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Guoyou Yue

Management Science and Engineering School, Guangxi University of Finance and Economics, China, 563601374@qq.com

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The Study of the Application of O2O E-Commerce Model in China

Guoyou Yue*

Management Science and Engineering School, Guangxi University of Finance and Economics, China

Abstract: With the popularization of the Internet and the development of the mobile Internet, a new-type O2O e-commerce model is generated. After defining the definition of O2O e-commerce model, this paper investigates and analyzes the current status of Chinese application of O2O e-commerce model, and then reveals several main problems such as the gap between the products and services provided by merchants and the expectation of customers, the various integrities of merchants and the simplex business model of O2O websites. In order to promote the healthy development of O2O e-commerce, this paper also propounds such strategies as maintaining the cooperation between physical stores and O2O websites, establishing and improving the credibility system, varying business model of O2O websites, promoting the application of QR code and APP and developing location based service (LBS) in the O2O e-commerce model.

Keywords: O2O e-commerce, online to offline, mobile internet

1. INTRODUCTION

O2O (online to offline) refers to a new-type e-commerce model in which through the websites in the online shopping malls or their own websites, the merchants show the information of products and services to customers; meanwhile, through QR code, APP or location based service (LBS), customers login the online stores or filter the online products and services and then make the order and pay the bills, but they validate and experience the consumptions offline.^{[1][2][3]} This model not only meets the personalized demand of customers, but also helps the merchants to propagate their information of products and services faster, farther and wider. In recent years, O2O e-commerce model has boomed in China.

2. THE ANALYSIS OF THE APPLICATION OF O2O E-COMMERCE MODEL IN CHINA

O2O, a new-type model combined offline business with the Internet, solves the problems of e-commerce in traditional service industries, such as restaurants, shopping malls, scenic spots, hotels, movie theaters, DIY stores, KTV, bars, barbershops, gymnasiums, dry cleaners, teahouses and chess-card rooms etc. For these industries, the customers can't enjoy the services online, and they have to consume and experience services in the physical stores. The general framework of O2O e-commerce model is illustrated in figure 1:

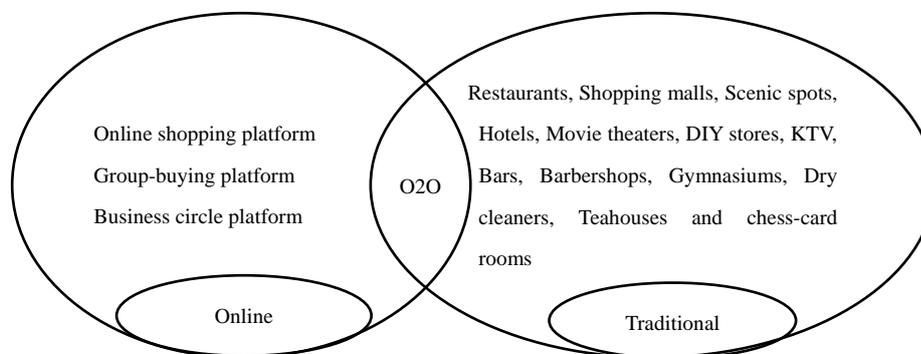


Figure1. The general framework of O2O e-commerce model^[9]

* Email: 563601374@qq.com (Guoyou Yue)

At present, there are a lot of websites that adopt O2O e-commerce model in China. Cataloguing these websites, we can conclude these several types of e-commerce models: the model of O2O shopping platform, the model of O2O group-buying platform, the model of O2O regional business circle platform and the model of O2O QR code.

