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

In May 2015, Beijing WinChannel Software Technology Co., Ltd. ("WinChannel", see **Exhibit 1** for its earlier development) launched Huixiadan, an affiliated company of WinChannel, to provide a mobile-based business-to-business (B2B) platform for ordering fast-moving consumer goods (FMCG).① The platform facilitated product ordering by connecting FMCG companies to millions of underserved mom-and-pop stores within the traditional trade channel. Zhen (Andrew) Cui, Founder and CEO of WinChannel, served as Huixiadan's CEO.

Competition was intense from the start and had been much fiercer in the past two years. When Huixiadan was launched in May 2015, over 30 FMCG B2B platforms were being introduced in China, including two led by Chinese e-commerce giants JD.com and Alibaba. The number of such platforms reached about 70 by the end of 2016, and over 200 by December 2017. Despite being a late entrant in this increasingly crowded and competitive sector, Cui and his management team believed their unique, inclusive, and collaborative business model gave Huixiadan an advantage. The new year of 2018 was just around the corner, and Cui wondered how Huixiadan should be positioned going forward.

Huixiadan: Collaborating in the FMCG Traditional Trade Channel

Realizing that the information services provided by WinChannel could not meet all the needs of his FMCG clients, especially in the traditional trade channel, Cui set out in 2015 to build an online B2B platform that would improve the existing FMCG Route-to-Market (RTM) model (see **Exhibit 2**). He assembled a team of 40 employees with a deep understanding of the FMCG industry in China and of IT service knowledge.

Their first step was to select ten FMCG companies in China as WinChannel's initial strategic partners for the B2B platform. Leading brands, such as Coca-Cola, Mondelēz, Mars, Master Kong, Uni-President, and Yihai Kerry, were chosen to guarantee product quality. They then developed

① Huixiadan (惠下单) is a Chinese phrase meaning "placing orders at a favorable price."

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different versions of mobile applications (apps) for distributors, sales representatives,① and the mom-and-pop stores (see **Exhibit 3**).

In building the platform, Cui and his colleagues sought to address four key concerns. First, the app needed to be user-friendly. This required an intuitive interface and easy-to-use functions, such as product search and selection, credit exchange (using points/credits to redeem products), new product trials (the opportunity to try new products), and service evaluation (for the app users). The app also needed to provide flexible marketing and sales functions that could accommodate diverse digital marketing campaigns (such as brand and special event promotions, and store owners could win coupons through shaking their phones while using Huixiadan's app); personalized service for different stores; multiple payment methods, including online, mobile, and point-of-sales (POS); and easy access to media resources, such as videos, so store owners could familiarize themselves with brands, new campaigns, and other information to help them conduct business more effectively and efficiently.

The platform was launched in May 2015. A WeChat account followed on July 1, 2015, to provide 24-hour customer service, announce events, share know-how on doing business in the FMCG industry, and release news about Huixiadan. Sales reps were sent out to promote and install the app and train store owners in its use. Baoding② (a Tier 3 city) was selected as the first trial site, followed soon after by Suzhou③ (a Tier 2 city). As Cui explained, "Baoding is very typical of the rural areas where over half of China's population lives and from where most FMCG sales come. In contrast, Suzhou is a much more developed city."

Development of FMCG B2B Market in China

FMCGs were seen as an important source of growth for China's e-commerce. Consequently, entry into the online B2B sector by e-commerce firms was brisk. Starting with about 10 B2B platforms in 2013, the sector exploded. In 2016 alone, over ¥5④ billion was invested in various FMCG B2B platforms. By November 2016, there were more than 70 such platforms in China. It was estimated that the FMCG online B2B market sector would grow to ¥330 billion in 2018 from nearly ¥40 billion in 2016. The number of mom-and-pop stores sourcing their products through B2B platforms was expected to increase from 1.1 million stores (about 16%) at the end of 2016 to 2.7 million stores, or about 44%, by 2018.[1]

Most FMCG B2B platforms adopted either a "self-run" model or a "go-between" marketplace model (see **Exhibits 4 and 5**). The "self-run" platforms bought large volumes of products directly from FMCG companies to sell to the mom-and-pop stores. By owning the products and operating their own

① Distributors' sales reps, also called sales agents, were known to buyers and wholesalers. They ensured that products were sold to FMCG companies' satisfaction. For this service, distributors charged FMCG companies a commission on sales. They were not directly involved with end consumers and thus did not provide any after-sales service.

