

# Building A Brick-and-mortar Communications Retail Business Model from A Value Chain Perspective

-- A Nine-Factor Canvas Model Based on "Xunjie Communications"

Yujie Liu<sup>1,\*</sup>, Xi Deng<sup>2</sup>

<sup>1</sup>School of Economics and Management, Sichuan Normal University, Chengdu, Sichuan, China

<sup>2</sup>Poznan University of Economics and Business, Poznan, Poland

\*Corresponding author: Raymondhyduff@outlook.com

**Abstract:** As China's economy picks up and the demand for consumer upgrading continues to rise, the telecommunications retail industry has huge potential and opportunities for development. Based on the value chain perspective, this paper selects Xunjie Communications Group as the research object, uses the nine-factor canvas model as the analysis tool, and proposes a new analysis factor of "internal competition" in the context of enterprise development. Finally, this paper proposes recommendations to enhance the level of independent innovation, improve the level of supply chain management, expand business line diversification, and expand the focus on sinking markets, to provide a business model reconstruction path and specific strategies for communication retail enterprises.

**Keywords:** Value chain, Business model, Nine elements canvas model, Communication retail.

## 1. Introduction

In early 2020, the sudden onset of the Newcastle pneumonia epidemic had a huge impact on businesses in various industries, with food service, retail superstores, and leisure and entertainment businesses bearing the brunt of the impact. In particular, food service, retailer superstores, and leisure and entertainment companies were the most affected by the outbreak, facing not only a reduction in business revenue due to the continued phased suspension of business as a result of the epidemic prevention and control policy but also a reduction in sales revenue due to residents being isolated at home and going out less. These effects not only led to difficulties in the operation of offline shops but even outright closure and transfer of shops. Business enterprises' product sales decline seriously, the business can not make ends meet, sales channels are forced to expand from offline to online business, and have taken the transformation of self-help to do the last struggle. With the 20th National Congress held in 2022, the government issued "Twenty Measures to Further Optimise Epidemic Prevention and Control", which gradually transformed the prevention and control strategy based on the characteristics of virus mutation and made it clear that the individual is the first person responsible for health, and the country will better co-ordinate epidemic prevention and control and economic and social development to achieve economic recovery and resume rapid development as soon as possible[1].

The development of the real economy has always been of wide concern to all sectors of society. In the past year, China's economy has faced unprecedented challenges. However, against this backdrop, China's real economy has still shown strong resilience and vitality in the face of difficulties. According to data from China's National Bureau of Statistics, the market size was close to the previous year's level, with total retail sales of consumer goods amounting to RMB 4,397.33 billion in 2022, down 0.2% from the previous year. Retail sales of goods in brick-and-mortar shops grew slightly.

The digital transformation and upgrading of the traditional retail industry continued to advance, and the consumption scenario and consumption experience continued to expand and improve, with the retail sales of goods in physical shops maintaining growth. In 2022, the retail sales of goods in physical shops in the retail industry above the quota increased by 1% compared with the previous year.

The brick-and-mortar economy will usher in a new moment of development to meet consumers' demands for consumption upgrades. To stimulate market potential and improve profitability, it is particularly important to build a new business model for innovative retailing. Many scholars at home and abroad have studied retail business models, such as Johnson M W, who proposed that business models are divided into four elements: customer value proposition, profit scheme, key resources, and key processes[2], and Osterwalder proposed a nine-element canvas for business models, which depicts and defines the business model of creating value, delivering value and capturing value[3]. Yuan Lei proposed the "3-4-8" business model three-dimensional structure from the "far-medium-near" level[4]. The "3-4-8" business model is a three-dimensional structure[4]. Wei Wei and Zhu Wuxiang defined the business model from the perspective of transaction structure and stakeholders, and constructed the "Wei-Zhu six elements business model model"[5]. Based on the fact that most of the previous studies in recent years have focused on "new retail" and "e-tailing", it is necessary for traditional offline brick-and-mortar retailers to make specific business strategy adjustments, supply chain upgrades and business model reconfigurations, and only through continuous innovation and optimization can they achieve long-term success. Only through continuous innovation and optimization can we achieve long-term success.

## 2. Theoretical Research Basis

### 2.1. The value chain

The concept of the value chain was proposed by Porter in

1985 in his book "Competitive Advantage", which divided the value-creating behaviors of a company into five main value behaviors: "internal logistics, production operations, external logistics, marketing and services" and four supporting value behaviors: "corporate infrastructure, human resource management, technology development, and procurement". "It is believed that the value behaviors of a company are interlinked in marketing activities and constitute a chain of

marketing behaviors called a value chain (Figure 1) [6]. Not every link in the value activities that different companies are involved in creates value, depending on the industry and the company's operational strategy. To maintain a competitive advantage, companies must invest their limited resources in the links they are good at and achieve a specific advantage in a particular link.

