

Business Strategy Analysis

-- A Case Study of Yonghui Supermarket

Yujie Ma^{1,a,*}

¹*Tianjin University, Tianjin 300072, China*

a. myj_145@tju.edu.cn

**corresponding author*

Abstract: In recent years, due to the impact of the Covid-19 pandemic, offline sales have been greatly impacted, and the retail industry has focused on online development. Many companies have changed their business strategies and sought transformation, but most are still at a loss. As one of the largest supermarkets in China, Yonghui supermarket has been developing online sales channels and operating its own brands for a long time, and actively transforming itself by means of science and technology. In this paper, swot analysis method and profitability analysis method are used to analyze the business strategy of Yonghui supermarket, and the existing problems in the operation of Yonghui supermarket are found, and corresponding countermeasures are given. On this basis, Yonghui can improve operating conditions, reduce costs, increase profits to overcome economic difficulties to achieve long-term management. For customers, they can enjoy better products, lower prices and more detailed services, and improve brand loyalty and business confidence. Moreover, the advantages of Yonghui Supermarket can be found through the analysis of its business strategy, which can be used as reference for other enterprises to help more enterprises out of difficulties and create a positive business environment. Mutual promotion and common development.

Keywords: Yonghui supermarket, business strategy, swot analysis, profitability analysis

1. Introduction

According to “2022 Supermarket Business Survey Express” issued by China Chain-Store & Franchise Association, the supermarket industry business situation gradually recovered and reappeared vitality in 2022. Among them, 44.3 percent of the companies registered positive sales growth year-on-year, 15.2 percentage points lower than in 2021. There are still 44.3 percent of companies experiencing negative business growth, but this is 22.8 percent less than in 2021. The rest of the business was stable and sales were flat. According to its audit report, Yonghui supermarket, a strong competitor in the Chinese supermarket industry, took a hit in 2021, but in 2022, the economy rebounded and it even showed signs of profitability. It still ranks among the most competitive in China. Yonghui supermarket continues to optimize and strengthen the creation of source products, greatly develop new regional products, so as to deepen the dominant position of fresh and ensure the company's profit. Therefore, this paper focuses on the retail industry, and focuses on the analysis of

the management strategy and management status of Yonghui supermarket, in order to provide some suggestions for the retail business.

2. Analysis of the Current Situation of Yonghui Supermarket

2.1. Yonghui Supermarket's Business Strategy and Management Status

Yonghui supermarket is one of the top 500 enterprises in China and a national leading enterprise of "circulation" and "agricultural industrialization" [1]. Yonghui supermarket's major business is the sale of fresh produce. Its business model combines the feature of traditional farmers market and modern supermarket [2]. This model really let the people experience the best price, and meet the full range of consumer needs. In supply chain management, Yonghui supermarket adopts the model, which consists of three rounds---- purchasing directly from the source, processing in production place and collective distribution of logistics. It not only reduces the cost, but also guarantees the quality of the product advantages to win the favor of customers. Yonghui supermarket also carried out online and offline business integration model, and build member stores. At present, the main operation strategy of Yonghui Warehouse member store is to focus on fresh products, sell both wholesale and retail products, set up a special selling area for big brands and integrate online and offline operation [3]. By 2023, Yonghui supermarket has opened 1,030 stores in China, involving 29 provinces, with high coverage and large scale. In addition, the number of Yonghui supermarkets under construction is as high as 109, and the location ranges widely. See Fig.1 for details.