② Baoding is a prefecture-level Tier 3 city in Hebei province with a population of 10.4 million at the end of 2016, among which 49% lived in built-up urban areas. The average annual disposable income per capita was ¥17,802 (¥25,680 for urban households and ¥11,612 for rural households) in 2016.

③ Suzhou is a prefecture-level Tier 2 city in Jiangzu province with a population of 10.6 million at the end of 2016, among which 75% lived in built-up urban areas. The average annual disposable income per capita was ¥46,595 (¥54,341 for urban households and ¥27,691 for rural households) in 2016.

④ ¥ = CNY = Chinese yuan renminbi; ¥ 1 = approximately US$0.1506 on December 31, 2016, ¥ 1 = approximately US$0.1454 on December 31, 2018 warehouses and logistics, these platforms could control both the price at which products were sold and the quality of products and services, like on-time delivery. Profits came from the difference between purchase and sales prices. Examples of the "self-run" model were Xintonglu, launched by JD.com, and Huimin.com.

In contrast, the "go-between" marketplace model provided an asset-light transaction platform that connected FMCG companies directly with the millions of mom-and-pop stores. These platforms made money from the FMCG companies, in commissions paid for orders and from advertising on the platforms to promote their brands. In return, the FMCG companies got more control over price and transparent access to information and data. Ling Shou Tong, launched by Alibaba, was a typical "go-between" player.

Cui learnt that, among over 200 online B2B platforms in 2017, more of them tended to apply the "self-run" model, and fewer than five players adopted the "go-between" marketplace model. Some platforms combined different elements of the two models. Zhanghetianxia, for example, started as a "go-between" marketplace model, then introduced "self-run" features, including a self-owned factory and self-built logistics that allowed it to deliver products, either through distributors or by itself.

Huixiadan's Business Model

Creating Added Value for More Stakeholders

Huixiadan employed a "go-between" platform that was more inclusive and more collaborative (see **Exhibit 6**) than any other. Unlike other "go-between" platforms, which would select only a few big distributors to work with to achieve economies of scale, Huixiadan worked with FMCG companies' existing distribution channel and did not exclude the smaller distributors. Cui explained:

> *"Our collaborative model is different from all the others in this field. Most of our competitors want to replace distributors or other middlemen. We believe that many of these players add value to the FMCG industry, and we don't want to damage the interests of any who add value. Instead, through our big data platform, we receive and process millions of orders for them and help them improve their efficiency and live a better life. Our model will only harm those wholesalers who appropriate a lot of resources but provide poor products and services. This is why so many leading [FMCG] brands and their distributors support us and why we can grow very fast."*

Cui believed that fast growth was important for achieving scale and to attract FMCG companies. He explained, "Scale matters to [B2B] businesses like ours. It's quite different partnering with millions of mom-and-pop stores than with tens of thousands of them."① Cui reasoned that including more players already in the traditional FMCG distribution channel would allow WinChannel to reach more mom-and-pop stores, especially in the rural market, than other online B2B platforms that were aiming to disrupt the traditional distribution channel. Many rural distributors and wholesalers benefitted from access to more leading brands and improved utilization of their resources. Jasmine Bai, General Manager of Huixiadan's Marketing Center, explained, "Smaller distributors in counties, towns, or

① Company data showed that adding 100,000 mom-and-pop stores in the more developed cities to the platform decreased the cost of logistics and the management of distributors by as much as 7%, and increased the efficiency of the typical FMCG company's sales force by 11%. The average sales growth rate for some FMCG companies was as high as 12%, compared to single-digit growth before working with Huixiadan, and net sales growth was as much as ¥1.9 million per month. Adding stores in less developed areas (like counties and towns) had a smaller influence.

villages often lack the money to work with multiple brands, but they have vehicles and often a warehouse. We help them make better use of their existing infrastructure."

