



# Research on Marketing Strategy of Traditional Retailers under the Background of Internet--A Case Study of Wal-Mart

Hong Jin<sup>1</sup>, Haiyan Wang<sup>2</sup>, Seong-Taek Park<sup>3</sup> and Young-Ki Kim<sup>4\*</sup>

<sup>1-2</sup> Professor, School of Business, Jiangxi Normal University, 99 Ziyang Avenue, Nanchang, Jiangxi, China

<sup>3-4</sup> Professor, Department of MIS, Chungbuk National University, South Korea

## *Abstract*

**Background/Objectives:** With the rapid development of e-commerce in China, the performance of retail companies that used to operate physical stores was significantly affected. Many companies began to seek transformation, but the results were minimal. Wal-Mart, once a giant in the traditional retail industry, has also been hit by the Internet, showing a decline in performance and closure of a large number of stores. In order to cope with the impact of the Internet, Wal-Mart has implemented a series of marketing strategies in the Chinese market in the past two years and achieved remarkable results, attracting widespread attention from the industry.

**Methods/Statistical analysis:** The offline marketing experience of the employees of traditional retail enterprises is very rich, but the middle and high managers are generally too old, lack knowledge of the Internet, and are old-fashioned and conservative. Enterprises should pay attention to the management of network channels, ensure the consistency of online and offline products in terms of product quality, provide the same quality after-sales service for online and offline products, and provide products of the same quality at a more affordable price.

**Findings:** With the popularity of mobile Internet, online shopping has become more convenient, which has also promoted the rapid development of mobile payment and logistics industry. As the related industries of e-commerce become more and more perfect, the scale effect becomes more and more obvious, and online retail has an unstoppable momentum. **Improvements/Applications:** Therefore, this article will focus on the marketing strategy of Wal-Mart in China under the background of the Internet, summarize the experience of how physical retailers responds to e-commerce shocks, and provide practical implications for the transformation of traditional retailers.

## *Index Terms*

Internet, traditional retail, retail, marketing strategy

**Corresponding author : Young-Ki Kim**  
ykkim@cbnu.ac.kr

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## **I. INTRODUCTION**

According to the latest data released by the China Internet Network Information Center, as of June 2018, the penetration rate of China's Internet has reached 57.7% [1]. The Internet has penetrated into every aspect of people's daily life and consumption, and people's consumption habits have also undergone profound changes[2,3]. Online shopping, Haitao and other consumption methods have brought a big impact to physical retail stores. The e-commerce platform attracts a large number of consumers because of its variety of products, convenient shopping and affordable prices.

But what is striking is that many e-commerce companies have begun to lay down offline and invest in physical stores, such as Ali's shareholding in Suning and acquisition of Yintai, JD hand in hand with Wal-Mart. The two major e-commerce platforms in China have been on the rise, and the move to seize the offline market shows that operation of offline stores still has an irreplaceable role for the retail industry. Moreover, the disadvantages of e-commerce have begun to appear in recent years. Fake products, poor shopping experience, and lack of touch have reduced the consumers' experience. Consumers will still prefer offline physical store when purchasing certain products. It can be seen that offline physical stores still play an important role in improving the consumer's shopping experience and the transmission of brand value.

In the past year, major retailers have been hit by the e-commerce industry, and the performance of traditional retailers, which are mainly based on physical store operations, has dropped significantly. However, when the entire retail industry is in negative growth, Wal-Mart can stand out in the fast-growing environment of the Internet, showing that its business strategy does have merit[4,5]. Therefore, this paper will mainly analyze how Wal-Mart responds to the enormous challenges brought by the Internet environment, and provides some inspiration for how traditional retailers affected by the Internet can adjust their marketing strategies.

## **II. THE DUTCH DISEASE**

### ***A. Research on marketing strategies of offline retailers***

That the rapid development of China's Internet has caused changes in various fields has always been the focus of academic circles. The problems of retail industry have also attracted the attention of many scholars and experts.

Guo et al. (2016) believe that the functions of online retail business and physical retailing are different[6]. The target market, commodity category

procurement and marketing mix strategy selection should also be adjusted according to the actual situation of the enterprise. At present, Internet and retail mainly have three modes, which are independent, complementary and integrated. Zhang (2016) believes that improving the supply of retail services can also increase consumers' interest in consumption and stimulate their willingness to consume[7], which can reduce the current phenomenon of restraining consumption, transferring consumption, and selecting inferior goods. Du (2015) proposes that using the Internet and big data resources to reconstruct production, circulation and consumption relations for bridges, integrating online and offline resources, and building a new retail channel model is an effective measure to optimize the allocation of resources in China's retail industry and promote the overall efficiency of channel operation[8]. Wang (2008) believes that the retail marketing mix elements include convenience, service and environment in addition to the past 4P[9]. Li (2009) believes that information technology plays an irreplaceable role in the expansion of retail enterprises, because after replication of the branch, effective intervention and control of branch will affect the operation fate of store, but modern information technology can help retail companies to control offline channels[10].

