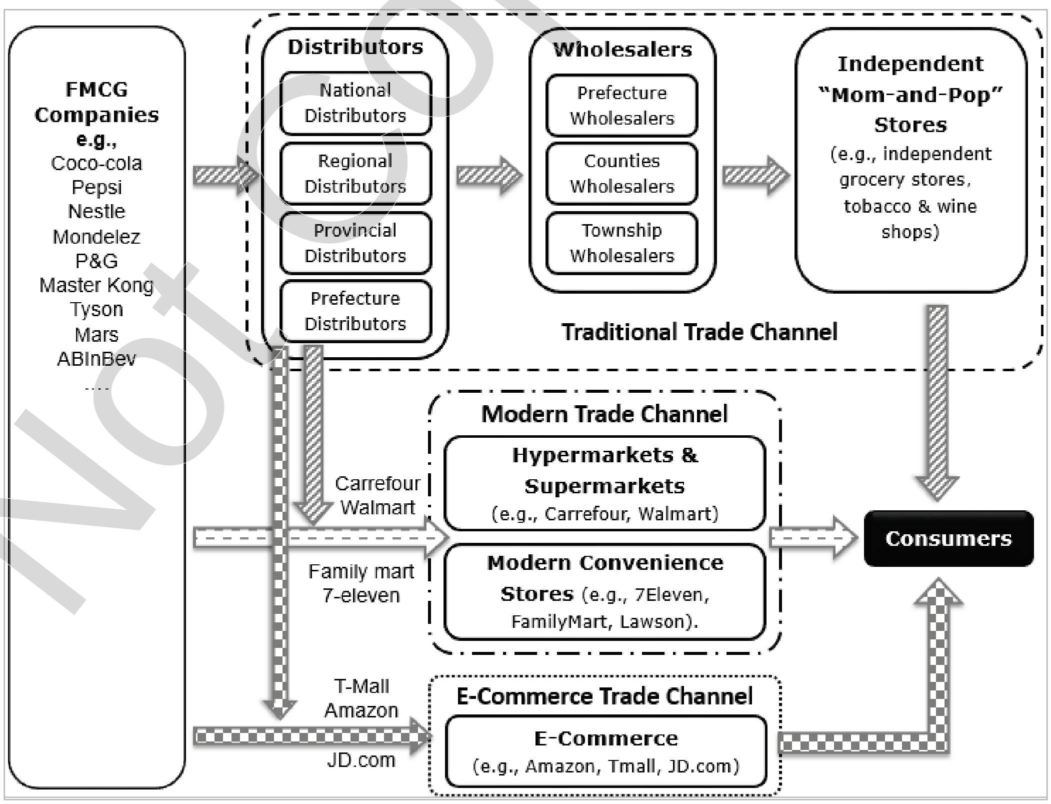
Exhibit 7: Value Share in Urban FMCG Retail Market by Different Channels



Note: "Other" included department and specialty stores, wholesalers, direct sales, overseas shopping, etc.

Source: Kantar Worldpanel and Bain Analysis, "Kantar: Report on the New Trends of China's FMCG Market," July 28, 2015, accessed September 11, 2017, www.199it.com/archives/370199.html. (with permission to use)