Working with WinChannel's network of distributors, Huixiadan would collaborate with specific distributors through Hui Partners to connect with stores not covered by existing distributors. Besides extending coverage, Bai explained how this enhanced efficiency, "*Many distributors focus on delivering specific products, and different distributors may have a surplus or an insufficient capability to deliver in different seasons. Through Hui Partners, we find distributors who have surplus delivery capabilities/resources and suggest that they help those who are in need of additional delivery support. Matching distribution demand with supply, in this way, helps distributors sell more and make better use of their resources*." Hui Logistics—an intra-city logistics network—not only enabled distributors to deliver products to stores faster (within 48 hours of placing an order)[①]but also helped reduce inventories. To further help distributors manage cash flow, Huixiadan provided supply chain financial services.

"Better Prices and Better Products" Would Benefit All

Huixiadan's tagline, "Better prices and better products," underscored its key value proposition. The average mom-and-pop store maintained around 3,000 stock keeping units with 100–150 square meters of space and the typical owner knew little about the quality of many products or about basic merchandizing. In the beginning, distributors asked Cui whether they could put products from lesser known FMCG companies, mostly smaller Chinese brands, on its B2B platform. Cui refused: "*We could have made more money by working with these less developed brands, but this was not what we set out to do. We didn't have the capability to review the quality of smaller FMCG companies' products*." He also refused to work with those distributors found to distribute low-quality imitation products. Working only with leading brands and reputable distributors ensured they carried only good-quality products.

To help owners select, store, and shelve their products, Huixiadan provided a ranking of best-selling products, along with video resources and information resources and merchandising suggestions. As more and more mom-and-pop stores chose Huixiadan's platform to stock their shelves, Cui hoped the prevalence of poor-quality, imitation, and fake products would decline throughout rural China. This would enhance not only the sales but also the reputations of the leading FMCG companies. Huixiadan used its platform to secure the direct support and resources (e.g., promotional materials, training support) of many FMCG companies for the mom-and-pop stores. By aggregating the orders from many mom-and-pop stores, Huixiadan also secured better prices from FMCG companies. Better prices and better products meant more value for end consumers too.

Prioritizing Value over Profits

Neutrality with all stakeholders and transaction transparency also enhanced Huixiadan's broad appeal and ability to grow. When mom-and-pop store owners asked for brand recommendations, product suggestions were strictly based on historical transaction data. While FMCG companies could buy advertising space on the app, Huixiadan did not accept paid recommendations from FMCG companies. Cui emphasized, "*Only the 'mom-and-pop' stores decide [through their orders] which [FMCG] products are recommended*." It would not pressure mom-and-pop stores to purchase more products. Rather, it collaborated with all stakeholders to create a bigger and more accessible FMCG marketplace. With each purchase made on its platform, all data were transparent to all, accelerating the communication process, and reducing unnecessary costs for all. And with each order processed on its

[①] Generally, the stores could get products within 24 to 72 hours by ordering from FMCG companies' sales reps, phoning in orders to wholesalers, or buying from dealers.

platform, Huixiadan collected a growing volume of transaction data, which allowed it to identify more opportunities to create value for its stakeholders.

Huixiadan received revenue mainly from the FMCG companies. Services provided to mom-and-pop store owners were free. Cui explained that, "*[Profit] is not a big concern for Huixiadan at this stage. We are not aiming to squeeze profits from the value chain, but we are trying to strengthen the chain by providing more value-added services. We are more concerned with expanding [coverage of] the channel, and upgrading our service platform. Our core advantage will be our scale and effective operations*."

Cui's three-year goal was to make Huixiadan profitable and to cover three million more mom-and-pop stores. Key to achieving that goal was finding ways to ensure that mom-and-pop store owners made routine use of Huixiadan's services. It was not unusual for these owners to have the apps of several competitors on their phones. But getting them to use any app regularly was a challenge. For example, coupons sent to store owners were seldom used.

The fiercely competitive and complex B2B environment made Cui wonder how sustainable Huixiadan's business model was and what he should do to ensure the company would be positioned to exploit major opportunities, as well as withstand the mounting threats.

Exhibit 1: Summary of Case (A) (Before 2015)

WinChannel, founded in 2000, was a Chinese information service provider for major FMCG companies. It was headquartered in Beijing's Zhongguancun High-Tech Park, often referred to as China's Silicon Valley. The vision of WinChannel was "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." It had an "all-in-one" seamless information system that could a) enable distributors to use their own software; b) connect FMCG companies to key accounts (e.g., Walmart, FamilyMart, and Lianhua) and their more than 110,000 combined stores; c) help 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) support about 10 million end consumers with a professional customer service team. It provided 24-hour customer service to offer 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 its information services.

