

# Advantages of Chain Business and Countermeasures of Small- and Medium-Sized Manufacturers

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*This paper is funded by the National Natural Science Foundation of China (No.70671042) and the Doctor Fund of North China Electric Power University.*

## Abstract

Along with the development of market economy in China, chain business has been turned into a guiding ring from the last ring in the supply chain. Chain business' economy of scale, economy of scope, and advantages of information and integration becomes more prominent. Under this condition, small- and medium-sized manufacturers can adopt more flexible production and diversified marketing strategy by means of combining with retailers directly.

**Keywords:** Chain business, Small- and Medium-sized manufacturer, Guiding effect, Marketing strategy

According to statistical researches by the Department of Commercial Reform and Development, Ministry of Commerce of China, and China Chain Store & Franchise Association, in 2006 the sales achieved by the top 100 China chain business reached 855.2 billion Yuan, realizing a year-on-year increase of 25 percent. That is greatly larger than the 13.7 percent increase of social consumption sales. The development of chain business makes its position in social production circulation improve constantly. And its strength in market is enhancing gradually. Especially comparing with other retailing modes, chain business has special advantages in operations. All these factors will exert deep effects on small- and medium-sized manufacturers' production activities.

## 1. Advantages of chain business

### *1.1 The circulation value possessed by chain business show its guiding effects in the supply chain.*

The circulation value of chain business chiefly focuses on the value of time and the value of customer relationship. Generally speaking, in the whole process of commodity from production to consumption, the time period in production is about 10 percent and that in circulation is about 90 percent. According to the law of time and value, the circulation process is more important than the production process. As far as the supply chain was concerned, it was dominated by producers. Along with the development of market economy, over-plus becomes a common phenomenon and circulation becomes the master. In the whole supply chain, the past was big production and small circulation. But now it is big circulation and small production. In a sense, production becomes a part of circulation. From 2001 to 2004, Wal-Mart is always No.1 in the list of world top 500 companies. It indicates the powerful advantages of chain business.

Under the background of more severe market competition, chain business possesses guiding advantages due to their closeness to the final customers. They can make best use of the advantages to connect with customers directly, attracting special customer groups, mastering rich customer resources, and constructing long-term customer relationship. By this way, it can create favorable conditions for chain business to create customer values. With the pre-condition of demand-driven dominance, chain business becomes the guiding ring instead of the last ring in the supply chain.

### *1.2 Advantages of economy of scale and economy of scope for chain business*

Retailers can obtain not only advantages of economy of scale but also that of economy scope by turning themselves into chain business. On one hand, centralized purchasing and distribution can reduce the out-of-stock possibility as much as possible. Unified advertising and marketing in the market can help to construct the nice credit of stores and brands that contribute to the decrease of costs. By this way, economy of scale is realized. On the other hand, chain business can satisfy customers' needs by their separated shops. The facilities and equipments in the shops are shared by all commodities. For example, costs of renting, hiring, and training can be apportioned by many products in the shops. That is the economy of scope in a sense. Customers can buy different products at the same store, which can save time and costs. And customers can feel more convenient. China Chain Store & Franchise Association

respectively takes ten domestic and foreign-funded chain stores whose sales exceed 2 billion Yuan as samples and compare their scale of operations. According to the data, the domestic chain companies can realize an average of sales of 5.5 billion Yuan, and have 73 stores and 420 square kilometers in average. In contrast, foreign-funded chain companies can realize an average of sales of 11.7 billion Yuan, and have 52 stores and 620 square kilometers in average. Apparently, considering the economy of scale and the economy of scope, foreign-funded chain companies have more advantages over domestic chain companies.

### *1.3 Chain business' advantages in information and capabilities in integration*

Chain business acquires effective information by different means and channels. After being chosen, processed, integrated, stored, transmitted, and outputted, the effective information will generate values and form a flow of information values. With this base, chain business can integrate all business resources, such as stores, suppliers, consumers, human resources, and logistics. Therefore, they can choose the most proper way to send the right product to the right consumer at the right time and right place. That is the chain business' advantages in information mining and integration. This advantage needs support of hardware and software, namely information technology (supply chain management technology, spot arrangement, commodity display technology, type management technology, and other electronic and internet information technology) and management experiences (business idea, culture, training and evaluation system, organizational structure, etc.). Take the chain supermarket for example. Information and Internet technologies are widely used in its orders, purchases, storages, and operations. It also has auto information system, such as Point of Sale (POS), Electronic Data Inter-change (EDI), Electronic Order System, and Efficient Consumer Response technologies, improving the circulation efficiency greatly. From the experiences of chain business in Japan, the introduction of POS does not necessarily mean a great increase of sales but the stock has a decrease of 10 percent. Efficient Consumer Response system expands stores' internal information system over stores, realizing a wider labor division and cooperation, achieving an overall management from producers to consumers, and improving the flexibility to a great degree.