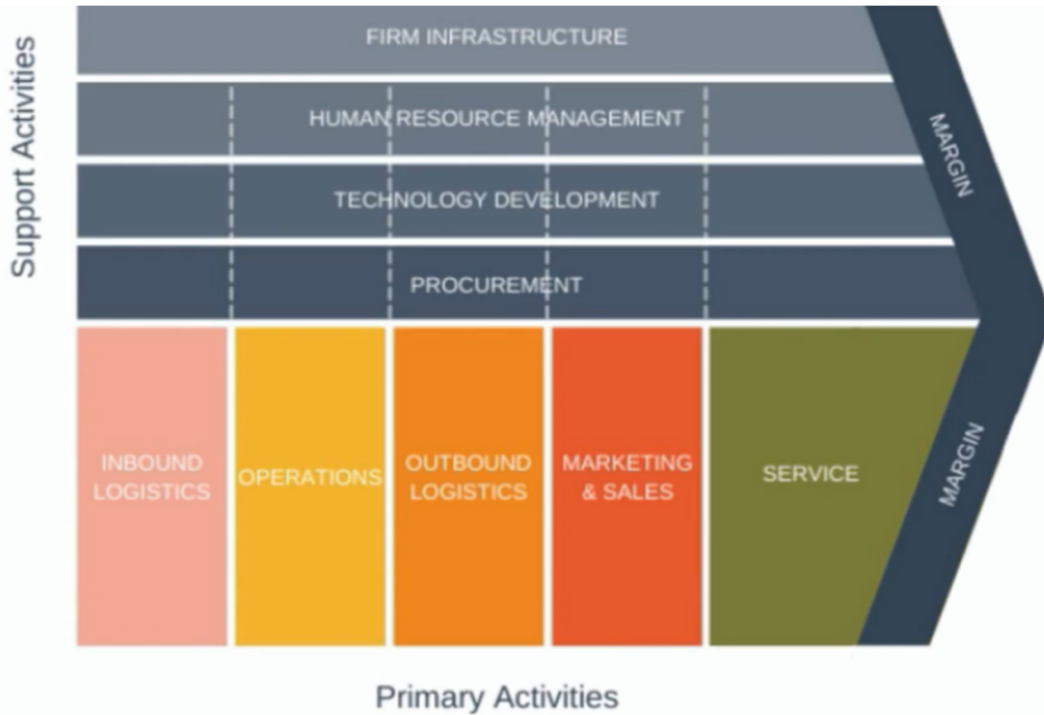


Figure 1. Porter's Value Chain Model.