In the early 2010s, there were three major distribution channels (i.e., Routes-to-Market) 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, accounting for 54.9% and 40.2%, respectively, of FMCG revenue in 2014. The third channel, e-commerce, only accounted for 4.9%, but was expected to grow significantly in the future. Major third-party e-commerce platforms in China included Taobao.com, Tmall, and JD.com.

There were multiple challenges facing the traditional trade channel through which FMCG companies provided their products to millions of "mom-and-pop" stores (i.e., small, independently owned and operated convenience stores), especially in rural parts of China. Cui could see that the future of the traditional trade channel was being threatened by large online e-commerce players and others, who were aggressively expanding in the B2C (business-to-customer) and B2B (business-to-business) 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). Second, new players from different parts of the industry value chain were starting to build online FMCG B2B platforms.

In early 2015, Zhen (Andrew) Cui, Founder and CEO of WinChannel, wanted to explore how he could help improve the reach and efficiency of the traditional trade channel. He also wondered whether the emerging online/mobile B2B FMCG platforms could offer the best solution for the increasingly digitized FMCG retail industry in China.

Source: This is a summary of WinChannel's Digital Gambit to Revitalize Rural China (A).

Exhibit 2: A Summary of FMCG Companies' Development

	Problems FMCG Companies Face in the Traditional Trade Channel	FMCG Companies' Expectations of Online B2B Platforms	Current Situation
Distribution	• Low distribution and weak penetration, especially in small and medium stores and low-tier markets • Serious problems with counterfeits at retail terminals	• Further expansion to new markets and achieve sales improvements • Accelerated distribution system efficiency • Improved distribution and penetration in low-tier markets	• Through online B2B, FMCG products could be distributed on a larger scale, but the increment was still limited
Channel Control	• Weak channel control power • Disorganized pricing system • Low working capital turnover	• Transparent channel management • Control over pricing system • Push capital turnover up	• Most FMCG companies treat online B2B as a supplement to their current businesses • FMCG companies have concerns over future conflicts between online B2B and traditional distribution system, as well as control difficulties • No platforms are currently strongly able to push terminal sales
Cost/ Efficiency	• High channel operation and management costs, resulting from an immature traditional trade (TT) sales model and uneven distributor quality	• Simplify the distribution process while minimizing channel expansion costs • Control distributors' quality	• Cost reduction • Most FMCG companies trial online B2B; none have reduced their number of distributors at present
Marketing	• Marketing resources are not distributed accurately, and are unable to trace effects • Inefficient marketing activities	• Precise marketing investment and controllable return on investment • Effective brand building at terminal stores • Effective new product launch	• B2B platforms only assist with store expansions and sales, with very limited assistance in marketing, service maintenance and promotion
Information and Data	• A lack of traceable and complete supply chain data • A lack of understanding of stores	• Provide complete trade data • Assist FMCG companies to understand up-to-date sales situation • Gain a better understanding of stores from the data	• Limited data share of B2B platforms through cooperation with FMCG companies • Limited data insights due to there being few data dimensions