Exhibit 8: FMCG Industry Value Chain and Distribution Channels



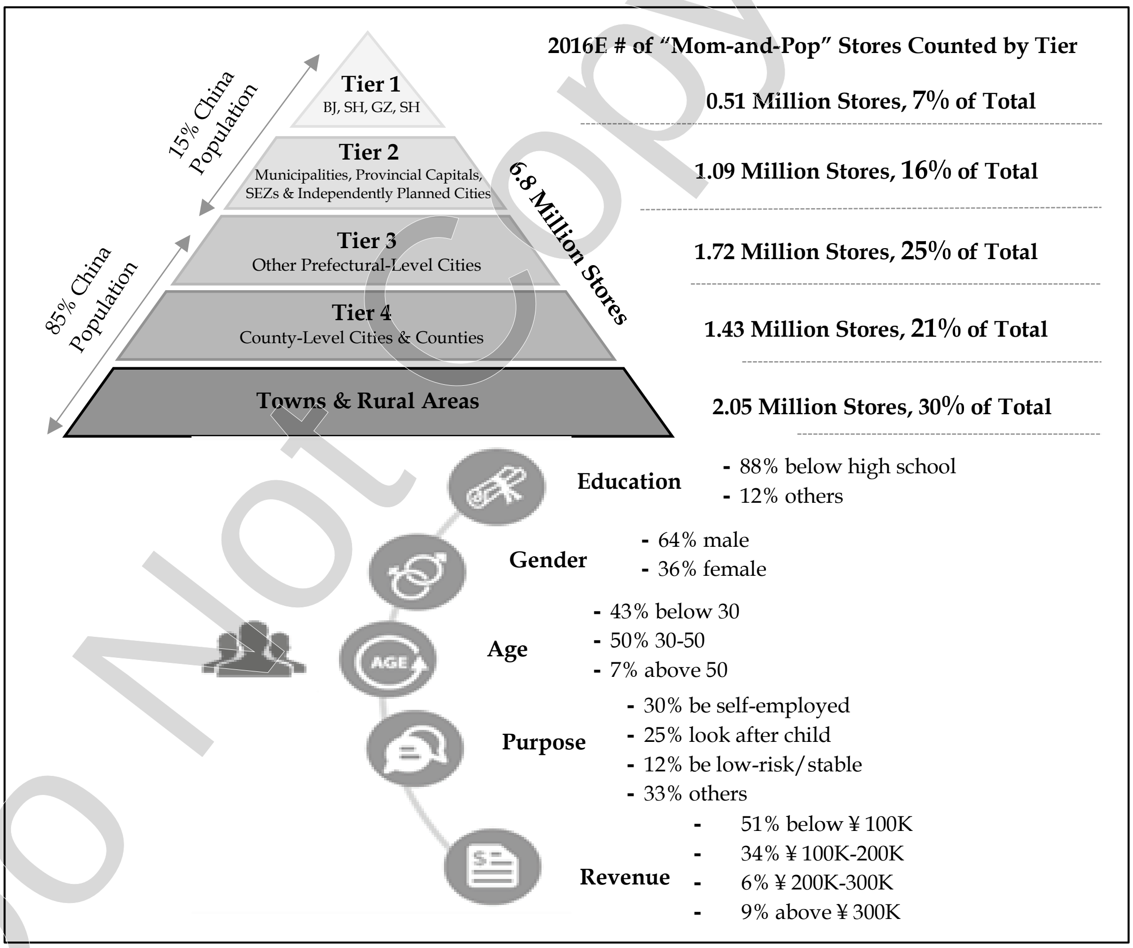
Source: Created by authors based on Han Yang, "FMCG Online B2B Market Size to Grow 8 Times by 2018," Kantar Retail, December 28, 2016, accessed July 11, 2017, http://cn-en.kantar.com/business/retail/2016/fmcg-online-b2b-market-size-to-grow-8-times-by-2018.

Exhibit 9: Examples of Imitation Products

Well-known Brands	Imitation Products	Well-known Brands	Imitation Products

Source: The photos were provided by WinChannel with its permission to use.

Exhibit 10: Mom-and-pop Stores in China and Store Owners' Profile



Source: Created by authors based on Han Yang, "FMCG Online B2B Market Size to Grow 8 Times by 2018" with permission from Kantar Retail, December 28, 2016, accessed July 11, 2017, http://cn-en.kantar.com/business/retail/2016/fmcg-online-b2b-market-size-to-grow-8-times-by-2018.

