

An Exploration of the Evolution of China's Retail Channels - A Case Study of Procter & Gamble

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Abstract. This study focuses on the channel development of Procter & Gamble (P&G) in China's retail market. Through case analysis and literature research, it examines P&G's journey from its success in traditional retail to its current predicaments. In the early stages, P&G achieved success in traditional channels by virtue of its in-depth cooperation with Walmart, a well-established dealer network, a strong brand portfolio, large-scale advertising campaigns, and an efficient supply chain. However, with the transformation of China's retail market—marked by the rise of e-commerce and the emergence of new retail formats—P&G has faced challenges such as delayed e-commerce 布局 (layout), weak online marketing, channel conflicts, and slow responses to new retail formats. The root causes of its predicaments include unbalanced resource allocation in offline channels, innovation barriers caused by business inertia, channel interest conflicts, and insensitivity of foreign enterprises to local market changes. In contrast, local brands have achieved a "counterattack" by accurately understanding market needs, responding flexibly, and adopting innovative channel strategies. This study provides insights for corporate channel management, emphasizing the importance of market insight, resource balance, and localized cooperation.

Keywords: Procter & Gamble, China's Retail Market, Channel Transformation, Local Brands, Marketing Channel Management

1. Introduction

Procter & Gamble has long occupied a pivotal position in the global daily chemical industry. Since entering the Chinese market, it has quickly established a firm foothold in China's retail market and become a trusted brand among consumers, thanks to its strong brand portfolio, advanced marketing approaches, and efficient distribution system. In recent years, however, China's retail market has undergone dramatic changes: the rapid rise of e-commerce, the continuous emergence of new retail formats, and the increasing diversification of consumer demands have all brought unprecedented challenges to P&G.

Studying the evolution of P&G's channels in China's retail market holds significant theoretical and practical value. Theoretically, it helps enrich and improve theories related to marketing channel management [1], and deeply explores the internal logic and laws of channel transformation for traditional enterprises in a rapidly changing market environment. Practically, it provides valuable reference for other enterprises—especially large traditional enterprises—to respond to market

changes and adjust channel strategies, helping them better adapt to market changes and enhance market competitiveness.

This study mainly adopts case analysis and literature review methods. By conducting an in-depth analysis of the development process of P&G's channels in the Chinese market, and combining it with a large number of practical cases (such as P&G's cooperation with Walmart and e-commerce platforms), it comprehensively presents the evolution and current status of P&G's channel strategies. The innovation of this study lies in exploring P&G's channel transformation from multiple dimensions: it not only focuses on P&G's development in traditional retail channels and emerging e-commerce channels, but also conducts an in-depth analysis of its performance in new retail formats. Furthermore, by integrating the latest market cases and data, this study conducts a comprehensive evaluation of P&G's channel strategies and proposes targeted strategic recommendations, providing practical references for the actual operation of enterprises.

2. Success factors of P&G's traditional retail channels

2.1. Early success models of P&G's traditional retail channels

2.1.1. The in-depth "P&Gg-Walmart" cooperation model

In the late 1980s, P&G established an in-depth cooperative relationship with Walmart, a model that has become an industry benchmark. The two parties abandoned the traditional transactional relationship and built a collaborative strategic partnership. Through information sharing, P&G could obtain real-time sales data, inventory information, and other data from Walmart, thereby accurately arranging production and replenishment plans. For example, P&G used Electronic Data Interchange (EDI) technology to achieve real-time information exchange with Walmart: when the inventory level of a certain product in Walmart reached the preset replenishment point, P&G could immediately initiate the replenishment process to ensure the timely supply of products.

In terms of collaborative replenishment, the two parties jointly formulated replenishment strategies and dynamically adjusted replenishment quantities and timelines according to changes in market demand. This close cooperation greatly improved supply chain efficiency, reduced inventory costs, and enhanced the competitiveness of both parties in the market. Statistics show that through this cooperation model, the inventory turnover rate of P&G and Walmart increased by more than 30%, and the stockout rate decreased by approximately 20% [2]. This efficient cooperation model not only ensured the efficient circulation of P&G's products in Walmart's channels but also provided a reference for other enterprises, promoting the improvement of supply chain management in the entire retail industry—which is in line with the "information integration-efficiency improvement" path in the supply chain collaboration theory [3].

