

Research on Chain Store Operations and Financing Problems of the Self-service KTV in China

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Abstract: At present, the development of various industries is characterized by branding. Through standardized management, they can develop rapidly in cities, regions, and even countries, occupying a huge share of the local market. For example, Chayanyuese, a tea brand in Changsha, China, has won the favor of consumers with its fresh and classic brand image, Chinese-styled concept of brand culture, and high-quality service. Examples of success due to standardized management also include Luckin Coffee, Haidilao Hot pot, and other brands in China. Therefore, in this context, the future development and business model of KTV should also be changed accordingly to cope with the KTV market in the post-epidemic era. Based on the literature review, this paper studies the chain store operations and financing problems of the self-service KTV in China from the perspective of supply chain finance. The results show that the operation of the self-service KTV in China faces many problems, among which the lack of a large amount of funds is the main problem. To solve this problem, supply chain financing, which makes a continuous acquisition of high-quality assets and has a low financing risk, can be an appropriate financing method.

Keywords: self-service KTV, supply chain finance, chain store operations, post-epidemic era

1. Introduction

With the spread of the COVID-19 epidemic, the development of many industries in China has been hindered, including the self-service KTV industry. Self-service KTV, also known as "mass-merchandising KTV", is originated in Japan and introduced into the mainland of China from Taiwan region of China. The mass-merchandising operation actually refers to the transparent, affordable, and healthy consumption mode: self-service shopping, self-ordering, and self-singing. According to the current situation of epidemic prevention and control, KTVs in many cities in China have been shut down intermittently. According to the General Report on the Development of China's Music Industry, the overall passenger flow of the KTV industry dropped by 70% to 80% in 2020 due to the superimposed impact of the epidemic and other factors. No one going to the KTV caused a large number of store closures. According to the data of enterprise inspection, the number of existing KTV enterprises in China is 58,000 up to now. 1652 new KTV enterprises were added in the first half of 2023, a decline of 41.3% on a year-on-year basis, and 2000 KTV enterprises were closed, an increase of 15.2% on a year-on-year basis [1]. At the same time, it is worth noting that, according to Meituan APP data, the order volume of entertainment and leisure activities with a strong sense of participation and immersion, such as DIY manual workshops, live action role playing games, Virtual Reality, and

board game, has grown faster than KTV, becoming a trend of entertainment in young people. The elderly who have both money and time have become the main consumers of KTV. In the first half of 2021, the number of self-service KTV consumers in the age range of 60 to 70 across the country increased by 29.6% compared with the same period in 2019, and the growth rate of order volume was 24.1% [2].

This paper analyzes how self-service KTV enterprises operate in a standardized way and create their own brand, and how can they quickly raise funds to realize the opening of multiple stores together. Through the analysis of the chain store operations and financing problems of the self-service KTV in China, this paper enriches the research content of the development of the KTV industry. Besides, the introduction of supply chain finance into the research of KTV has played a certain expansion role in the application of supply chain finance, providing a reference for KTV operators on their financing methods.

2. Chain Store Operations

2.1. The Concept of Chain Store Operations

Chain store operations refer to the chain stores that are wholly owned or controlled by the chain headquarters and operated under the direct management of the headquarters. The headquarters adopts a deep management mode and directly takes charge of all retail outlets. Retail outlets must also fully accept the command of the headquarters. The main task of chain stores lies in the "channel operation", which means obtaining profits from consumers through the expansion of business channels. Therefore, the chain store operation is actually a "management industry". It is a form of large-scale monopoly commercial capital to develop and expand its own strength and scale through annexation, merger or sole proprietorship, holding, etc. The chain store operation, an advanced operation mode, has been developed in the mainland of China for nearly 30 years, and has become a common operation mode in China's retail industry, catering industry, service industry, etc. At present, many chain enterprises are in a state of expanding their stores, and the competition between chain enterprises is intensifying. Chain enterprises generally expand their business areas and service scope by opening new stores, so as to achieve economies of scale [3].