Based on the above scholars' research, the offline marketing experience of the employees of traditional retail enterprises is very rich, but the middle and high managers are generally too old, lack knowledge of the Internet, and are old-fashioned and conservative. Therefore, enterprises must have a sense of actively seeking new changes, firm determination to transform, and do not fall into the situation of disputes between old and new forces in the formulation and implementation of marketing strategies [11]. In the service process, we must truly achieve humanized service, pay attention to the details of the service process, and touch the hearts of consumers with details [12].

### ***B. Research on marketing strategy of online retailer***

Different types of retail enterprises should choose different Internet and retail models, and have a clear understanding of the different functions of the network and physical retail in the target market, target groups and marketing strategies, and avoid blindly following the strategy, then adjust product and channel strategies based on the model chosen by the company, in order to reduce conflicts between the two channels.

Because the relevant laws and regulations on the online product management is not strict enough, coupled with online operating costs are lower, many

companies ignore online product management and monitoring, and deceive consumers with inferior products, resulting in damage to corporate image, and finally online business development is difficult. Therefore, enterprises should pay attention to the management of network channels, ensure the consistency of online and offline products in terms of product quality, provide the same quality after-sales service for online and offline products, and provide products of the same quality at a more affordable price. Finally, Enterprises can win the confidence and trust of consumers with products and after-sales service quality [13].

The relatively low price of online goods puts pressure on physical stores. Companies can try to sell new models of the same product or differentiated products on line, control product overlap ratio, and reduce the impact on offline products. For products that are operated simultaneously by dual channels, it is necessary to control the price difference between the two channels; for the durable products such as household appliances that are carefully selected by consumers, the price difference can be properly pulled apart, so that offline profits can be guaranteed.

### **III. ANALYSIS OF WAL-MART'S MARKETING STRATEGY UNDER THE BACKGROUND OF INTERNET**

#### ***A. Channel Strategy***

Offline channels: Wal-Mart used to expand its space in China mainly through hierarchical diffusion based on urban system and internal diffusion based on metropolitan area [14]. Therefore, the big stores are mainly located in first and second-tier cities, and the layout of the third and fourth-tier stores is relatively small, and the expansion of the member stores is only limited to the first-tier cities.

As the operating costs of first and second-tier cities continue to rise, and the concentration of various brands retailers is relatively high, operating costs and competitive pressures are relatively large, and profit margins are constantly being compressed. In addition, the middle class in the city has risen, the income of residents has increased significantly, their sensitivity to prices has dropped significantly, and high-quality products and services have been valued. In some products, they prefer imported brands. The low-priced products sold in hypermarkets can no longer meet their needs. The member stores that focus on fine goods and high-quality services are more suitable for the needs of the middle class. Therefore, Wal-Mart began to vigorously deploy Sams Club. In the past,

member stores were mainly distributed in first-tier cities and the number was small. Only 14 were opened during the 20-year period. However, in Wal-Mart's new store opening plan, more than 20 projects are already under way, and the site has covered many cities in the Midwest. The offline expansion plan of the member store can help Wal-Mart quickly reach the middle class consumer group, and the strong purchasing power of the middle class can help improve performance.

Although the operation of hypermarkets is frustrated in first and second-tier cities, there are fewer large retailers in third and fourth-tier cities, most is grocery stores and small supermarkets, which are less competitive and it is suitable for large retailers to enter. Therefore, Wal-Mart has adjusted its channel strategy for hypermarkets, shutting down the stores with poor benefits in the first-tier cities, and opening new stores to the cities in the Midwest.