Diversification, individuation, and convenience are the most important factors that impact consumers' purchases. By integrating the arrangement of stores, the display of products, the purchasing environment, the service modes, the types of commodities, and the business hours, chain business can form a business mode that is right for people's life style. Chain business tries to meet consumers' needs with a flexible and effective organizational mode, realizing the direct contact between retailers and consumers.

### *1.4 Advantages of chain business' brand and image*

Chain business usually has unified forms in arrangement, employees' dresses, services, advertising, brands, and logos. Along with the increase of scale and quantity, the unified image of chain business will affect the mass gradually, which serves as a favorable social public base for stores cultivating the common recognition, repeated purchases, and brand loyalty. Under the condition of imperfect market economy, fake or bad products prevail at present. Chain business must especially pay more attention on their guaranteed credit and promise in order to sustain their image and fame in consumers. Studies show that why Chinese consumers choose to purchase in chain business is for their reliable quality and guaranteed credit originated from their large scale. Especially as they want to buy some daily goods, such as milk power, biscuits, drinks, and batteries. Comparing with small retailers, large- and medium- sized chain business has relatively a smaller possibility for customers buying fake or bad goods. Fake goods in any store will impact the whole chain business system negatively. All the chain stores will face up with greater costs and risks than non-chain stores. Therefore, chain stores are more attractive in the public due to their image and credit system.

## **2. Small- and medium-sized manufacturers' marketing strategy**

Under the traditional industrial-capital-dominated condition, production plays a guiding role in the market. However, today it becomes a commercial-capital-dominated market. Chain stores become the most energetic business mode in competition. This business mode can exert profound effects on manufacturers. (1) The life cycle of products is shorter. The rapid development of information technology and the changeable needs of consumers shorten the term of new products' research and development to a great degree. (2) The types of products increase at an air speed. (3) The requirement for delivery, quality, and price is higher. (4) The expectation for products and services is higher. At the same time, in the uncertain market competitive environment, the enhancing business competition cuts down the proportion of profits shared by manufacturers. Facing these changes and considering chain business' advantages, small- and medium-sized manufacturers must adapt to the changes of marketing environment, adjusting their marketing strategies, and seeking more spaces for their existence and development.

Classify the operational modes of chain business according to their price of products, services, and places and identify the characteristics of different modes (Table 1).

Small- and medium-sized manufacturers have to take these characteristics above into consideration and adopt the

right marketing strategies, if they take chain stores as their objects in marketing. Generally speaking, small- and medium-sized manufacturers usually adopt a low-price strategy. Besides, as common or inferior suppliers, small- and medium-sized manufacturers should make careful analysis on their products, prices, packages, merits, and channels and that of their competitors. If information fails to reach the right users, the stock will stop at different channels. As a result, channels can not send the right goods at the right time and right place effectively. And manufacturers will lose the chance. Therefore, as small- and medium-sized manufacturers try to acquire valuable information of the market, they should pay more attention on chain business and adopt their marketing strategies to meet the needs of different operational modes in chain business.

### *2.1 Construct a co-operative supply chain with chain business and achieve mutual trust, information share, and flexible production*

Supply chain management, namely fast (customer) response chain, is a kind of integrated management thinking way based on the common value chain of manufacturers and retailers. It is realized by the competition-cooperation-coordination mechanism. According to Harry, an American scholar, it is a functional network structure that connects supply, manufacture, sale, retail, and customers together. In China, the relationship between manufacturers and retailers is stepping into a stage of competition and cooperation from that of "one wins and one loses". They depend on each other to a great degree. Retailers demand for lower purchasing costs and faster order-responses. Manufacturers demand for timely and effective market information and support from retailers, in order to arrange production and marketing scientifically. The supply chain is not based on one short-term transaction but long-term cooperation and it pursues the general effect. In a supply chain system, partners can exchange and share information, transfer technologies, develop new products in cooperation, and integrate logistics resources, which can help to decrease transaction costs and improve efficiency. The supply chain can facilitate companies to cooperate closely and create more added values for customers, which will enhance companies' competence in industries.

