Analysis of the Operating Mechanism of O2O Business Model in the Retail Industry Under the Internet Plus Era

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Abstract. With the rapid development of Internets (mobile Internet or Internet of Things), “Internet Plus” has been integrated into all fields of society and economy as a brand new economic form. Therefore to keep Retail Industry, one of our conventional industry growing healthy and to maintain its sustainability, it is imperative to adjust consistently the Retail Industry’s marketing strategy and transform its pure bricks-and-mortar operating to fit into the impact of internet technology on the industry.

1. Introduction

The conventional business model has been formed during the long-run operation and management practice, and it was very effective in past marketing environment. However, under the current consumer environment which is characterized by the rapid development of technology and economy, the conventional business model of Retail Industry is losing its advantages and some disadvantages such as not-so-timely manner, and higher inventory cost is presenting comparing with the new emerging business model of the Online to Offline (O2O) business model. By contrast, with the rapid development of Internet technology, O2O is quickly becoming a new business mode with huge market potential. Companies who adopted O2O can seize market share and interact with customer in a timely manner so as to gain the new growth momentum in the new economic environment.

2. Background of Internet-plus and O2O Business Model

2.1 Internet-plus

“Internet Plus” refers to the application of the internet and other information technology in optimizing the allocation of production factors. It is an incomplete equation where various internets (mobile Internet, cloud computing, big data or Internet of Things) can be added to other fields, fostering new industries and business development in China. In the age of Innovation 2.0, it is the emerging new industrial revolution and ecological revolution as well as the rising of business startups. The modern information and technology development breeds Innovation 2.0, whereas Innovation 2.0 furthermore helps encouraging the healthy development of e-commerce, industrial networks, and Internet banking, and getting Internet-based companies to increase their presence in the international market.

2.2 O2O business model

O2O is an electronic commerce model based on offline product demand and increasingly expanding internet marketing. Internet thus will be the front desk of offline transaction. Accordingly, the offline service can be promoted by the online marketing, and the customers can sift various services online as well as make the checkout online. The key of O2O business mode is to seek
customers online and then bring them to the physical shop. It is a combination of both payment and the promotion of customer traffic (also for the customers, it is a “discovery” mechanism as well) Online, and real transaction realization offline. It is essentially measurable, because every transaction happens online.

3. The Construction of O2O Business Model in Retail Industry

3.1 Current situation in China

Following the quick development of our economy, consumption level and purchasing power, China has become the first target and key investment market for the expanding cross-border retailers. Heaps of world-class retailers have taken possession in the China market. Under the dual influence of the internal impetus and external impact, China has seen the boost of new diversified forms of retails: supermarkets, chain stores, convenient stores, specialty shops. With public ownership accounting for the dominant industry, self-employed business, civilian enterprise, foreign investment enterprise also play a role in our retail industry. Although the state-owned department store is still in the leading position, the above mentioned new growing retailing formats develop faster and have great broad development prospects.

3.2 The impact of O2O business model to retail industry

3.2.1 Transaction cost saving

The utility of a product to the customer determines the possibility of production and the quantity of goods produced. In the physical domain, the buyer sometimes will underestimate or overestimate his demand quantity to the product and cannot be very precise. In the case of O2O business model, the seller can provide useful information such as the value and the performance of goods to consumers without real expense and costs before transaction and thus cost-saving.

3.2.2 Deeper reach customer

Under O2O business model, sellers can trace every order so that they can collect and analyze useful data of customers. Through professional study of these data, they can maintain current customer relationship as well as find the potential new market. It is also very necessary for O2O sales data to be quantified, so that sellers can find and be familiar with what the customers need.

3.2.3 Consulting sales mode

In the O2O business model, the online sales staff will be the customers’ consultant. Using their professional knowledge, they will offer thoughtful and satisfactory service to customers, and provide customized goods and service. In the whole online marketing process, the salesman will be the consultant for the customers to make the decision.

3.3 The application of O2O business model in the retail industry

The O2O business model in the retail industry is a new model that customers make the order through internet and finalize the transaction in the physical shop. It is featured by: instead of only relying on the internet, it boosts the offline transactions through online promotion; the enhanced sense of experience of customers and participation of sellers bring the transaction the added value; various data analysis build upon the model ensures the business continuing business development and prosperity.

In this business model, online marketing platforms are installed to promote the offline physical practice. By this way the product information is popularized more effectively, and a wider range of customer groups are attracted to select the product and service easier and more conveniently, with cheaper price offered compare with it offered in physical store. It prompts consumers to be keen to accept and swift to online shopping, and it improves the overall sales for the enterprise as well. Also, through O2O platform, retailers can spread the company information more widely, analyze the consumer groups through the platform data and trace them, adjust their marketing strategies accordingly, and dig up new customers etc.
4. The Operating Mechanism of O2O Business Model in the Retail Under Internet Plus

Operating mechanism refers to the function of human in the social order of the development process, the influence of various factors, relationship between structure and between each other, also including the above factors play a role, produce the effect of process and operation mode and mechanism of the. Relationship will affect the behavior of internal and external factors and between, restricting and guiding decision and with participants, funds and goods all activities related to, the corresponding to the system and the principle of general.