2.1 The model of O2O shopping platform

The model of O2O shopping platform refers to a business model in which the e-commerce corporations or merchants, who, through the establishment of physical stores, expand the range of services and products into real economy with the advantages of online marketing; or traditional corporations or merchants, who, through the establishment of online stores, run their business on the internet and achieve the goal that the online and offline businesses have the same quality and price and develop at same the pace.^[4] The model of O2O online shopping platform is largely applicable to traditional large chain enterprises and large e-commerce enterprises, who establish numerous physical stores, located in many cities across the country and who provide offline consumptions and services with the online shopping platforms displaying information for customers. Currently the representative merchants adopting the model of O2O shopping platform and their business status are illustrated in table 1:

Table 1. The merchants adopting the model of O2O shopping platform

Feature Name	Types	Name of online store	Website address	Started in	Website types	Main products
Suning	Chain stores	Suning.com	www.suning.com	2011	B2C online shopping platform	Traditional home appliance, 3c electrical appliances, Daily provisions, etc.
Gome	Chain stores	Gome.com.cn	www.gome.com.cn	May.2011	Comprehensive B2C shopping website	Traditional home appliance, 3c electrical appliances, Furniture, Books, Daily provisions, etc.

2.2 The model of O2O group-buying platform

The model of O2O group-buying platform refers to a business model in which through the group-buying platform, with the effect of getting noticed and capital, in order to have the discounts, customers make the order online and then consume the commodities or enjoy the services in physical stores. MeiTuan and WowoTuan, the well-known group-buying websites, provide online promotion platforms for traditional merchants. When the merchants sell a product or service, the group-buying websites can obtain a certain proportion of commission. At the same time, the customers also purchase the high quality commodities and service with the lower price.^[4] The model of group-buying platform is the mainstream. Classifying merchants by the region and city, each group-buying website introduces excellent merchants into its platform and provides high quality commodities and services for its users. Currently, the representative merchants adopting the model of group-buying platform and their business status are illustrated in table 2:

Table 2. The representative merchants adopting the model of O2O group-buying platform

Feature Name	Website address	Type of business	Started in	Main service	Website scale
Meituan	www.meituan.com	Group-buying website, service E-commerce	Mar.2010	Restaurants, hotels, movie theaters, KTV, entertainments, tourism, daily service, shopping, beauty makeup, etc.	In 2014, the amount of transaction reaches 46 billion, increasing 180%. Mobile transactions accounted for more than 90%. Meituan owns more than 60% of market and its service covers 1000 cities.
Dianping	www.dianping.com	Group-buying website, the platform of urban consumption	Apr.2013	Restaurants, hotels, movie theaters, entertainments, tourism, wedding,	At the end of the fourth quarter in 2014, the number of monthly active users exceeded 190 million, and the

Feature Name	Website address	Type of business	Started in	Main service	Website scale
				parent-child service, shopping, gym, beauty makeup, daily service, home decoration, car etc.	number of comments was more than 60 million. There are more than 12 million merchants in dianping, covering around 2300 cities and those in america, japan, france, australia, korea, singapore, thailand etc.
Wowotuan	www.55tuan.com	Group-buying website, daily service E-Commerce platform	Mar.2010	Restaurants, movie theaters, entertainments, tourism, hotels, gym, beauty makeup, wedding etc.	Its service covers 350 cities in china, and there are local service group in more than 150 cities, having served more than 300 thousand merchants.
Lashou	Www.lashou.com	Group-buying website, locally daily service e-commerce platform	Mar.2010	Restaurants, movie theaters, entertainments, tourism, hotels, beauty makeup, shopping, photography etc.	Currently, this website has nearly 50 million internet or mobile users and 50 thousand cooperative merchants.

2.3 The model of O2O regional business circle platform

The model of O2O regional business circle platform is to classify all merchants, products, services by city in the online market, to form regional cluster of corporations, regional product market and regional service market. This model also helps customers seek local corporations and services or products, or corporations find out local customers and counterparts more precisely. This model, which is different from the model of group-buying platform which provides low-price promotion for users, provides consulting service by which customers can seek high quality products and services depending on their needs in local area. Currently, the representative merchants adopting the model of regional business circle platform in China are illustrated in table 3:

Table 3. The representative merchants adopting the model of regional business circle platform

Feature Name	Website address	Types of business	Started in	Main services
Tochgo	www.tochgo.com	Portal platform of regional online trade and business, community and regional E-commerce	2008	Currently, Techgo has 46 urban cooperative partners, gather nearly 300 thousand local small-and medium-sized enterprises and provides local daily life service, business service and sales service.
58.Com	www.58.com	58.com provides daily service of tenement, recruit and job hunting, second-hand goods, second-hand cars, second-hand houses, pets, booking tickets, travel and dating, restaurants etc.	Dec.2005	58. Com's service covers around 380 cities. With the large and precise service system, each user can find out the local daily life service that they need.

