

# Convenience Store Development Mode of Express Enterprises in China

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**Abstract** In recent years, the development of China's online consumption pattern promotes the development of e-commerce and also brings new opportunities and huge market spaces to China's express delivery enterprises. At the same time, express delivery costs are increasing. Faced with the fierce competition, the meager profit express enterprises are under great pressure. The development of last mile of logistic distribution will become the key to cut cost and seize market for China's express delivery enterprise. On the problem of last mile, convenience stores play an important role in other countries and provide many convenience services such as, receiving and dispatching packages, distribution node etc. How to combine the experience of convenience store pattern with Chinese market will have important theoretical and practical significance. Based on rapid development of express industry, the article mainly study convenience store development mode of express enterprise and current situation.

**Keywords** Last mile, Express enterprise, Convenience store, China

## 1. Introduction

With the rapid development of Chinese economy, the popularization of network information and shopping online platform is becoming increasingly mature, more and more Chinese consumers become "online shopping gens". China Internet Network Information Center statistics show, by the end of June 2013, the scale of China's Internet users reached 591million, an increase of 26.56million compared to the end of 2012. Internet penetration rate was 44.1%, improved 2 percentage points compared to the end of 2012. The number of China's online shopping users is up to 271 million, the network shopping utilization rate rise to 45.9%. [1] The development of China's online consumption pattern promotes the development of e-commerce and also brings new opportunities and huge market spaces to China's express delivery enterprises. As the most important part, the last mile of logistic distribution becomes the key to seize market for China's express delivery enterprise. Article 17 of the postal law provides: establish postal universal service fund. The meager profit express enterprises are under great pressure. The provision will aggravate the burden of China's express enterprises and the cost will be passed on to customers. Faced with the pierce competition, China's express enterprises all seek to solve the problem of last mile.

There are many solutions of last mile problem in other

countries. One common way is to start with retail and then to express. In developed countries, such as Japan, the US and German, the solution is to take convenience stores as courier business outlets. For example, Yamato transport cooperates with 7-11 and Lawson convenience store. Convenience store is widely spread in Japan that it has become a part of local life. People are used to receiving and dispatching in the nearest convenience store and buy some necessities by the way. Convenience store has become Japanese express enterprises' access point. Differently, the United States international Courier giant UPS and FedEx adopted M&A mode development of retail business. In 2001, UPS merged thousands of stores of Mail Boxes (later renamed The UPS Store). In 2004, FedEx acquired convenience-store chain Kinko's (later renamed as FedEx Office). These stores not only operating retail business, also runs document processing, printing, photo printing and express delivery business etc. China's express delivery enterprise should learn from the successful experience and seek for the solution suitable for China.

By contrast, convenience store is in its infancy in China. On the one hand, China's convenience store, in low level of standardization, is not popular. On the other hand, the lifestyle of sending express in a convenience store needs to develop and relative laws and regulations are not sound in China. SF-express, representatives of private express enterprise in China, is attempting actively in convenience store mode. SF-express cooperates with mature convenience store and also establishes its own convenience store (SF-convenience store). The number of SF-convenience store in major cities in China is showed in figure1 below.

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**Figure 1.** The number of SF-convenience stores in major cities in China

Problem of last mile is still serious. For example: There is a surge in cargo at the peak of saves social cost. Chinese express enterprises develop rapidly but the online shopping and urban housing density is high. Couriers should send package to the home one by one and are often blocked by the security guard. Customers going downstairs to get the packages will lead to low efficiency and low customer satisfaction. In suburban area, where express operations are small and business is dispersed, distribution cost is high and express enterprise is lack of enthusiasm in participation. Express enterprise convenience store mode offers a new way to solve the above problems. From the perspective of express enterprise, convenience store mode saves cost, improves efficiency, brings customers and increases sales. From the perspective of customers, the convenience store saves their time and makes their time more flexible. From the perspective of the social, the convenience store mode optimizes resources and saves social cost.