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<td>2. create an app</td>
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<td>3. register for a wechat-shop</td>
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<td>5. Online trading platform</td>
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<th>The format of offline shop</th>
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<td>2. self-owned chain store</td>
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Figure 1. O2O business mode icon.

4.1 The behavior subject of the O2O business model

**O2O operation platform.** Through provide convenient information service for the two economic subjects, the O2O operation platform can fulfill its own profit and value, and change the whole structure of business service frame. The service O2O platform provides is meaningful and achievable. Combining with the matching easy-to-assess information, cheap price, the completed after-sales service, it changes the online potential customers to the offline physical shop customers. It plays a role in the brand promotion, and extends the depth and breadth of business services. Noticeably, the cash flow it creates is far more than the cash flow of C2C or B2B produces. With the gradually development of O2O platform, due to its unique competitive advantage to the traditional media, it has beaten newspaper and TV and become the first choice of businesses to promote themselves and do marketing.

**The offline physical entities.** The offline physical store is a necessity of the O2O operation. O2O platform can attract diversified customer groups, and promotes the profitability of offline physical store; the platform payment setting after the real transaction enables the follow up of whole trade effect; the realization of reservation function online helps merchandisers allocate resource more effectively and cut the cost; Meanwhile, O2O greatly reduced the restriction of geographic location to physical entities, attracts customers more widely, and cut the high rent fee in some level.

**Customer.** It is the service receiver and core of the O2O platform. To meet customer needs and to create customers’ consumption motivation is the core interest each business pursues for. By buildup the information of commercial service, customers can get access to the information easier, faster, and more convenient; through the online booking, the customers can make a good plan and budget of their expense and time.

**The third party payment platform.** The third party payment platform is an indispensable part of whole O2O platform, and it also differentiates O2O platform with the daily social life service platform. The third party payment endorses the customers’ payment by the third party credit. In this way the payment process can be more secure and reliable.
4.2 The value creation mechanism of O2O business model

Create direct value. The value that O2O platform can bring to consumers and businesses may include information accessibility, online reservation and online promotions etc. On information achieving, traders can attract consumers through platform, while consumers may obtain more information about goods or service. On reservation, merchandisers can reasonably arrange shop resources according to the online bookings so that the unnecessary operating expenses can be cut down; also, consumers can make a reservation of the products they has already planned. This saves time too. On the discount: through the wide-reached and easy-accessed platform the traders can release the promotion information, and it will reach to a wider group and receive more response; What’s more, the consumers can gain promotion information easier and in a wider comparison scope, they can enjoy more of the value information and reservation bring to them.

Weaken the importance of business location. Historically business location is very important in the traditional competition. Sometimes it directly decides the fate of the business. Usually one of the key concerns is whether a business can locate in the CBD since CBD is one of the most important geographic assets. The boom of O2O, however, is weakening the traditional business concept of the importance of location. The flattening of network and its null-cost during transit impels all the business activities on the platform running in an open and transparent environment. There won’t be many differences between the business entities of different business locations in attracting the consumers.

Open up traders’ information promotion. Nowadays with the highly developed goods and service market, in order for one product to be accepted by its goal customers, it has to be outstanding among its peers in attraction customers’ attention. This is also one thing entities needs to focus on. The high profile of O2O model platform turns it an internet media communication platform, which is also another revolution for the internet era. Instead of how large the business demonstration is or how many click volume are, the sellers only consider how many physical customer volume will flow offline, that is, how many customers can be impressed and turned to a physical customer. Integrated the promotion with consumption, O2O keeps expands and extends its e-commerce.

4.3 The profit model of O2O business model

4.3.1 The profit margin of products in the retail industry.
To the tangible products, O2O builds up connection between buyers and sellers, shortens the intermediate process and therefore cuts the intermediate logistics costs. The sellers also save their management cost, and allocate their resources better, so extend their profit margin, which is the main income source of their O2O revenue.

4.3.2 The income of advisements implantation.
With O2O platform’s increasing popularity, higher profile and exposure, more traders are inclined to advertising themselves via the platform. Normally by the placement of other enterprise’s advertisement, the platform can gain high financial profits.

4.3.3 The payment after sales.
The diversified products decide the different charge standard. Only by the finalization of transaction can the sales income flow into the merchandiser. Only by this stage would the seller be asked to pay to platform, and by this means the sellers’ interest can be strongly maintained. Also, the transaction risk is smaller to them.

4.3.4 Membership entrance.
The consumers on the O2O platform should hold the registered membership position. By registration, they are allowed to do the trade in the platform. The Members need to pay for their membership fees. As well, the membership fee is another income source for the platform.
5. Conclusion

At the “internet plus” era, the O2O model is not only a new service and consume model, but also a revolutionary model which is different from any previous operations by the using of internet technology and the seamless connection of online and offline. The O2O business model in the Retail Industry has its great potential, and it will be quickly developed to change the current business model structure and take an overwhelming position. Also, it will continuously adjust and upgrade itself to adopt the never-stopping market changes, improve the whole retail industry in the future, and give some reference to the operating mechanism and model upgrade of other industries.

References