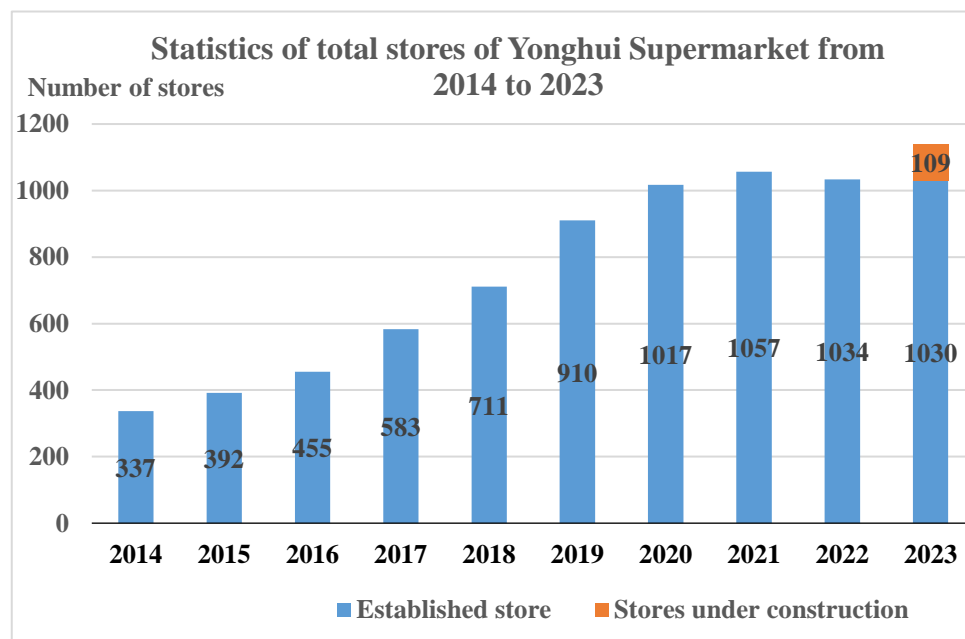


Figure 1: Statistics of total stores of Yonghui supermarket from 2014 to 2023.

According to the financial report of Yonghui in the first half of 2022, the number of Yonghui's revenue is up to 48.732 billion yuan, with a year-on-year growth of 4.07%. Its profitability improved obviously, showing a positive situation of turning around profit and loss. In recent years, influenced by the epidemic, many stores had to suspend business for a short time, which made Yonghui face some problems such as customer diversion, overstocked products and weakened bargaining power of the industrial chain. Yonghui Supermarket actively implements transformation strategy, focuses on the construction of supply chain platform and digital reform and upgrading, so as to build exclusive

information database, optimize logistics route, improve inventory turnover, and form business advantages.

2.2. SWOT Analysis

2.2.1. Strength

Perfect supply chain network, optimization and upgrading frequently. As we all know, Yonghui fresh operation has been its core competitiveness, promote profit growth of the main business. According to the accumulated experience of many years of operation, it has certain advantages in all aspects, such as logistics mode and origin selection. The success of its supply chain lies in the mode of direct sourcing from the source, processing from the origin and logistics integration. On the one hand, on the premise of ensuring the quality of fresh suppliers, this mode highlights the advantages of localized products and reduces the cost of products. Yonghui supermarket build local products of the direct purchasing base around the China, such as Northeast rice base in Panjin. There are as many as 600 direct mining bases in China, with high product richness. On the other hand, Yonghui supermarket has strengthened the localization operation of long-radius commodities, greatly optimized the logistics network, shortened the trading route of fresh products, and reduced the product loss rate. Yonghui supermarket has set up 31 logistics centers in China to meet the needs of customers and improve the comprehensiveness and effectiveness of logistics distribution.

Focus on scientific and technological development, the implementation of digital transformation. The strategy of "Scientific and technological Yonghui" is the strategic policy of Yonghui supermarket in the next ten years. With the help of the global digital platform, Yonghui supermarket integrates and analyzes the origin information, product advantages, market information and other data, transforming the supply chain advantages into business advantages. Its self-developed full-link retail digital system "YHDOS" analyzes both the business and the operation section of employees to a certain extent. It uses high precision and visualization to improve the efficiency of operation and management, and is committed to opening up online and offline marketing channels in advance and stimulating new growth points.

Strong capital, mature internal construction. In China, Yonghui has a long development history. It has accumulated a strong capital base and formed a certain brand influence in the early stage. The rapid expansion of its scale enables it to have a strong market competitiveness, so as to be able to resist risks and have the capital to develop and innovate.