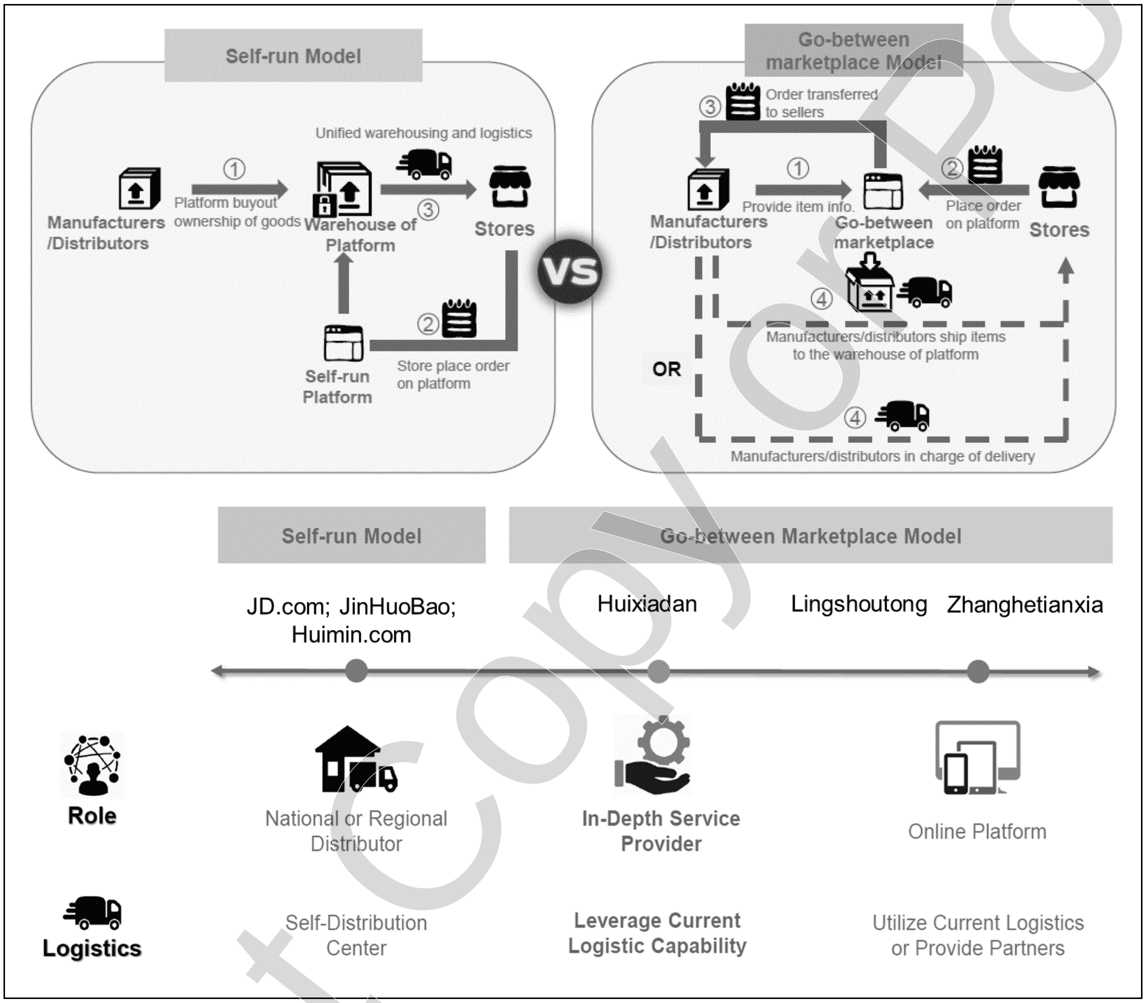
Source: Created by authors based on Han Yang, "FMCG Online B2B Market Size to Grow 8 Times by 2018," Kantar Retail, December 28, 2016, accessed July 11, 2017, http://cn-en.kantar.com/business/retail/2016/fmcg-online-b2b-market-size-to-grow-8-times-by-2018.

Exhibit 3: Different Versions of Huixiadan's Apps

Note: Huixiadan had developed different apps for the mom-and-pop stores, distributors, and sales representatives. The four screenshots at the first level shown above are from the app for mom-and-pop stores. The second and third levels are apps for distributors and sales reps, respectively. *App for Stores*: The four notification messages shown at the top of the level-one screenshots read *Good Products with Big Discounts*, *Hui TV*, *Hui Talk*, and *Latest Updates*, respectively. In addition, through this app, the store owners can also monitor their order information via the *App for Distributors*: This app supports electronic payments, control of the purchase–sell–stock management system, connection with more stores, and financing. *App for Sales Reps* (the salesmen from the brand, who helped to improve brand efficiency): They can put orders for the stores via this app, and can keep track of the orders.

Source: Provided by WinChannel with permission to use.

Exhibit 4: Two Dominant Online B2B Market Business Models



Source: with permission from 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.