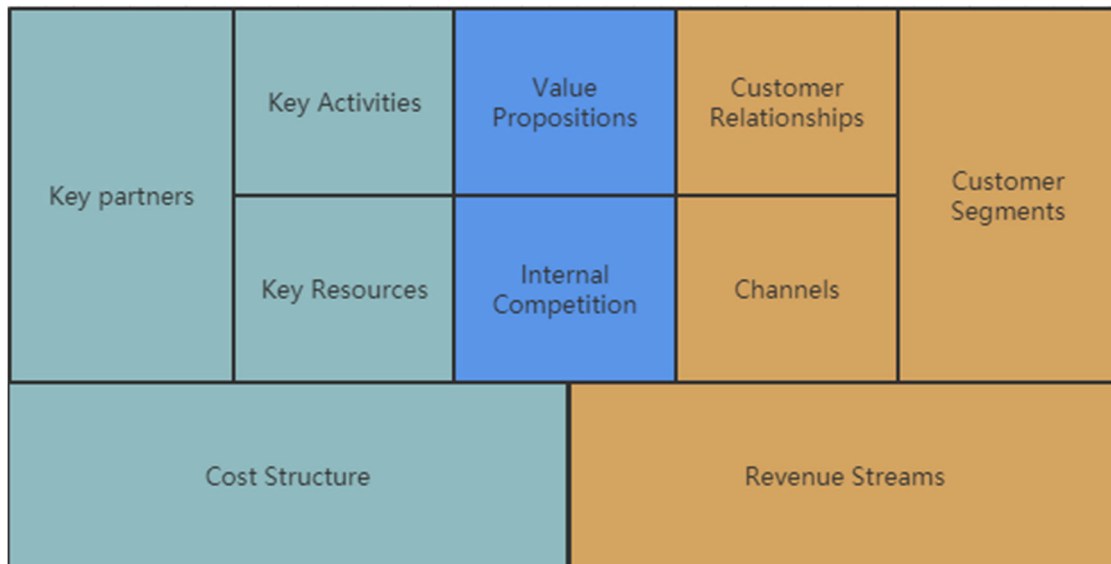
## 2.2. Business model

Morris et al. (2005) give an integrative definition of a business model as a simple statement of how firm positions and integrates a set of internally relevant variables in terms of strategic direction, operational structure, and economic logic to establish a competitive advantage in a given market [7]. Rappa (2000), on the other hand, argues that the most fundamental aspect of a business model is how a firm operates its business to sustain itself, i.e. to earn a profit, thus clearly illustrating how firm positions itself along the value chain to make a profit [8]. Yuan Lei (2007) defines a business model as a theoretical means of planning and integrating unknown variables that are internally relevant to the direction of a company's future development strategy and the layout of its operations [4]. Wei Wei and Zhu Wuxiang (2012) define a business model as a transaction structure for stakeholders and includes six aspects: positioning, business system, key resource capabilities, profitability model, free cash flow structure, and enterprise value [5].

## 3. Nine Elements Business Model Canvas Case Study

### 3.1. The Nine Elements Business Model Canvas

The Business Canvas Model was developed by Osterwalder and Pigneur in 2005 as a framework for analyzing organizational strategy and business model innovation. This business analysis model consists of nine elements: value proposition, customer segments, customer relationships, channel access, key partnerships, key businesses, core resources, cost structure, and revenue streams. The business canvas model uses the value proposition as a benchmark and visualizes the modules by dividing the cost structure and revenue sources to help organizations identify and optimize their business models to improve competitiveness and create value [3]. In this paper, based on the nine-factor canvas model, the "internal competition" module is added to better reflect the characteristics of the business model of the company. This is shown in Figure 2.



**Figure 2.** Business Model Canvas Model.

### 3.2. Study on the innovation of Xunjie's business model

Xunjie Communications Group ("Xunjie Communications") is a large retail chain that specializes in the retail of mobile phones and spare parts. This article has been selected because:

Since its establishment in 1997, XUNJIE Communications has had a 26-year history of development, always adhering to the offline retail chain model of operation, transforming from over 600 outlets at its peak to less than 300 flagship image shops at present. Revenue and profit scale growth have remained industry leaders for many years in a row.

During the epidemic, the real economy faced recessionary pressures, with foot traffic plummeting and consumers curtailing spending amidst income uncertainty. However, Cyberjaya Communications saw a significant increase in profitability despite lower year-on-year revenue, thanks to its unique business model.

**Value proposition.** XUNJIE Communication creates a good shopping environment for customers through exquisite shop decoration and quality service. Each product undergoes strict quality inspection, solving the pain point of online shopping where customers are worried about buying refurbished or defective machines, and providing sufficient specifications of electronic products and personalized accessories for customers to choose from according to their needs.

**Customer base.** XUNJIE's market is targeted at mid-to-high-end customers who require consumer upgrading, who focus on service experience, and who need personalized products. Its offline shops are mainly located in the core business districts of first- and second-tier cities, which draws a picture of a middle to high-income group with a good economic base, strong spending power, and a focus on service quality.

**Customer relationship.** Customer relationship is the process of interacting with customers and establishing long-term relationships when a company conducts marketing management. Establishing a good customer relationship can increase user loyalty, improve the repurchase rate and reach more deals through customer referrals. When customers enter the shop, they have access to historical product purchase records, notes on user preferences, etc. Snacks and beverages are also provided in the shop for customers to enjoy for free,

enabling timely and targeted marketing.

**Channel access.** This refers to how a company connects with its customer base to communicate its value proposition to them.

XUNJIE Communications is a one-stop shopping experience shop offering "mobile phone host + smart devices + derivative accessories + after-sales service". Through a large number of shops, we can attract customer traffic and enhance the customer experience. Through collaboration with various suppliers, we purchase goods centrally according to expected sales volume and transport them from the central warehouse in the city to each shop promptly.

**Key Collaborations.** On the supply chain side, we have partnered with major mobile communications companies to set up seats in large shops where customers can purchase "number card + host" packages. We have also partnered with major host brands and are an important host procurement channel. On the shop side, we have partnered with several commercial real estate companies to open nearly 300 offline shops in commercial plazas, digital cities, and shopping streets in many provinces and cities across China, expanding the brand's reach.