2.2.2. Weakness

Not fully guaranteed product quality and high transportation costs. Yonghui supermarket mainly operates fresh products. Compared with other products, fresh products have a shorter shelf life and are prone to decay and deterioration under the influence of climate, logistics conditions and other factors. Although Yonghui has reduced the occurrence of such problems to a certain extent by optimizing the supply chain management, its cold chain technology is not perfect, and the vulnerability rate is high, so the product quality cannot be fully guaranteed. In addition, the whole supply chain requires more manpower and higher transportation requirements, which increases excessive operating costs and administrative expenses to a certain extent. In addition, the high product loss reduces the profit.

Immature logistics distribution quality and timeliness. At present, many customers place orders through Yonghui Life APP or applet, but Yonghui's logistics and distribution efficiency is low. Compared with Meituan Maicai and other application platforms, the distribution speed is too low, and problems such as delivery timeout, product damage and selection error often occur.

Online marketing personnel lack professional competence. What the online sales emphasize on is not only about logistics, but more concerned about whether the service feedback is timely. The talent structure of Yonghui lag behind. Most of the old employees have low education, limited learning ability, lack of professional knowledge, unfamiliar with logistics distribution network operating system, and backward online marketing service concept. Especially in the aspect of after-sales service, it is difficult to effectively solve customers' problems, resulting in poor consumer experience and bad impression, and worrying repurchase rate. Due to inexperienced deliveryman and other reasons, the platform's promise of "free delivery after a certain amount of shopping, 30 minutes to the home in peace" failed, making "Yonghui Micro Store" a failure case [4].

2.2.3. Opportunities

Policy support. After China began to tilt the policy of "industry feeding agriculture", it attached great importance to the development of "agriculture, rural areas and farmers" and published various policies to promote the circulation of agricultural products [5]. As a leading marketer of traditional fresh produce, Yonghui supermarket adopt digital transformation strategy, which has promoted the effective integration and continuous improvement of agriculture, logistics, e-commerce and technology industries. This coincides with the country's move to support traditional industries to optimize and upgrade their industrial structure by using new technologies.

Online development has great potential. Affected by the epidemic, the closure of offline stores has lost a large number of consumers. More and more consumers are willing to buy through online channels and gradually form the habit of online consumption. What is more, Generation Z has a large base and effective consuming capacity, who has influenced by intelligent electronic products and digital information technology since childhood, it will become a new potential consumer group in the future e-commerce field. In view of the changes in consumption channels and consumer groups, Yonghui has realized that both online and offline, it needs to continuously strengthen the quality of service and pay attention to improving consumers' consumption experience.

2.2.4. Threats

Many rivals. In the field of fresh industry, Yonghui competitors more, and fierce competition. Online, there is competition among platform operators such as Meituan Maicai, Freshippo and Missfresh Limited etc., and the repetition rate of business types is relatively high. Especially, there are certain discounts on Missfresh Limited and other apps. In addition, community group buying has more price advantages, and many consumers' choice of fresh products is mostly price-oriented, which is easy to be affected.

E-commerce publicity platform trend is too prosperous, information is easy to forge. Nowadays, people are increasingly keen to share their consumption experience on e-commerce publicity platforms such as Red and Micro-blog, and choose their own consumption modes according to others' experiences. Although it is a good advertised platform, there will be some competitors deliberately smear on such platforms, which is easy to mislead potential customers. Network platform is a venue for freedom of speech and huge information. It is also difficult for Yonghui to verify and respond, so on the one hand, it is difficult to recover its own image, on the other hand, it cannot identify which information is the real customer response, so it cannot be effectively improved.

2.3. Profitability Analysis

As an advanced analysis theory, Dupont analysis plays an important guiding role in the perfection and perfection of financial analysis. The core index is return on shareholders' equity (ROE) [6]. The focus of this method is to decompose this core index according to different dimensions. Finally, there are

three indicators that affect the return on shareholders' equity: net profit rate on sales, asset turnover and equity multiplier [7]. According to the relevant changes of these indicators combined with the reasons for the changes, the business activities of the enterprise during this period can be analyzed. See Table 1 for details.