2.1.2. A sound dealer and distribution system

P&G built a comprehensive and robust dealer and distribution system.. Nationwide, it carefully selected and cultivated a group of dealers with strong capabilities and broad market coverage. These dealers had long-term cooperation with P&G and had a deep understanding of P&G's products and brand philosophy.

Through regular training and communication mechanisms, P&G helped dealers improve their sales and management capabilities. At the same time, to ensure that products could reach every corner of the market, P&G continuously optimized the layout of dealers: it reasonably allocated

dealer resources based on factors such as the market size and consumption characteristics of different regions. In economically developed regions with strong consumer demand, it increased the density of dealers to improve market penetration; in remote areas or regions with low market potential, it optimized logistics and distribution to ensure the smooth delivery of products.

To improve distribution efficiency, P&G also introduced an advanced logistics management system to conduct refined management of product transportation, warehousing, and other links. By cooperating with professional logistics companies, it realized the rapid distribution of products and ensured the timely supply of products in the channels. For example, during large-scale promotional activities, P&G could ensure that products were delivered to various sales terminals within a short timeframe through its efficient logistics and distribution system, meeting consumer demands.

2.2. Key factors for the success of traditional channels

2.2.1. Support from a strong brand portfolio

P&G has a diverse brand portfolio, covering well-known brands such as Tide, Pantene, Rejoice, Head & Shoulders, and Safeguard. These brands occupy important positions in their respective market segments and have clear brand positioning. For example, Tide is positioned around highly effective stain removal, mainly targeting consumers who value cleaning effects; Pantene focuses on hair care, with "repairing damaged hair" as its selling point, attracting many consumers with hair health needs.

This multi-brand strategy enables P&G to meet the diverse needs of different consumer groups, which aligns with the brand equity theory [4]—achieving consumer demand matching through market segmentation coverage [5]. Regardless of consumers' age, gender, or consumption preferences, they can find products suitable for themselves in P&G's brand portfolio. In retail channels, the strong brand portfolio enhances the overall attractiveness of P&G's products: when purchasing daily chemical products, consumers tend to choose channels with a rich display of P&G products due to the wide range of brand choices offered by P&G.

2.2.2. Large-scale advertising and marketing promotion

P&G has spared no effort in advertising and invested substantial resources in this area. By conducting large-scale advertising campaigns on mainstream media such as television, newspapers, and magazines, it quickly elevated brand awareness and product influence—strengthening brand recognition through traditional media advertising [6].

In addition to advertising, P&G also actively conducted a variety of innovative marketing initiatives. For example, it held product trial activities to allow consumers to experience product effects firsthand; it launched promotional activities (such as discounts, full reductions, and free gifts) to attract consumers to purchase. Furthermore, P&G attached great importance to consumer engagement: through establishing a membership system and conducting market research, it gained in-depth insights into consumer needs, providing a basis for product research and development and marketing activities. These marketing activities effectively drove terminal consumption and promoted the sales of products in channels, leveraging the pull effect of promotional activities on terminal sales [7].

2.2.3. Efficient supply chain and logistics support

P&G built an efficient supply chain system, with careful planning and management of all links from raw material procurement and production manufacturing to product distribution. In terms of raw material procurement, P&G established long-term and stable cooperative relationships with high-quality suppliers around the world to ensure the quality and stable supply of raw materials. In the production and manufacturing link, P&G invested a large amount of funds in technological research and development and equipment updates to improve production efficiency and product quality.

In terms of logistics and distribution, P&G invested heavily in technological R&D and equipment upgrades to improve production efficiency and product quality. By optimizing logistics routes and adopting advanced logistics technologies (such as Warehouse Management System (WMS) and Transportation Management System (TMS)), it realized the fast and accurate distribution of products. For example, P&G established large-scale logistics centers in major cities; by analyzing sales data in surrounding areas, it reasonably arranged inventory and distribution plans to ensure that products were delivered to various sales terminals in a timely manner. This efficient supply chain and logistics support system provided a solid foundation for the stable operation of channels, ensuring that products could appear in front of consumers at the right time and place to meet their needs.