## 2. Literature Review

The convenience store mode refers to taking convenience store as a receiving and dispatching point of an express delivery enterprise. Customers can directly dispatch packages in a convenience store or specify some convenience store in the process of receiving a package, and the customers can get the package themselves in the convenience store after being informed. Chinese scholars mostly hold a positive opinion towards the mode, which is still in its infancy. Zhejiang institute of finance and economics professor Li Xiaojin points out that, offline logistics distribution has become the major bottleneck of the development of e-commerce in the rapid development of e-commerce. Convenience store, with its particular characteristic, is the main solution of the bottle neck. Therefore, improving the convenience store mode can promotes the development of express enterprise.

Many Chinese scholars indicate the unique advantages. First, the mode can give full play to the advantages of information platform, business network and logistics distribution; establish logistics distribution system based on convenience store community network; form the express mode under the support of convenience store and solve the bottleneck problem. Second, the use of this mode makes the express enterprises and convenience stores to achieve win-win. Efficient distribution system not only saves enterprise costs, provides more satisfied services, increase satisfaction, but also create value for enterprise and society. Third, deliverymen are representatives of enterprise and their behavior can decide the impression and public praise of enterprise. Nevertheless, convenience store mode can assure service quality and reduce distribution cost.

There are three forms for express enterprises to develop convenience store mode: Self-build, cooperation with third party convenience and merger with mature convenience store. While the three forms have different advantages and disadvantages, express enterprises should choose prudently. Self-build mode is propitious to elevate the entire image of enterprise and build brand through the unification of idea, brand, management and identifier. What's more, the systematic management is the security of high quality of service. However, disadvantages lie on the high operational risk because of the unfamiliar of convenience store operation. Cooperation with third party convenience store mode contributes to reduce entire operation cost. To merger with mature convenience store is also full of challenge. Since the convenience store and the express enterprises are two different entity, the merger may fail potentially. If they merger successfully, the management is not so easy. Wether the two enterprises can intergrate well is a problem. SF-express will give away 8% profit to the convenience stores, but the cooperation mode can reduce labor cost and investment in the early stage and decentralize operational risk. This is the best mode to reduce operational risk for

express enterprise whose convenience store is still in the infancy. Research director Zhang Yanlin, China Investment Corp consultant, advises to combine the two modes in order to reach the purpose of advantage complementary and saving cost. For example, enterprises can build their own convenience store in places with large volume of express business and adopt cooperation mode in relatively remote place. Then convenience store mode will be more flexible. [8]

To sum up, convenience store mode of express enterprise is promising and China's express enterprise should promote the mode efficiently to solve the problem of last mile.

### 3. Research and Analysis of Convenience Store Mode

Considering China's national conditions and the development of Chinese express industry, it's not possible to solve the last mile problem only by express enterprise. Recently years, many enterprises, including express and e-commerce enterprise, start to cooperate with retail industry, which can help to solve last mile problem.

According to the current situation (table 1) of last mile, convenience store mode has already become one of the most valid ways to solve the problem. Convenience store mode of express enterprise has three types: Self-built store, cooperate with convenience store chain and mergers or acquisitions mature convenience store. We will analysis the current

situation and prospect of the three types.

### 4. Current Situation and Prospect of Self-Build Mode

#### *Current situation*

In 2002, Shenzhen GSD logistic company established WDT convenience store. The professional logistic company, which has its own storage center, already has more than 200 WDT convenience stores. SF-express, the representative of express enterprise building its own convenience store, has more than 330 SF-stores in Guangzhou and Shenzhen at present. Take SF-express as an example. There is a logo on the signboard of SF-stores but no logo to show that it is a convenience store. SF-stores are usually divided into two parts. One is traditional retail area and the other is for receiving and dispatching packages. The checkout counter not only can settle shopping accounts but also can sending packages. SF-stores are not like convenience stores but like SF operation points selling groceries. There are mainly three reasons. The first reason is that the selected site of SF-store is not the best geographical location according to the quest of convenience store. SF-store prefers to choose the location whose rent is relative low. The second reason is that, the products of SF-store are seriously homogeneous against its rivals. Besides, it is lack of scientific and effective management. Last, products in SF-store are serious unsalable. And a lot of them are nearing the expiration date.