2.4 The model of O2O QR code

The model of O2O QR code refers to the marketing model in which the customers scan the QR code of merchants instead of inputting website addresses, and buy products and service online or follow the merchants. The model of O2O QR code is applied by the merchants in Taobao or other physical merchants, which become an important channel to expand internet business.^{[5][6]}

3. THE MAIN PROBLEMS FACED BY O2O E-COMMERCE MODEL IN CHINA

O2O e-commerce boomed in recent years in China, providing more and more products and service. However, at the same time, it faces several problems which are badly in need of solutions.

3.1 The gap between the products or services provided by merchants and the expectation of customers

In O2O model, the offline consumption is the most important part. At present, the range of offline service covers many aspects of daily life, such as restaurants, entertainments, tourism, accommodation etc. For the offline service industry, the service, the quality and the attitude are concerned by customers, because many

merchants not only cut the price for enlarging the share of market and increasing the sales but also reduce the cost leading to poor quality of products. Take the group-buying as the an example, in some cases of O2O e-commerce group buying, some customers thought that the quality of the products is different from the description on the websites, and there are limitation of consuming time, or compulsory extra charge, or low-quality products and services etc., which lead to some customers lose trust in O2O websites. So the satisfactions of online consumption and of physical consumption are disparate, and due to the online payment, nobody deal with customers' complaints.^{[7][8]}

3.2 The various integrities of O2O websites

O2O provides easy cash flow and manipulation of space for merchants. Despite the attack by hackers, the cash flow is not always safe, because it is hard to say that the operators of O2O websites, when facing the temptation of money, will not violate the legal to gain the quick money. Here are some problems of integrity of O2O websites: receiving payments and gone, discrepancy between the real products and description in the websites, tempting online but limiting offline, extra charge, marking high price and giving heavy discounts, posting false discount information, poor quality of service and difficultly changing or refunding etc.

3.3 The simplex business model of O2O websites

At present, the online transaction is the main trading in O2O websites in China. On the internet, the customers choose the products or service and pay online, a purchasing behavior that is practicability. But with the rapid development of internet, O2O websites should continually develop on the internet as well as in the mobile internet of smart phone and tablet PC.

In order to attract customers, O2O websites use various marketing methods, called "lure customers". Take group buy as an instance, currently many customers in Weibo are attracted by some group-buying websites, that is, customers are lured to a certain website. But whether these visit traffic can turn in to the real transaction is uncertain. The essence of online transaction is not low price but the trust or favor from customers. If the customers just browse the websites, and buy nothing, or they just bought several times, websites cannot interact with customers and achieve personalized customization. If the customers don't share their buying experience with others, the effect of marketing is not effective.^[7]

The profit model of O2O is clear, but is more likely to develop into a similar pattern. Group-buying websites are typical cases. At the beginning, due to the low cost, group-buying websites flourished with similar money making model; however, at the end, due to the fierce homogeneous competition, the winter of this industry came early.

4. THE DEVELOPMENT STRATEGY OF O2O E-COMMERCE MODEL IN CHINA

4.1 Maintaining the cooperation between physical stores and O2O websites

To solve the problem that customers lose trust in physical stores and O2O websites, O2O websites should cooperate with physical stores, that is, O2O websites develop long-term strategic cooperation with merchants. Through the QR code or the APP, the O2O websites not only make the customers follow their information and obtain target customers but also supervise themselves. In this way, on one the hand, the quality of products and services are guaranteed, and the satisfaction of customers grows up. On the other hand, the O2O websites can protect their rights.