3. Major changes in China's retail market

3.1. The rapid development of e-commerce

3.1.1. The explosive growth of e-commerce platforms

Since the 21st century, China's e-commerce platforms have shown a trend of explosive growth. According to data from the China E-commerce Research Center, the transaction scale of China's online retail market reached 513.1 billion yuan in 2010; by 2020, this figure had increased to 11.76 trillion yuan, growing more than 20 times in a decade [8]. This is due to the reconstruction of consumption scenarios by the digital economy [9]. The rapid development of e-commerce platforms has led to fundamental changes in consumers' shopping habits: more and more consumers choose to shop through online platforms, which has severely squeezed the market share of traditional retail channels.

3.1.2. The popularization and characteristics of online consumption models

With the development of e-commerce platforms, online consumption models have gradually become widespread. Online consumption has the characteristics of convenience, diversity, and socialization [10]. Convenience is reflected in the fact that consumers do not need to go out—they can browse and purchase products anytime and anywhere through devices such as mobile phones or computers, and products can be directly delivered to their homes. Diversity is manifested in the vast variety of products on e-commerce platforms, which cover almost all aspects of daily life, allowing consumers to easily find various domestic and foreign products.

Socialization is an important feature of online consumption: during the shopping process, consumers can communicate with other consumers, share shopping experiences, and learn about product information and brand dynamics through social media platforms. For example, social platforms such as Xiaohongshu have become important channels for consumers to obtain information about beauty, skincare, and other products; consumers share their usage experiences and

recommended products on these platforms, which have a significant impact on the purchasing decisions of other consumers [11]. These characteristics place new demands on brand marketing and channel management: enterprises need to adapt to these changes and adjust their marketing strategies and channel layouts to meet consumer needs.

3.2. The emergence of new retail formats

3.2.1. The expansion of convenience stores, premium supermarkets, and other formats

In recent years, new retail formats such as convenience stores and premium supermarkets have developed rapidly. With their convenient locations, 24-hour operation models, and product ranges that are close to consumers' daily lives, convenience stores meet consumers' immediate needs in daily life. For example, convenience store chains such as 7-Eleven and Family Mart have established extensive networks in major cities across the country; when consumers need to purchase daily necessities on their way home from work or late at night, convenience stores become their first choice.

Premium supermarkets attract mid-to-high-end consumers with high-quality products, comfortable shopping environments, and personalized services. For example, Ole' Premium Supermarket focuses on imported products and high-end fresh products, providing consumers with higher-quality shopping options. The expansion of these new retail formats has transformed the competitive landscape of the retail market: they have formed differentiated competition with traditional large supermarkets and e-commerce platforms, posing new challenges to enterprises' channel layouts.

3.2.2. The exploration and practice of new retail models

The new retail model emphasizes online-offline integration, and new retail enterprises represented by Hema Fresh have carried out active exploration and practice. By establishing offline stores, Hema Fresh provides consumers with on-site purchase and processing services for fresh products; at the same time, relying on its online APP, it realizes the online sales and distribution of products. Consumers can shop in physical stores or place orders through the APP to enjoy fast delivery services.

This online-offline integration model breaks the boundaries of traditional retail channels and provides consumers with a more convenient and rich shopping experience [12]. In addition, some traditional retail enterprises have also begun to experiment with the new retail model: for example, Suning.com has expanded its sales channels and enhanced its market competitiveness through online-offline integration. The emergence of the new retail model has posed significant challenges to traditional channels, prompting enterprises to rethink their channel layouts and operational models.

4. P&G's channel predicaments and their roots

4.1. Difficulties in expanding e-commerce and online channels

4.1.1. The delay in e-commerce layout

In the early stage of e-commerce development, P&G failed to seize the opportunity in a timely manner, resulting in a relatively delayed e-commerce layout. P&G entered e-commerce platforms at a late stage, missing the golden period of e-commerce development. At the same time, there were

obvious deficiencies in the operation of its e-commerce stores: the store page design lacked attractiveness, product displays were not vivid, and interaction with consumers was insufficient. Furthermore, P&G's product pricing and promotional strategies on e-commerce platforms were not flexible enough, making it difficult to adapt to the fast-changing e-commerce market environment. As a result, its market share in e-commerce channels was low, forming a stark contrast with its leading position in traditional retail channels.