**Table 1.** Current situation Chinese business representatives

Enterprise	Situation of last mile	Develop scale
<b>Postal service EMS</b>	On November 7, 2007, Guangzhou bureau cooperated with Guangdong 7-eleven co., LTD; In October 2010, China post group and Horizon Group USA Inc jointly established a supermarket. On April 25, 2011, Wuhan EMS express company cooperated with convenient store.	297 7-eleven in Guangzhou; 35 specific supermarket and all Hao Bang convenience store; more than 10 villages and towns in provinces of Henan, Shandong and Jiangxi.
<b>SF-express</b>	In 2007, entered Taiwan's market and cooperated with more than 4900 convenience stores; In 2011, cooperated with many convenience store chains in Guangzhou and Shenzhen. Set up 20 SF-stores in Shenzhen in 2011; In 2012 entered Hunan province. Cooperated with Chongqing WOWO convenience store on February 27, 2013.	All over Taiwan, Hong Kong and Macao; Shenzhen, Guangzhou, Xiamen, Chongqing, Hunan, Hangzhou and Beijing in the mainland;
<b>Jing Dong</b>	Since 2011, Jing Dong has established many self-service sites along metro line 5 and line 10; On September 13, 2012, cooperated with Hi-24 convenience store and established campus network.	222 self-service sites in 30 provinces or cities; 82 campus sites in 18 provinces or cities; cooperate with 11 Hi-24 convenience stores in Beijing and 5 WOWO convenience stores in Chengdu.
<b>Suning</b>	Has self-service in nearly 1800 stores by June 6, 2012.	1800 stores with self-service all over the country.

### *Prospect*

High-quality service is so significant that it decides the future of express enterprises. Self-build mode of China's express delivery enterprise has obvious advantage in service. Self-build convenience store has formal trained staff, which guaranteed the quality of services and the safety of packages, effectively reduce the loss of packages and avoid dispute. Self-build mode can also save the expense paid to convenience store if express enterprise cooperates with it. However, there are still many challenges for express delivery enterprises to set up convenience store. Firstly, it is a rough test for the enterprises. Resources of suppliers, relationship with government and solid team are all necessary. These cannot be obtained in one day for enterprises who just enter detail industry. Secondly, choose of operational mode is not easy. China's convenience stores themselves are still in infancy. Many of them are mini supermarket. The services, mix of commodities and adhesion of customers need to be tested by the market. Thirdly, selection of site is also a problem. Take SF-express, the representative of private enterprise in China, as an example. Although SF-express has many business points, it needs to be evaluated prudently that whether or not these points are suitable for convenience stores. Last, fierce competition is also a block for express enterprises to enter detail industry. Once self-built convenience store develops, it becomes threaten to the convenience store cooperated with. The win-win relationship will translate to competitive relationship. In conclusion, the future of self-built convenience store of China's express enterprise is still not clear, it need to be tested by time.

## **5. Cooperate with Convenience Store Chain**

### *Current situation*

There are now many express enterprises cooperates with convenience store, such as EMS, SF-express, YTO-express, TTK-express etc. As a matter of fact, the cooperation mode has been popular for many years and is mature in the world. However, it is just developing in China. In Japan, seven-eleven stores have become a package access station, in which customers can send and dispatch their packages. Express enterprises save much logistics cost in this way. Among the current Chinese express companies, SF-express Company cooperates with the widest range of convenience stores, such as Chongqing WOWO convenience stores, all seven-eleven convenience stores in Shenzhen etc. In cooperation with convenience stores, SF has formed a set of mature service mode. If someone wants to send a package, he just needs to contact the Customer Service Hotline, supply the code and name of a specific convenience store, bring the package to the specific convenience store and fill in related form. Of course, he should confirm the goods that he wants to send conform to send conditions (refer to figure 2).