2.2. Development Status of Foreign Chain Store Operations

As the birthplace of chain store operations, the west has always been a model for Chinese enterprises to learn from in terms of the form and scale of chain store operations. The chain store operation is known as the "century-leading business model" in foreign countries. With the advantages of low cost, low risk, and rapid expansion, many enterprises take the chain store operation as a way to open up emerging markets, change their own business mode, and get rid of the impact of the international financial crisis on enterprise operation. According to the statistics of the Department of Commerce of the United States, the success rate of the operation of the owners who run enterprises independently is less than 20%, while the success rate of the enterprises that join the chain system is more than 80%. Because of such a high success rate, the chain store operation has become the best choice for people to reduce investment risks in business. Franchise has been recognized as the leading business model of the century in the world. In the United States, one franchise store opens every minute. The total retail sales in the United States are completed by franchise; in Australia, the franchise income accounts for 20% of the national income; franchising is a national policy for business development in Singapore, which is a powerful illustration of the vigorous development of foreign chain store operations. The chain store operation mode was first established in the United States and has a history of many years.

2.3. Development Status of China's Chain Store Operations

Like most other industries, China's domestic chain store operations are not only facing competition from competitors including some foreign commercial retail giants, but also the threat of entry and substitution due to the market economy. First, there is fierce competition among existing chain enterprises. The fierce competition and the once-in-a-century financial crisis led to the bankruptcy or forced regional exit of some retail enterprises. This competitive situation will continue to exist in the future, which means that more enterprises will go bankrupt or withdraw under the pressure of competition. The second is that new entrants continue to join the fight. Wal Mart opened 35 new stores in 2009, with a faster growth rate than the previous years; In September 2009, TESCO opened its first hypermarket in Shandong, and in November, it opened its first hypermarket in Fujian; some high-end department stores also joined in, which indicates that there will be more and more powerful competitors in the future. The third is that the industry competition is slowly moving towards the second-tier and third-tier cities. Both large foreign chain enterprises and domestic chain enterprises are focusing on the second-tier and third-tier cities, because the consumption habits of these cities have just been established and have not yet reached full competition [4].

3. Supply Chain Finance

Among foreign scholars, Tim and other scholars first proposed the concept of supply chain finance. They proposed that supply chain finance is a new business generated by participants in the supply chain in order to achieve the supply chain objectives and cooperate with external financial institutions. Later, Lamoureux and Evans believed that supply chain finance was dominated by core enterprises and was a process of improving the availability of funds and reducing the cost of funds. This process is realized by collecting, integrating, packaging and utilizing the logistics, information flow and capital flow generated in the supply chain, and embedding cost analysis, cost management, and various financing means. Wuttke proposed that supply chain finance refers to the real-time monitoring and optimization of cash flow through the advance and settlement of funds provided by the demanders and suppliers in the supply chain, so as to reduce the capital cost of the demanders [5]. It can be seen that the research of foreign scholars mostly defines supply chain finance from the perspective of function. Later, the research of scholars gradually expanded to the use of funds and the circulation cycle of funds.

The research of domestic scholars on supply chain finance started late. Ren Wenchao and others first proposed the mode of using the chattel mortgage to obtain financing, and then other domestic scholars gradually found the role and prospect of supply chain finance in enterprise development [6]. Hu Yuefei and others defined supply chain finance for the first time and believed that banks play a leading role in the operation mode of supply chain finance [7]. Xia Taifeng and others also held the same view, and pointed out that the financing of banks to upstream enterprises is mainly based on the business capabilities of downstream enterprises [8,9]. Taking the accounts payable of downstream enterprises as collateral not only reduces the capital pressure and management costs of enterprises, but also accelerates the capital flow of enterprises and improves the production efficiency of enterprises [10]. In 2016, the Standard Definition of Supply Chain Finance Technology released by the Global Supply Chain Finance Forum clearly pointed out that the financing mode of supply chain finance is mainly supported by many factors such as the credit level of the demander, trade relations in the supply chain, guarantee conditions, etc., to provide financial support for the demander. Supply chain finance connects all relevant enterprises, reduces relevant costs, improves efficiency and maintains the vitality of supply enterprises through the coordination and cooperation of enterprises, which is an important direction of domestic financial development in the future [11].

4. Self-service KTV

On January 8, 2022, the Star Party KTV's 10th anniversary conference was successfully held in Shanghai, China, showing the achievements of the brand's development in the past decade to all sectors of society. As a self-service KTV brand, Star Party has opened more than 120 stores in 25 cities, including Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing, etc. with more than 200 signed stores and more than 2 million VIP members since the opening of its first store in Suzhou Information Investment Building in 2012. It has maintained a record of full store profit and zero store closure. In 2021, Star Party delivered a beautiful transcript with a revenue of more than 700 million yuan and more than 20 million guests. If the above data is not enough for people to see the glorious achievements of Star Party in the past ten years, then by looking at the development situation of the whole offline KTV track, it is still not difficult to find the unstoppable rapid development momentum of Star Party in the adverse circumstances. With the continuous rise of various new consumption and new economic racetracks, the attention of the main consumer groups has been constantly occupied in recent years. According to the General Report on the Development of China's Music Industry in 2020, the size of the traditional KTV market would drop to 80.7 billion yuan in 2020. As of March 2021, there were 64000 existing KTV enterprises in China, and nearly 40000 enterprises have been cancelled or revoked. The number of existing KTV enterprises is less than half of that seven years ago. Therefore, the success of self-service KTV with chain store operations has been inspiring the KTV operator's brand management philosophy.