According to a research on the commercial and industrial relationship in China performed by China Chain Store & Franchise Association and Price water house Coopers, retailers have different stresses on the timely, exact, and right delivery of orders, and the timely callback of returned goods. The degrees are respectively 97 percent and 85 percent. Investigations show that most domestic small- and medium-sized production companies are not good at supply chain management. Problems in retailing companies coordinating supply chain management are extremely serious.

In China, industrial and commercial companies have many serious problems in information exchange and share. Inefficient information exchange causes an increase of stock in channels, which will break the close connection between sales and production. As a result, production and sales can not deliver the right goods at the right time and right place effectively. And manufacturers will lose the chance and the needs of customers can not be satisfied. It indicates the important position of information share in production and marketing. In such a sale-production business pattern that focuses on retailers, although retailers possess information of customers, it does not necessarily mean they prefer to share the information with others. Practices show that the production information provided by manufacturers is also vital. Therefore, manufacturers and retailers can share the information of sales, stocks, and design by electronic data interchange (EDI). By this way, it may help to generate new valuable commercial information that benefits both.

Generally speaking, manufacturers are at an inferior position. From the angle of manufacturers' interests, small- and medium-sized manufacturers should discard the idea of "conflict interests between industrial companies and commercial companies", and trust in retailers, trying to adapt themselves to market changes with their flexible manufacturing system by cooperating with retailers.

### *2.2 Adopt diversified strategy considering the characteristics of chain supermarkets that usually locate at different regions and have multi-level customers.*

Chain supermarkets chiefly have two development modes, namely the scale development and the individualization development. Large-scale chain supermarkets pursue the scale development. Small- and medium-sized chain stores focus on flexible and diversified individualization. They are different in allocation of regions, target customers, prices, and logistics. As far as the small- and medium-sized manufacturers are concerned, it is impossible for them to meet the requirement of retailers. In order to gain more spaces for existence and development, they have to take different customers' preferences (including spaces, tastes, and incomes) in chain supermarkets into consideration, and use combined marketing strategies and flexible diversified business strategies to adapt themselves to the requirements and changes of chain supermarkets.

### *2.3 Reduce middle rings of circulation and try to connect with retailers directly.*

In more than one decade years, although China keeps on reforming the circulation system, problems of more rings in wholesale, long circulation time, and high costs still exist. According to the W/R ratio (the ratio of wholesale to

retailer) that can be used to evaluate the length of circulation path, it was 4.65 in 2001, exceeding many times of the number in developed countries. To simplify the circulation is the trend. In recent years, the number of wholesalers is decreasing in America and Japan. The worsen business environment serves as a great challenge for the existence of wholesalers'. At the same time, the development of information technology questions the information advantages of wholesalers. Manufacturers and retailers choose to contact and cooperate with each other in transaction directly. In order to decrease costs and stocks, retailers push the development of logistics, which changes the traditional relationship between wholesalers and retailers. Physical distribution becomes more and more important in circulation. The market is under the control of retailers. Statistical data show that 80 percent of wholesalers are engaged in both retail and wholesale. And their wholesales merely account for 20 percent of their income. Therefore, it is an important way for the small-and medium-sized manufacturers to reduce rings in circulation and contact with retailers directly.

### 3. Conclusion

Chain business has a gradually-improving position in the social production and circulation field. Its market power is enhancing. Comparing with other business modes, it has more prominent advantages. In detail, the chain business has been turned into a guiding ring from the last ring in the supply chain. Its advantages in the economy of scale and the economy of scope become more significant. Its information advantages, capabilities of integration, general images, and brands are more attractive for customers. It is a must for small- and medium-sized manufacturers to adopt flexible strategies to seek for existence and further development in front of the powerful chain business.

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Table 1. Chain business' operational modes and the marketing strategies

Operational mode	Product				Service	Price	Place
	Width	Length	Depth	Association			
Super market	Medium	High	Medium	Medium	Less	Low	Medium
Discount shop	Medium	High	Low	Low	Less	Low	Far
Storage shop	Medium	Medium	Low	Medium	Less	Low	Far
Convenient shop	Medium	Low	Low	High	Medium	Medium	Near