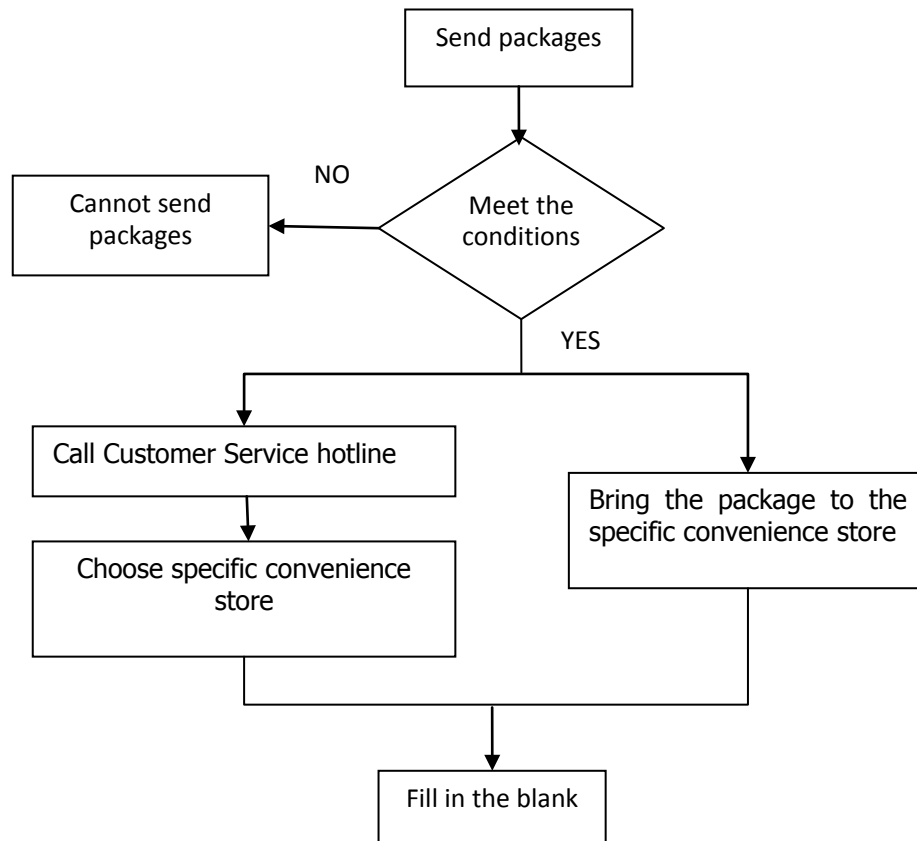
Receiving process is as simple as sending process. SF will send a notification to you as soon as the package arriving at the convenience store. You can get your package after verifying ID card in specific time. The brands of convenience stores in the mainland are lack of standardized service and not cover most of cities, so the cooperation of express enterprises in mainland China will face many problems.

### *Prospects*

The convenience store mode of China's express enterprise is still in the running-in stage. Take seven-eleven convenience store and SF-express as an example, the convenience stores is not big enough to hold many packages and will conform the staffs of SF to take packages as soon as convenience stores receive a package. The advantage of convenience store is not obvious. What's more, convenience stores now can only send packages and cannot receive packages, the services are relative simple. With its rich experience of co-operation and brand influence, SF-express will go further in the development of convenience stores in China.

## **6. Mergers or Acquisitions Mature Convenience Store**

Mergers or acquisitions mode is that express enterprises make mature convenience stores add courier service through merger or acquisition. M&A mode allows express enterprises rapidly occupy convenience stores, have a mature professional convenience store management system and retail professionals, create profits and manage unified. There is a successful case of M&A mode. UPS and FedEx are both involved in the retail business and take the mode of merger & Acquisition. After acquisition, the convenience stores started packaging and delivering business and increased the sites, offering the neighborhood convenient printing and express business. Actually, chain retail industry is a technology-intensive industry. Retail technology not only includes the traditional sense of the IT technology, but also includes commodity management, marketing, technology, location technology, personnel management arrangements, etc. According to the existing mode, only prudently choose business area, business project and mode can an enterprise be successful. China's express enterprises should learn from the case of UPS merge Mail Boxes in the early days. UPS let Mail Boxes operate the convenience store business so that everyone can focus on the area that one is good at. Merging mature convenience store need plenty of money, good understanding and evaluation of market and appropriate convenience store. It's not mature to M&A mature convenience store for express enterprises in China. China's express delivery enterprises still need more preparation during the growth.