Table1: Financial indicators of Yonghui supermarkets from 2017 to 2021.

Financial ratio Year	2017	2018	2019	2020	2021
ROE	8.25%	5.11%	7.10%	8.09%	-40.61%
Equity Multiplier	1.61	2.04	2.56	2.75	6.44
Net profit margin	2.88%	1.41%	1.71%	1.77%	-4.94%
Total Asset Turnover Ratio	1.78	1.78	1.62	1.66	1.28

As the 2022 annual general report of Yonghui Supermarket has not been presented, the financial indicators of the 2022 total year have not been calculated here. However, according to the financial data shown in the latest 2022 first quarter, half year and third quarter reports presented by Yonghui Supermarket, the following data can be calculated, and the details can be seen in Table 2.

Table 2: Financial indicators of Yonghui supermarkets in 2022.

Financial ratio 2022	The First Quarter	Semi-annual	The Third Quarter
ROE	4.21%	-1.77%	-10.47%
Equity Multiplier	5.8060	5.9982	6.3378
Net profit margin	1.79%	-0.39%	-1.45%
Total Asset Turnover Ratio	0.4056	0.7588	1.1397

2.3.1. ROE

ROE represents a company's profitability, and the positive number represents profit, and the higher the value, the stronger the profitability. As shown in the Fig.2, it is obvious that the ROE of Yonghui Supermarket maintains a relatively stable level from 2017 to 2020. In 2021, the ROE decreases greatly and even reaches negative value, but it turns around slightly in 2022. Specific reasons can be based on the following financial indicators for comprehensive analysis.

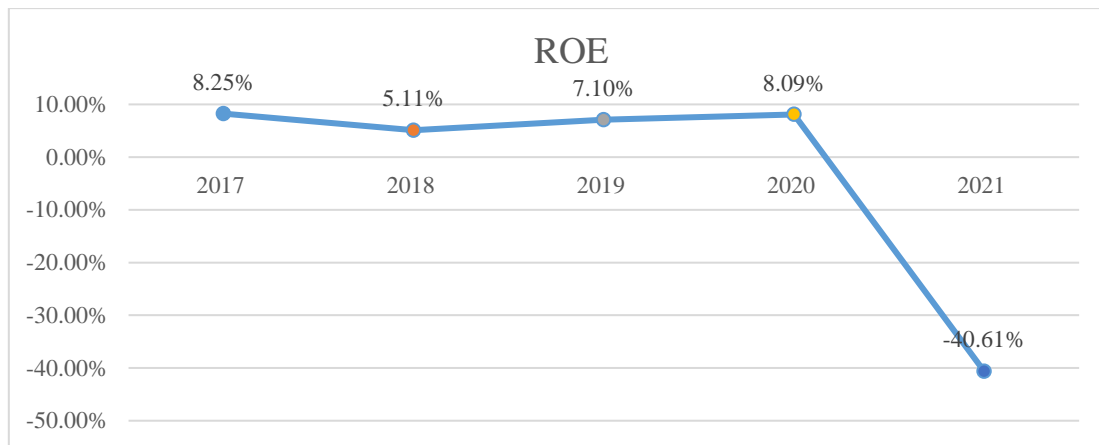


Figure 2: ROE of Yonghui supermarkets from 2017 to 2021.

2.3.2. Equity Multiplier

As is shown from Figure3 that the equity multiplier of Yonghui supermarket is increasing, especially reaching 6.44 in 2021, and it can be seen from the table3 that the equity multiplier is still very high, which means that the debt repayment ability of Yonghui supermarket is worrying and the financial risk is large, which need to pay attention to in the future.