4.1.2. Weak online marketing and promotion

P&G accumulated rich marketing experience in the traditional media era, but when shifting to online marketing, its methods were relatively single. In terms of traffic acquisition, it failed to make full use of emerging marketing channels such as social media and live-streaming e-commerce. In terms of interaction with consumers, its online marketing activities lacked creativity and interest, making it difficult to resonate with consumers. Some brands enhance consumer stickiness through online interactive games, topic discussions, and other activities, but P&G has made relatively few attempts in this area. In addition, P&G has shortcomings in data analysis: it failed to make full use of big data technology to gain in-depth insights into consumer needs and behaviors, and thus could not formulate precise marketing strategies.

4.1.3. The troubles of online-offline channel conflicts

Taking SK-II as an example, P&G faces conflicts in pricing, promotion, and other aspects between online and offline channels. During major e-commerce promotions, online platforms often launch large-scale discount activities, online platforms often launch large-scale discount activities, resulting in online SK-II prices being much lower than those in offline stores. This not only caused dissatisfaction among offline distributors but also damaged the brand image. Some consumers chose to purchase online in pursuit of lower prices, which affected the foot traffic and sales volume of offline stores. In addition, there was poor coordination between online and offline channels in terms of product supply and after-sales service: for example, when products were out of stock, the two parties could not share inventory information in a timely manner, leading to inconsistent shopping experiences for consumers across different channels. This not only affected product sales but also undermined the long-term development of the brand [13,14].

4.2. Slow response to new retail formats

4.2.1. Insufficient penetration in channels such as convenience stores

In the convenience store channel, there were problems with the layout and display of P&G's products. The shelf space in convenience stores is limited, and consumers tend to purchase products that are easy to carry and available in small packaging. However, some of P&G's products—such as large-sized shampoo and laundry detergent—are not suitable for the sales scenario of convenience stores. At the same time, the display of P&G's products in convenience stores was not prominent, and there were no effective promotional activities, leading to low product sales. In terms of product selection, P&G also failed to fully consider the needs of convenience store consumers: consumers in convenience stores pay more attention to immediate consumption and have strong demands for snacks, beverages, and small-packaged personal care products, but P&G's supply of such products was relatively insufficient, making it unable to meet diverse needs.

4.2.2. Lack of cooperation and innovation in the new retail model

In the context of the new retail model, P&G had limited cooperation with emerging enterprises and lacked innovative cooperation models. For example, when cooperating with new retail enterprises such as Hema Fresh, P&G only regarded them as sales channels and failed to fully tap the potential of cooperation to achieve online-offline resource sharing and coordinated development. In terms of product innovation, P&G also failed to innovate based on the consumption scenarios of the new retail model. The new retail model emphasizes consumer experience and personalized services, but P&G's products—in both packaging design and functionality—failed to fully reflect these characteristics. For example, in some new retail stores, consumers expect to purchase customized products or products with unique experiences, but P&G had insufficient innovation in this area and could not meet such demands.

4.3. Roots of the predicaments

4.3.1. Obstacles to online transformation caused by the large scale of offline channels

Unbalanced resource allocation restricts the development of online channels: P&G has long built a large and sound offline retail channel network, and maintaining its operation requires investing a large amount of funds in advertising, shelf displays, and other areas. However, the construction of online channels also requires substantial resources. Due to the limited total amount of resources, P&G often prioritizes maintaining its offline advantages when allocating resources, resulting in a shortage of resources for online channels. This has led to slow progress in online store construction, traffic acquisition, and other areas, making it difficult for P&G to compete with local online brands.

Offline business inertia hinders online channel innovation: The success of offline channels has made P&G form a fixed business model and mindset. Offline sales rely on traditional advertising, promotions, and cooperation with dealers, and this inertia has extended to the online field—manifested in slow adaptation to online marketing methods. For example, P&G was not accustomed to data-driven precision targeting and real-time consumer interaction in online marketing, and faced difficulties in developing online-exclusive products and optimizing sales processes.