## 7. Conclusions and Recommendations

At present, one of the bottlenecks of e-commerce is the problem of last mile. It is imperative for China's express enterprises to solve the problem of last mile efficiently. This article first analyses the problem in "last mile" logistics distribution of e-commerce. Then the article studies the problems in China based on comparison between cases in China and international successful cases. Finally draw the conclusion that the convenience store mode is the breakthrough of the bottleneck of last mile problem.

Overall, the express enterprises should continue to develop convenience store mode suitable for China, further improve the courier network coverage and especially improve the ability of services of the convenience store. They should focus on clarify responsibility, enrich function, make practical policy for cooperation, explore express enterprise cooperation mode, perfect outfit business rules and so on. Following are some recommendations to the development of convenience store mode for China's express enterprises.

*Study the legal of the cooperation of express enterprises and convenience store*

Article 51 of China's Postal Law regulate that a business license is necessary to run express delivery business. The postal law listed provisions of the express business in all aspect. From the direction of legality, it will be express

business provided by law if the business complies with at least one provision. National post office has solved the problem of express business with single link from the aspect of legal and regulation problem of postal administration, providing crucial basis for the government's management of enterprises. After get agreement from the customer, the specify convenience store signs for the parcel. From the aspect of legal, the convenience store is not responsible for any one, so it's easy to cause disputes. If express companies offer convenience stores the qualification to represent the courier and the qualification to solve the problem of customer inspection, offer cargo security commitments and provide some economic incentives, convenience stores will become the most reliable complement to express network.

*Explore the convenience store develop mode for Chinese enterprise*

It's not realistic for China's express enterprises to merge mature convenience store. The future development of express enterprise convenience store mode depends on two aspects. One aspect is industry standardization, process and operation efficiency. The other aspect is the choice of convenience store chain strategic mode. Different operation mode brings different cost and risk and the discrepancy has significant impact on express enterprise expansion. Therefore, explore the convenience store develop mode become necessary for the development of China's express enterprises.

### *Explore reasonable mechanism of mutually beneficial cooperation*

From the existing cooperation pattern so far, express companies have to pay fees monthly to the convenience stores. Express companies can also improve the willingness of convenience stores to cooperate in other ways. For example, customers can receive free service of express when the customers' bonus points have reached a certain amount. Convenience stores can carry out marketing activities through express network so that both express enterprises and convenience stores can advertise and receive mutual benefit and win-win results.

### *Strengthen the construction of human resource*

Talent is the main part of the enterprise and the soul of enterprise development. China's express enterprises should lucubrate and learn from the experience of personnel training in developed country. First, express enterprises should establish a plan of talent training aimed at the strategy, which is the power source of enterprises to grow. Second, express enterprises should increase their effort to introduce relevant technical personnel and management personnel in order to ensure proper technical support and management support. Third, implement individual incentives to improve working enthusiasm. In the groping stage of convenience store mode, make effective incentive mechanism to stimulate the potential of talents is very necessary.

### *Improve the business rules*

Convenience store mode is in the initial stage, so express enterprises need to develop a detailed work flow and management system, such as establish detailed work safety system, public location and contact information, establish clear contract, etc. In addition, it should be marked on the express list that whether or not the customers agree the specify convenience store to sign on the behalf of them. Express enterprises should encourage the customers to accept convenience store mode, for example, propagandize inspection and returning procedure.

Convenience store mode contributes to solve the problem of last mile. So this article has theoretical and practical significance in the development of last mile of Chinese e-commerce. Because practical problem are complex and our ability is limit, the paper has some boundedness. For further research, it would be interesting to consider feasibility and implementation difficulty of the convenience store mode.

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