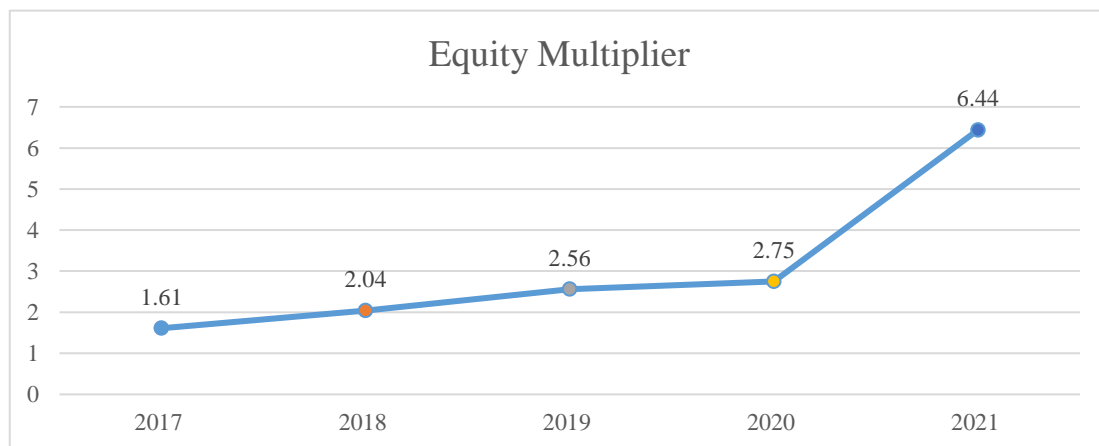


Figure 3: Equity multiplier of Yonghui supermarkets from 2017 to 2021.

2.3.3. Net Profit Margin

As can be seen from the Fig.4, the net profit margin of Yonghui supermarket continues to decline and even appears negative in 2021, which represents its declining profitability and even losses. According to the company's financial report, it can be concluded that on the one hand, the fierce competition in the industry leads to the decrease of the company's revenue by 2.29% compared with the same period last year, while the increase of the cost by 1.12% leads to the decrease of the gross profit margin by 2.38% compared with the same period last year. On the other hand, due to the poor economic environment caused by the epidemic, some equity investment projects suffered from impairment and had to close their stores, which resulted in large losses. The reasons for the recovery in 2022 can be reliably summarized as the recovery of the Chinese economic environment, the continuous progress of the company's digital transformation and the further optimization of the store layout. Yonghui supermarket also need to pay attention to the allocation of investment in the future, so as to avoid unnecessary losses.

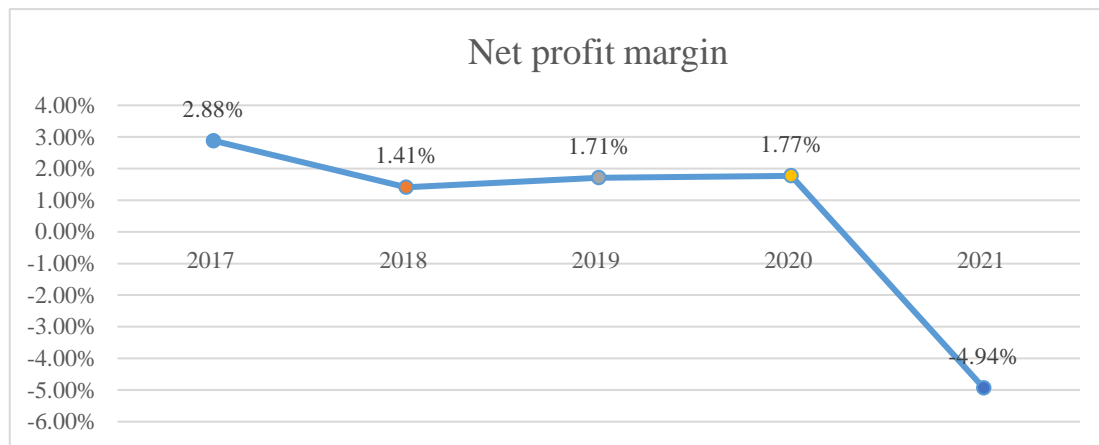


Figure 4: Net profit margin of Yonghui supermarkets from 2017 to 2021.