Exhibit 11: Some Companies Employing O2O Model in China's Retail Industry (by 2014)

Company	Time	Introduction
Wangfujing Department Store	February 2014	Wangfujing Department Store built a strategic partnership with Tencent. The customers who purchased products from Wangfujing Department Store could pay by WeChat, with mobile payment.
Suning	July 2014	Suning launched a crowdsourcing platform, with the objective to provide one-stop service for third-party stores, based on Suning's e-commerce platform and the offline stores. It built a separate project department, which was composed of 100 employees, to work on this.
Wanda	August 2014	Wanda, Tencent, and Baidu co-founded Wanda E-commerce, and owned 70%, 15%, and 15% of the shares, respectively. This newly founded company aimed to build the biggest O2O e-commerce platform on the globe. The three giants would collaborate in multiple areas, such as building a payment system together, developing Internet finance products, sharing credits, undertaking big data fusion, sharing Wi-Fi, and integrating products.
Alibaba	October 2014	Alibaba opened its first Taobao store in a rural village in Zhejiang Province. Alibaba provided financial and technological support in the early stage. The employees working for this specific project came from the supplier to Alibaba's B2B platform. The Taobao stores in rural areas would help local residents buy products and sell their own products. Alibaba planned to invest ¥10 billion to build 100,000 such stores in about 1,000 county-level operation centers.
JD.com	November 2014	JD.com launched its first offline JD service store, with a franchising model, in Zhaoxian, a county-level city in Hebei Province. According to JD.com, it planned to open 1,000 such stores in Tier 4 to Tier 6 cities in the following three years. The offline stores would place orders on behalf of end consumers, deliver the products to end consumers, and provide other services.
Gree	December 2014	The official website of Gree began a trial operation. The service was provided by the sales companies in different regions, and it started with several offline specialty stores.

Source: Hang Du, "A Summary of Big Events on O2O in China's Retail Industry 2014: Three Characters," *Linkshop*, February 13, 2014, accessed October 1, 2017, www.linkshop.com.cn/web/archives/2015/317517.shtml.

Exhibit 12: Brief Summary of FMCG Companies Employing an online B2B Model (by 2014)

Company Name	Founding Time	Introduction
Huimin.com	May, 2013	It was founded as a community-based O2O e-commerce platform. It invited convenience stores in residential, commercial and university communities to join its online platform and provided delivery services to stores. The main purpose was to connect manufacturers with small stores more efficiently through its own delivery system. As of January 2015, it had reached 100,000 small stores in ten provinces across China, among which 24,000 stores were located in Beijing, covering 60-70% of all stores in the capital. Huimin.com generated tens of millions of yuan in revenue via its platform in 2013, and sales reached ¥800 million in 2014.[21]
Zhanghetianxia	July, 2013	Its platform tried to connect different parties within the FMCG industry, such as brand manufacturers, distributors, wholesalers and small stores. The core objective was to help the small stores and suppliers upgrade and rebuild their service systems (e.g., Invoicing Management System) and improve efficiency to make more profits. To expand rapidly, Zhanghetianxia adopted a joint-operation and partnership model, meaning that it would reach small stores though partners located in different regions. As of the end of 2014, Zhanghetianxia had entered over 100 cities in 15 provinces.
Lingshoutong	July, 2014	Lingshoutong's prototype project came from 1688.com, the wholesale business unit of Alibaba Group. Through this platform, FMCG companies could practice O2O, bringing small stores online to collect data and adjust their strategy accordingly. P&G was one of the big FMCG companies that joined Lingshoutong. Lingshoutong's target customers were small stores in lower-tier cities and rural areas, who could get quality products, logistics services and financing support. As small stores could purchase together through Lingshoutong, they could get the same preferential price with big customers. There were two patterns for FMCG companies to do business via Lingshoutong: First, they could sell their products to small stores through Lingshoutong directly to cut costs; Second, their offline distribution channels could join Lingshoutong to share sales forces and delivery systems to generate more profits by serving more FMCG companies.

Source: Summarized by authors based on public source.

Endnotes

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