Online channels: The integration of traditional large-scale retail enterprises' business models requires clearing their own advantages under the premise of fully assessing their own resources and competitiveness, at the same time, they strive to cater to customer values and achieve business model innovation through online and offline value chain integration[15]. Wal-Mart's Internet awareness is lagging behind, and it belongs to foreign-funded enterprises. In the past, it has not achieved much success in Internet exploration. For example, the implementation of APP has not achieved success in performance. In October 2016, Wal-Mart began a full-scale cooperation with JD. The areas of cooperation include cross-border e-commerce, O2O, and e-commerce. JD's strong logistics and distribution capabilities help Wal-Mart to further strengthen its offline channel advantages. In 2016, Wal-Mart joined hands with JD to launch home-delivery services in Shenzhen, Guangzhou, Beijing and other places. After consumer places an order on line, the goods will be delivered to the door in 2 hours. This is the performance of successful integration of Wal-Mart's online and offline channels.

#### ***B. Product Strategy***

With the increasingly fierce competition in the retail market, the homogenization problem has become the key to restrict the development of retail industry, and the differential competition strategy of enterprises is especially necessary [16]. The new retail organization

initially adopted low-cost, low-margin, low-price business policies. When it succeeds, it will inevitably lead to the imitation of others [17]. This homogenization operation is not only reflected in the choice of business operations, but also the homogenization of commodity categories is also very serious. The innovation of retail concept mainly refers to introducing the characteristic elements of the place of operation on the basis of the past concept, innovatively introducing new products and services, and enhancing consumers' awareness of store differentiation [18].

Wal-Mart's hypermarkets have a wide range of products, covering daily needs. Most of the products are made in China and are cheap, and the manufacturers' production capacity and supply channels are similar, so they are mostly the same as those offered by other hypermarkets. In order to achieve differentiated management, Wal-Mart pays great attention to the operation of its own brands and exclusive products, and actively seeks differentiation from product categories. Wal-Mart has developed a total of 13 series of its own brands in China. Three of them cover food and non-food, and the varieties are relatively complete. The price of self-owned brands is about 15% lower than similar products in other store. The quality of goods is directly controlled by Wal-Mart, which makes it more popular with consumers.

In addition, in order to meet the consumption needs of the middle class in China, Wal-Mart relies on its global logistics and procurement advantages, and mainly imports medium and high grade products in product procurement, exclusively sells imported high-quality products, and insists on product characteristics and differentiation. In the operation of regional hypermarkets, taking into account local diet and consumption habits, Wal-Mart collaborates with well-known local brands to make brands that local consumers are familiar with enter Wal-Mart's stores, such as Chinese time-honored brand. This strategy of the store has attracted more consumers' attention, strengthened consumers' perception of the differentiation of the store, and finally improved their competitiveness.

### **C. Price Strategy**

Wal-Mart has always regarded low-priced strategy as one of its profitable weapons in the retail market. The secret of this success is to achieve low-priced sales by reducing logistics costs, which is different from low-

priced sales by purchasing inferior and low-quality products. In addition, Wal-Mart's strict management of suppliers has ensured that its cost control in procurement is guaranteed. The choice of suppliers adheres to the principle of "power is king". In the process of purchasing goods, it will purchase non-low-quality goods at the lowest cost, and truly achieve low prices and not low quality [19]. The reason for Wal-Mart's success is that it can use information technology to improve business efficiency, scientifically control logistics costs, and achieve "everyday parity" and customer satisfaction [20].

On the other hand, in the pricing of medium and high grade products, Wal-Mart uses curved digital pricing to select some of the consumers' favorite figures, such as 5, 8, 0, and 6. These curved figures are significantly less irritating to consumers and more easily accepted by consumers [21].

### **D. Promotion Strategy**

In terms of personnel promotion, Wal-Mart pays great attention to the training of store employees and customer's shopping experience. Customers are free to shop at the store, and employees provide merchandising information and advice at the right time. This professional and caring employee service maximizes the consumer's experience and makes the promotional effect more ideal.

In terms of sales strategy, Wal-Mart implements a low-priced promotion strategy, and the price of commodities is relatively stable, which enhances the trust and loyalty of consumers. On the basis of low prices every day, Wal-Mart also often launches discounted merchandise. This kind of promotion is mainly on food and lifestyle products, and the commodity price will be reduced by 10% on the basis of the original price. At the same time, in order to satisfy the freshness of consumers, the types of discounted merchandise will often change. In addition, Wal-Mart has also begun to try to launch promotions in durables.

In advertising promotion, Wal-Mart chooses to compress the cost of goods, so it rarely spends a lot of money on advertising, but it is very enthusiastic about public welfare activities, and tries to use stars to promote the store. According to the news released by Wal-Mart in 2016, the public welfare expenditure in China reached 140 million yuan. In addition, Wal-Mart, which has been in China for 20 years, has carried out activities in more than 500 communities

across the country and has paid special attention to vulnerable groups such as women and children. These activities have greatly enhanced the brand image and public goodwill.