2.3.4. Total Asset Turnover Ratio

As can be seen from the Table3, the turnover rate of its total assets is constantly declining, which implies that the sales capacity is weakened and the asset utilization rate is not high. The declining turnover days of accounts receivable represent the high efficiency of working capital use. The decline of inventory turnover reflects the excessive inventory storage of Yonghui supermarket in recent years, which occupies much capital and has a certain overstock phenomenon. The three indicators reflect the unreasonable use of Yonghui supermarket assets and the low level of operation ability.

Table 3: Total asset turnover ratio of Yonghui supermarkets from 2017 to 2021.

	2017	2019	2019	2020	2021
Total Asset Turnover Ratio	1.78	1.78	1.62	1.66	1.28
Accounts receivable turnover days	4.50	7.83	6.55	2.79	1.83
Inventory turnover ratio	10.35	10.20	8.11	7.88	8.77

3. Yonghui Supermarket Business Strategy Existing Problems

3.1. The Logistics Distribution Efficiency is Low, the Cost is High

Although Yonghui supermarket's logistics supply chain system is constantly optimized and upgraded, its logistics distribution system is not perfect. Many customers using Yonghui APP report that the distribution speed is slow, often 1-2 hours overtime. What's more, many problems released by online customer are not feedback in time, which leads to the decline of brand reputation. On the other hand, Yonghui supermarket mainly focuses on fresh products, and the transportation of fresh products requires strong cold chain technology to maintain the freshness of products, which costs a lot. However, Yonghui's cold chain technology is not mature, which is easy to lead to product deterioration and increase the loss.

3.2. The Professional Quality of Personnel is Low, the Online Business Development is Slow

Although Yonghui supermarket is recruiting practical talents with higher professional quality, obviously the number is not enough. In addition, due to the impact of the Covid-19 epidemic, more and more consumers are adapting to online consumption. Although Yonghui has created online business, it lacks professional personnel to design evaluation, and the product information often

cannot be loaded on the APP interface of customer response. In addition, there have also been some problems in procurement, online sales, after-sales and other links, such as product errors and delayed information reply. Yonghui supermarket pay more attention to food safety and sends special personnel to inspect it, but there are still loopholes in the inspection work, so that Yonghui supermarket has been exposed to product safety problems [8]. Its corporate image has been damaged.

3.3. Operating Capacity and Profitability Double Decline, Higher Financial Risk

In recent years, the fierce competition in the fresh food industry has led to the profit decline of Yonghui supermarket, and the rise of online sales has a great impact on traditional offline marketing. According to the financial statements of Yonghui supermarket, the asset turnover rate and inventory turnover rate of Yonghui supermarket are in a state of continuous decline. Due to the impact of the COVID-19 pandemic, consumers' consumption psychology and habits have changed, making offline sales less attractive to them, and Yonghui Supermarket has taken business measures to expand its stores, leading to the problem of overstocking. Excessive inventory will occupy the capital of enterprises, reduce the profits of enterprises, and affect the daily operation of enterprises. In addition, Yonghui supermarket's equity coefficient is high, the solvency is worrying. Yonghui supermarket has a large financial risk, so it need to be more cautious in investment.

4. Suggestions

4.1. Improve the Level of Logistics Distribution, Optimize the Logistics Distribution Network

On the one hand, Yonghui supermarket should actively use cloud data analysis to design a reasonable logistics distribution network, build the fastest time-efficient distribution route, and achieve full coverage. On the other hand, the product information and distribution personnel information should be updated in real time to avoid the phenomenon of temporary out of goods and unmanned distribution. Ensure that products are delivered to customers quickly and well, improve the happiness of customers, and increase the rate of re-purchase.

4.2. Focus on Improving Staff Quality and Optimizing Online Service

Yonghui supermarket should strengthen the introduction of talent policy, especially high-tech personnel. The development of fresh products e-commerce industry has a larger space .Yonghui supermarket must seize the opportunity to optimize APP services and improve online service. Regular training and assessment should also be conducted for old employees to learn advanced technology, so as to improve their professional quality and work efficiency. In addition, a reward mechanism should be established to enhance employees' work enthusiasm, make them make conscious progress and improve service quality. And also to the low attitude of the staff to give warnings and certain punitive measures.