**Key Businesses.** (1) Supply chain cost management. By obtaining price advantages through mass centralized purchasing, we can obtain goods at lower purchasing prices and win more profit margins. (2) Rational layout of offline shops. Through the professional development team field investigation and research, comprehensive regional traffic flow, consumption level, and shop port to expand shops, and the number of new shops opened each year to not less than 10% growth. (3) Efficient sales and supply chain system. Using the big data platform, we can monitor and analyze the inventory of shops in real-time, grasp the inventory situation of shops in different periods, allocate goods from the central warehouse promptly, and keep sufficient stock of goods without affecting sales. (4) Innovation of marketing mode and marketing strategy. Effective collection and collation of commodity sales data, sales trend analysis, understanding of shoppers' consumption preferences, continuous adjustment of shelf varieties, a timely increase of new varieties, elimination of slow-selling varieties, and updating the seasonal varieties, to create a dynamic commodity category structure.

**Core resources.** (1) Its supply cooperation with mobile phone brands ensures a sufficient supply of goods at the end

of the sale, locking key resources in advance and providing a guarantee for the subsequent demand for resources. (2) Covering nearly 300 shops in as many as twenty cities, it has the advantage of meeting different consumer needs by covering goods of different grades and price levels, and will also provide more professional services and products according to consumer needs in future development.

**Cost structure.** The cost structure of Xunjie Communications is divided into three main categories. (1) Initial fixed costs: shop decoration and renovation costs. (2) Supply chain costs commodity procurement and storage costs. (3) Operating costs: rent, human resources expenses, and marketing expenses.

**Revenue sources.** Xunjie Communications' revenue is mainly derived from revenue from mobile phone sales, revenue from smart devices, revenue from mobile phone accessories, and revenue from value-added service cards. The shops are fully stocked with all styles and colors of mobile phones, which consumers can purchase according to their needs or with packages such as tablets, smartwatches, and smart headsets. Accessories such as protective films, cases, and bags for mobile phones also cater to diversity and personalization, attracting repeat purchases. Value-added service cards provide customers with value-added services such as after-sales repair and maintenance of mobile phone hardware and software, boosting greater profit margins for shops.

**Internal competition.** The company advocates internal competition by placing its approximately 300 shops under the management of Business Units A and B, which adopt different approaches to independent merchandise procurement, marketing plans, and human resources management, and conduct a comparative analysis of operations by revenue and profit contribution every quarter, to pursue the optimal allocation and utilization of corporate resources and be able to stimulate staff creativity and motivation to a greater extent.

## 4. Conclusions

This paper uses the nine-factor canvas model of the business model as a tool, combined with value chain analysis, and takes XUNJIE Communications Group as a case study to explore the business model of the communications retail industry and its innovation points so that when enterprises face competitive pressure in the industry, they can integrate their resources, expand blue ocean areas from consumer demand, improve their competitiveness and seek higher profit growth space. At the same time, this paper puts forward the following suggestions for business model innovation in the communications retail industry:

Improve the level of independent innovation of enterprises to meet the diversified and personalized needs of users. With the serious homogenization of the appearance of various mobile phone brands, consumers usually buy multiple mobile phone cases with different images and functions to show their personalization. Enterprises can use big data for consumer analysis to grasp consumers' shopping preferences and functional needs for goods in the first instance and develop and design different styles of derivative accessories on their own to provide consumers with unique mobile phone mounting designs. Promote personalized design and flexible production, and cultivate new business models such as customized consumption, smart consumption, information

consumption, and fashion consumption.

Improve supply chain management and reduce asset inventory risk. In recent years, the mobile phone industry is usually renewed in 0.5-1 year, which is a huge challenge to the supply chain management level of enterprises. The disconnection between procurement and sales should be avoided, resulting in an insufficient supply of best-selling goods and long-term occupation of inventory by slow-selling goods. Building a scientific and reasonable supply chain system can effectively avoid the risk of inventory decline and reduce the level of capital occupied by the enterprise.

Expand business lines and create new revenue growth points. Communications retailers can diversify their merchandise sales in shops and expand the range of electronic products they sell, such as small smart home appliances, gaming and entertainment equipment, and home audio-visual equipment, expanding from a single communications retailer to a diversified smart device retailer. New media marketing, a combination of online and offline marketing channels, and interactive communication with online users, to attract more potential users, through the "online attraction, offline experience" way, effectively improve the marketing effect.

Expand channels and focus on sinking markets. As urbanization increases, the consumption level of residents in third and fourth-tier cities and the demand for consumer upgrades are also increasing, communication retailers need to break through the previous sales channels and sales environment and find new sales channels. As the living space in first and second-tier cities continues to shrink, the construction of third and fourth-tier markets, especially the construction of township channels, will become a new profit growth point.

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