4.2 Establishing and improving the credibility system

The operation of O2O business requires strong integrity. Without integrity, O2O cannot develop. From the perspective of the whole development of O2O industry, establishing and improving the credibility system is a key factor. For example, based on the feedback of customers and investigated samples, the third party who monitors the O2O operators, rates the integrity of O2O operators and displays the result to public, eliminating

customers' sense of insecurity and forcing O2O operators to maintain their reputation. After receiving the complaints, commerce administration department takes the action immediately, the action punishing the O2O operators who violate the laws and showing the result to the public.

4.3 Varying business model of O2O websites

For O2O operators, it is ill-conceived to only provide service with low technology in low levels. They should develop competitive and potential business model. For example, in the aspect of websites promotion, based on the previous online promotion, the operator should develop the mobile APP installed in cell phone. In the aspect of business model, O2O websites can provide diverse services, such as short-time tenement, peer-to-peer car sharing service, costumed clothing service etc. In the aspect of profit model, the operators can adopt various methods, and the source of profit can come from the charge of users, merchants and advertisements.

4.4 Promoting the application of QR code and mobile app in O2O E-commerce

With the popularization of smart phones, the needs of mobile phone Internet service become strong. According to the 35th Statistic Report on Internet Development in China issued by CNNIC in Feb.2015, at the end of Dec.2014, the number of Chinese internet users is 649 million, including 557 million mobile internet users. The proportion of mobile internet user rose to 85.8% from 81.0% in 2013. The boom of the mobile internet stimulates the development of the markets of QR code and mobile APP. In the process of e-commerce communication and promotion, the conversion rate of the QR code printed in paper is an opportunities for operators. Besides, the powerful mobile APP provides immediate and convenient access for users. Combined with flexible and safe mobile payment technology, the model of Chinese O2O e-commerce will be improved and developed.

4.5 Developing location based service (LBS) in the O2O E-commerce model

With the O2O e-commerce model, people tend to distance consumptions. Thus, the regional service is the bottleneck that needs to be broke by O2O e-commerce enterprises. For this factor, merchants can develop the APP of O2O e-commerce based on location based service (LBS). The advantage of location based service (LBS) is that it can provide more precise and intelligent daily service information and change uncertainty of distant consumptions and transportation. In this business model, the application of location based service (LBS) provides a faster and better selection service and makes the information about the daily life service to show in the way that the service is more likely to be bought by the potential customers.^[7]

5. CONCLUSIONS

According to the Statistic Report of Online Shopping Market issued by iResearch in 2014, the volume of online transaction is around 2.8 trillion. According to the Statistic Report of Total Retail Sales of Consumer Goods issued by National Bureau of Statistics of China in 2014, online retail sales of consumer goods accounted for 10.7% of total retail sales of consumer goods.^[10] On 27 December 2015, Minister of Ministry of Commerce Gao Hucheng in the national business conference held the same day said, "Twelfth Five Year Plan" period, the national e-commerce transactions with an average annual growth rate of more than 35%, is expected in 2015 reached 20.8 trillion yuan. Network retail sales average annual growth of more than 50%, is expected to reach 4 trillion yuan in 2015, ranking first in the world. By 2015, China's total retail sales of social consumer goods is expected to reach 30 trillion yuan, ranked second in the world, 2015 online retail sales are roughly equivalent to 13.33% of total retail sales of social consumer goods.^[11] Although the Chinese online shopping market grows rapidly, however, the traditional market is still the largest market. With the e-commerce stepping into new field, the service model combined with online and offline has obvious advantages, which benefits not only the progress of the whole industry and improvement of the service for users, but also the increase in the output

value. O2O tries to achieve the regionalizing development involving with local community, which will integrate the local online service into large-scale structure. It is necessary for us to explore a way for the integration of online and offline economy, and O2O model has vast potential for future development.

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