Conflicts of interest in offline channels restrict online expansion: P&G's large offline channels involve many stakeholders such as distributors and retailers, and the rapid development of online channels will inevitably lead to conflicts of interest with them. When P&G tried to increase investment in online channels, it might arouse concerns and resistance from offline partners: for example, online pricing and promotions might impact offline sales and squeeze the profit space of offline distributors. To maintain cooperative relationships, P&G had concerns when formulating online strategies, which restricted the speed and depth of online channel expansion [15,16].

4.3.2. Disadvantages in channel adaptation due to foreign enterprise identity

Insensitivity to the transformation trends of China's retail channels: As a foreign enterprise, P&G was relatively slow in perceiving and grasping the transformation trends of China's retail market channels. The rapid development of China's e-commerce and the rise of emerging sales models such as live-streaming e-commerce are unique trends in the Chinese market. However, due to a lack of in-depth understanding of the uniqueness and pace of change of the Chinese market, P&G failed to quickly layout in the early stage of e-commerce development and did not timely cooperate with top livestreamers when live-streaming e-commerce emerged—missing opportunities to seize market

share. In contrast, local brands could keenly capture these trends and adjust their strategies in a timely manner.

Difficulties in integrating with local emerging channels: When cooperating with local emerging channels, P&G faced many challenges. Emerging channels such as convenience stores and community group buying platforms have unique operating models and consumer segment characteristics, but P&G had limited understanding of their operation mechanisms and market demands, making it difficult to quickly establish close cooperative relationships. For example, when cooperating with community group buying platforms, P&G could not accurately grasp the product selection standards, distribution requirements, and other aspects, leading to poor sales performance. In addition, it might also face problems such as cultural differences and mismatched communication styles, which hindered the cooperation process [17].

5. Conclusions and insights

This study conducts an in-depth analysis of P&G's development trajectory in China's retail market. In the early stage, P&G achieved remarkable success in traditional retail channels by virtue of its in-depth cooperation model, strong brand portfolio, large-scale advertising, and efficient supply chain. However, with dramatic shifts in the structure of China's retail market—including the rise of e-commerce and the emergence of new retail formats—P&G has fallen into predicaments: its e-commerce layout is delayed, its online marketing is weak, online-offline channel conflicts occur frequently, and its adaptation to new retail formats is slow.

The root causes of these predicaments lie in the fact that P&G's large offline channels have become an obstacle to its online transformation: unbalanced resource allocation, offline business inertia, and channel interest conflicts have restricted its development. At the same time, its identity as a foreign enterprise has made it insensitive to the transformation trends of China's retail channels and difficult to integrate with local emerging channels. In contrast, Chinese local brands have achieved a "counterattack" by virtue of their accurate grasp of local market demands, flexible and rapid market response capabilities, and innovative channel strategies [18].

This study mainly adopts case analysis and literature research methods, and does not use empirical research methods. It lacks quantitative analysis of the effectiveness of P&G's channel strategies and market feedback through methods such as questionnaires and data statistics, which may affect the objectivity and persuasiveness of the conclusions.

The number of literatures used in this study is limited, which mainly focus on public industry reports, news reports, and some academic papers. The access to information such as the details of P&G's internal channel management decisions and the in-depth data of local brands' channel strategies is insufficient, which may lead to deficiencies in the depth and comprehensiveness of the analysis.

Future research can adopt empirical research methods: design targeted questionnaires to collect data on consumers' purchasing behaviors and satisfaction with P&G and local brands across different channels, and combine statistical analysis tools to quantitatively evaluate the effectiveness of channel strategies, providing more solid support for conclusions.

Subsequent research can expand the sources of literature: obtain more first-hand information through corporate interviews, internal data collection, and other methods, and conduct in-depth exploration of topics such as internal resistance to P&G's channel transformation and specific cooperation mechanisms between local brands and emerging channels, further enriching the dimensions and depth of the research.

In addition, the scope of research can be expanded to more multinational enterprises and local brands, and comparative analysis can be conducted to summarize the general laws and differentiated strategies of different types of enterprises in channel transformation, providing more extensive references for the channel management of more enterprises [19].

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