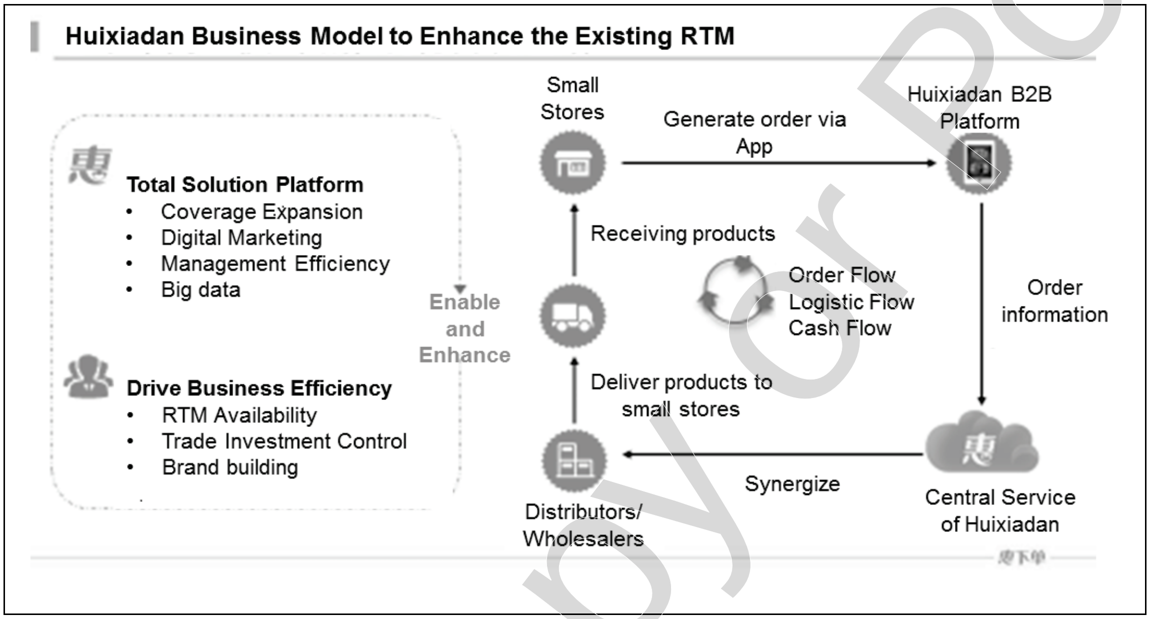
Exhibit 5: Comparison between Self-run and Go-between Marketplace Models

	Self-run Model	Go-between Marketplace Model
Profit Model	Gap between selling and buying prices	Commission fees and advertising revenue
Advantages	• Buy out ownership of goods to control quality • Self-run sales team to guarantee service quality for stores • Self-run warehouses and logistics to ensure on-time delivery • Manufacturers leverage platform's logistics system to achieve deeper distribution • Simplify operation of manufacturers/distributors to accelerate trade efficiency	• No inventory or financial pressure • Asset-light model to accelerate expansion speed • Relatively wide product range for store owners to pick from • Complementary resources and advantages with local distributors • Manufacturers control pricing • Data transparency
Challenges	• Relatively heavy assets limit expansion speed • Platform takes inventory risks and financial pressure • Relatively limited product selection for store owners • Manufacturers with limited control over pricing • Possibility of conflicts with distributors • Lower data transparency	• No ownership of goods, no control over product quality • Depth and breadth of distribution rely on existing distributors' coverage, does not fundamentally solve efficiency problems in traditional trade • Uneven service quality of sales team in different areas under franchise mechanism • Possibly higher delivery costs under inefficient third-party delivery services
Typical Companies*	• Startups: Huimin.com, Jinhuobao • Traditional retailers: ➢ Quanshihui (QuanshiCVS) ➢ Fadaojia (RT-Mart) ➢ YunhouWholesale (BBK Electronics) • Internet companies: ➢ Self-run online platforms: Xintonglu (JD.com)	• Startups: Zhanghetianxia • Retail service providers: ➢ Integrated service providers: Esunny (EternalAsia) ➢ Logistics: Wanshanggou (Yantaiyishang) ➢ Wholesale: Zallgo (Zall) • Internet companies: ➢ Go-between marketplace online platforms: Ling Shou Tong (Alibaba) ➢ SaaS providers: Huixiadan, Qianmi.com, and Yunpos, etc.

Note: The business models of the typical companies listed above might change over time.

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.

Exhibit 6: Huixiadan's Business Model



Source: Provided by WinChannel.

Endnotes

[1] 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.