4.1. The Standardization of Self-service KTV

The applicable conditions of chain store operations should first have "model stores" that can be used as expansion standards. By duplicating the model store and extending its management mode, the whole chain system can be finally formed with a unified image, unified purchase, unified operation, and unified management. Therefore, the standardization of model stores is very important. The standardized construction of model stores in chain enterprises needs to be concrete and quantitative in operation and management, so as to better move towards the quality goal and implement the standardized construction rules. When formulating the standardized construction objectives of model stores, chain enterprises should first clarify the main contradictions and problems in the operation and management of the current stores, rather than pursuing comprehensive at the beginning. The management and operation objectives should be further improved and deepened by continuously refining the quality objectives. At the same time, the standardized quality objectives of individual stores should be defined for the posts and personnel at all levels [12].

4.2. The Branding of Self-service KTV

At this stage, the brand has become an intangible asset and plays a very important role in market competition. Therefore, in order to remain invincible in the market competition, enterprises should not only have a strong sense of brand innovation, but also a strong sense of brand management. In the development process of chain enterprises, the brand strategy must be put forward according to the enterprise's own situation and the brand management must be constantly innovated, so as to achieve the expected development goals and good economic and social benefits. Therefore, it is necessary for self-service KTVs to create their own business cards, which is different from other KTVs. For example, Dai Xiaoguo Rice Wine has dug out its own national culture and started to publicize it from the emotional culture. Through "cultural sublimation", the material effect of the brand will be sublimated into a cultural effect, which will produce a greater public response and have lasting product vitality, and let enterprise marketing enter a virtuous circle of brand culture promotion [13].

4.3. The Supply Chain Financing of Self-service KTV

At present, the average investment price of a single self-service KTV is between 3 million and 8 million yuan (about 1000 square meters), and the amount of funds for the construction of several KTVs at the same time is huge. The supply of materials needed for the construction and the sale of drinks between different cities is also a major problem. The introduction of supply chain finance, a new financing model, provides a new way to solve the financing problem of the self-service KTV. Supply chain finance focuses on core enterprises, provides financing services for relevant industry chain participants, and creates an industrial ecosystem of mutually beneficial coexistence and sustainable development between financial institutions and supply chain and related enterprises. Taking the basic model of automobile supply chain finance as an example, at present, the core enterprises of the domestic automobile industry supply chain are generally automobile manufacturing enterprises, namely, complete vehicle companies. The upstream is parts suppliers, and the downstream is automobile dealers. The transactions between manufacturers are conducted through logistics companies. Auto manufacturers form accounts receivable for their upstream parts suppliers and prepayments for their downstream dealers due to their market advantages, so that parts enterprises and dealers have financing needs [14]. The supply chain financing service is different from traditional bank financing products. Its innovation point is to grasp the stable supply chain of high-quality enterprises, design products around enterprises with standardized upstream and downstream operations, good credit, stable sales channels and sources of collection funds, and select qualified upstream and downstream enterprises as the financing objects of commercial banks. This kind of business breaks through the traditional rating and credit requirements of commercial banks, and there is no need to provide additional mortgage and pledge guarantees, which effectively solves the problem of financing difficulties for small and medium-sized enterprises.

5. Conclusion

Based on the methods of literature research and logical analysis, this paper reviews the relevant literature of supply chain finance and chain store operations at home and abroad. Both the operation and management of the self-service KTV and the way of capital financing are relatively traditional and single. The operators have to face the challenge of high financing costs. All kinds of problems indicate that solving the difficulty of self-service KTV financing and opening a large number of stores quickly are urgent and necessary. So this paper introduces a new financing model of supply chain finance, which can transform the uncontrollable risk of a single enterprise into the controllable risk of the whole, provide financial services for enterprises in the supply chain, and effectively solve the problem of enterprise financing. Each enterprise has its own supply chain, which forms a huge supply chain financial network after gathering together. Although this study does not represent all industries, it still has a certain reference value for other industries.

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