#### **IV. ANALYSIS OF MARKETING STRATEGIES OF TRADITIONAL RETAILERS UNDER THE BACKGROUND OF INTERNET**

##### ***A. Establish a clear market positioning***

In addition to the traditional 4P, the retail marketing mix elements also includes new elements such as convenience, service and environment. On the basis of the existing superior resources, the company should locate the marketing component combination of the store according to the development strategy. Retail companies choose a factor with obvious advantages as the positioning factor, and strive to achieve the level of leading peers, then choose one or two as the sub-positioning factor to achieve the medium level of the entire industry, and the other three factors reach the industry average level [22]. When locating the marketing mix elements of a store, the company should consider the role of the Internet, and pay attention to the characteristics of the store, and use unique furnishings and services to attract consumers.

In the past, major retail companies focused on the expansion of large stores, and most of the target customers were households. In order to cater to the needs of the family, the company basically provides low-cost or free parking services. However, with the acceleration of people's life rhythm, especially the transformation of young consumers' shopping psychology, they are more advocating new things and paying attention to the convenience of consumption. Therefore, various convenience stores and community stores have begun to emerge, and the store layout has also penetrated into the community.

##### ***B. Accelerate the integration of online and offline channels***

The high growth of online e-commerce platforms has also prompted retail companies to actively embrace the Internet. Different retail companies have adopted different strategies, some choose self-built platforms, and some choose to cooperate with e-commerce companies. When selecting the Internet model, the retail company should integrate online and offline channels according to its own resources and make clear positioning. At the same time, enterprises also need to adjust the market positioning of the online and offline channels in combination with the company's business characteristics and target consumer groups, and focus on the synergy of the two channels in marketing, so as to avoid conflict between the two channels. Extending the retail business from

the bottom up has become an important way for traditional retailers to break through [23].

After adding online channels, enterprises should not only reorganize business processes, improve efficiency and improve services, but also make use of the characteristics of Internet information dissemination and the psychological characteristics of new generation netizens to improve the activity of enterprises on the Internet and consumer participation, reduce the distance between consumers and achieve the effect of promoting the brand.

##### ***C. Pay attention to the application of big data in marketing management***

For a large amount of data collected by large retail enterprises, enterprises can establish a model and analyze the actual business conditions through a series of professional data processing, so as to judge the customer purchase patterns and trends, and provide reference for the enterprise to formulate various business strategies [24]. For example, companies can combine consumers' membership cards with WeChat and Alipay based on their basic information, such as age, occupation, education level, monthly spending, and consumers' Internet social habits, so as to improve frequency of use of consumer membership cards and cultivate membership loyalty. In addition, according to the information collected by the company database, customer loyalty is divided into different levels. Different marketing strategies are implemented for different types of customers so as to help enterprises achieve precise marketing.

#### **V. EMPIRICAL FINDINGS AND RESULTS**

E-commerce platform has risen in the past due to the cost advantage of commodities. With the popularity of mobile Internet, online shopping has become more convenient, which has also promoted the rapid development of mobile payment and logistics industry. As the related industries of e-commerce become more and more perfect, the scale effect becomes more and more obvious, and online retail has an unstoppable momentum. In contrast, offline traditional retailers are not only burdened with increasingly high operating costs, but most companies have weak Internet awareness in the middle and high management layers, and industry development is facing a crisis.

However, in recent years, the disadvantages of online shopping have gradually emerged. Consumers have increasingly valued product quality and service. The traditional retailers who have been hit hard have begun to change their marketing and actively integrate into the development wave of the Internet. On the

channel, traditional retailers should learn the retail experience of Internet companies and focus on the integration between the two channels. In the layout of the store, you can try to sink the channel and develop the emerging market. At the same time, traditional retailers should pay attention to local operation of the store and do in Rome as the Romans do. On the other hand, enterprises should pay attention to big data, deeply observe and predict consumer consumption trends, anticipate and seize market opportunities, and try new business formats and marketing methods. In the promotion strategy, enterprises should not only pay attention to communication with consumers off line, but also be good at using the Internet platform to actively interact with consumers on line, especially young people.

The Internet brings crisis to traditional retailing, and it also brings about a turning point. The emergence of the Internet helps enterprises to cover a larger market range and make up for the lack of traditional channel layout. At the same time, through the communication with online consumers, traditional retailers can divert them to offline, and use offline unique user experience to improve consumer satisfaction and loyalty, so that traditional retail enterprises will regain their vitality.

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