4.3. Strengthen Inventory Management and Risk Management

The decline of operating capacity of Yonghui supermarket reminds it should strengthen risk management. In addition, Yonghui supermarket has formed a scale in the country, so when opening a new store, attention should be paid to site selection to relieve the inventory pressure. More importantly, "zero inventory" management can be adopted to reduce the inventory. Under the premise of ensuring the safety inventory, part of the inventory of non-essential goods can be reduced and the ratio of working capital taken by inventory can be reduced [9].

4.4. Use the Publicity Platform to Constantly Seek Innovation

Now the epidemic situation is slowing down, Yonghui should create new profit points, and use online platforms to stimulate physical sales. In addition, we can learn from the experience of other e-commerce businesses, make full use of the network platform, and actively interact with consumers through live streaming and micro-blog marketing to enhance customer stickiness [10]. The key is to play their own characteristics, reflect their own brand.

5. Conclusion and Expectation

On the whole, Yonghui supermarket has successfully implemented its business strategy in China. Its supply chain management and digital transformation have created certain conditions for its future development. Moreover, the accumulated experience of fresh product management mode accumulated over a long period of time can be used as an example to learn from in the industry. However, it is undeniable that there are still some problems. This paper analyzes the problems and puts forward several suggestions through SWOT analysis and profitability analysis, hoping to be helpful to the future operation of Yonghui supermarket.

References

- [1] Chang Liu. Transformation and upgrading path of traditional retail enterprises under the background of digital economy -- Based on the case study of Yonghui Supermarket[J]. Value engineering, 2022, 41(33): 55-57. DOI: 10.3969/j.issn.1006-4311.2022.33.017.
- [2] Ying Wu. Research on fresh fruit and vegetable management mode of Yonghui Supermarket under the background of Internet[D]. Zhejiang University of Technology and Business, 2019. DOI: 10.27462/d.cnki.ghzhc.2019.000558.
- [3] Qinxuan Ren, Guodong Yan, Xuejing Ren, Hui Li. Problems and countermeasures of supermarket financial management in post-epidemic era -- Taking Yonghui Supermarket as an example[J]. management and administration, 2022(12): 77-83. DOI: 10.16517/j.cnki.cn12-1034/f.20220916.001.
- [4] Dong Xie. Logistics cost management of Yonghui Supermarket from the perspective of supply chain[J]. Shanxi agricultural economy, 2021(10): 138-139. DOI: 10.16675/j.cnki.cn14-1065/f.2021.10.058.
- [5] Wen Liu, Xiaojun Liu, Wenxue Xu. SWOT strategy analysis of online marketing of fresh agricultural products in Yonghui Supermarket[J]. Rural economy and science and technology, 2021, 32(01): 112-114.
- [6] Jie Yang. Research on the application of Dupont Analysis Method in enterprise financial analysis[J]. Chinese collective economy, 2021(04): 153-154.
- [7] Tianhui Zhou. Analysis of profitability of Yonghui Supermarket based on Dupont analysis method[J]. China Business Forum, 2018(32): 1-2. DOI: 10.19699/j.cnki.issn2096-0298.2018.32.001.
- [8] Haixia Cao. Analysis of supply chain cost management in fresh industry under new retail mode -- Taking Yonghui Supermarket as an example[J]. Chinese circulation economy, 2022(05): 28-30. DOI: 10.16834/j.cnki.issn1009-5292.2022.05.044.
- [9] Yahong Guo, Xiwen Fu, Mengbo Li. Research on problems and countermeasures of inventory management in Yonghui Supermarket[J]. China Storage and Transportation, 2021(10): 98-99. DOI: 10.16301/j.cnki.cn12-1204/f.2021.10.041.
- [10] Lanlan Wen. Research on financial Performance based on new retail business model[D]. Xihua University, 2022. DOI: 10.27411/d.cnki.gscgc.2022.000347.