

RETAIL

Why US retailers should follow China's lead after COVID-19

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Considering how badly Western retailers were struggling pre-COVID-19, department stores would be wise to look at China's "New Retail" model for inspiration. Image credit: Shutterstock

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While countries in the Western hemisphere relax "stay-at-home" orders, retailers are wondering what measures they should implement to boost foot traffic and sales.

Considering how badly the Western retail industry was struggling before the **COVID-19** outbreak, there probably is no comfortable resolution.

Plus, the implementation of safety procedures and social distancing rules will surely be an expensive and complex process that will only further complicate things.

The Atlantic states that this year "may bring the death of the department store, marking the end of that 200-year-old retail innovation after decades of decline."

Meanwhile, Neil Saunders, managing director at the research firm GlobalData Retail, told the **National Real Estate Investor** that department stores will take a powerful hit.

"Not only are the products they sell very discretionary, and therefore, being overlooked by consumers focused on essentials, but they also have very high fixed costs thanks to their large stores and extensive inventories," Mr. Saunders said.

Evidently, **offline stores** located in small cities or class-B and class-C malls will be the most affected, and their vulnerabilities will expedite their demise. But if this crisis has taught us anything, it is that even the Goliaths are not safe.

The tragic news of Macy's and Gap having to enact mass furloughs, **Lord & Taylor dismissing its entire executive team**, and Neiman Marcus, J.Crew, and J.C.Penney declaring Chapter 11 bankruptcy shows that no retailer is safe anymore.

And even the most competitive retailers will not find a quick return to profitability.

Accordingly, **McKinsey** highlights how stores must be "navigating the now," designing a recovery, and shaping the future.

But **American offline retailers** are fortunate to have China's "New Retail" model as inspiration.

Let us take a look at how Western department stores can thrive in a post-COVID-19 world by following into China's footsteps:

Building up critical digital capabilities

According to **Alizila**, one of China's most famous department-store chains, Intime, bounced back from the disruptions provoked by the COVID-19 crisis because of "its robust digital infrastructure and omnichannel capabilities."

The chain, which was acquired by Alibaba in 2017, has merged its online and offline shopping experiences by unlocking the full potential of its technology infrastructure.

But this move toward digitalization happened long before the COVID-19 outbreak. And through livestreaming, analytics, and state-of-the-art technologies, Intime made it safely out of the crisis.

It is worth noting that more than 5,000 sales associates from Intime's physical stores have registered as livestreaming hosts, and **more than 90 percent of orders received through livestreams were placed by new users**.

In other words, livestreaming has turned into a veritable gold mine for Intime, boosting its real-time engagement and traffic.

In a 2018 interview with **Coresight Research**, Xiaodong Chen, president/CEO and executive director of Intime Retail Group Co Ltd., said that partnering with Alibaba digital technology has become "the infrastructure of the whole operation."

Mr. Chen also added that, in the past, "ecommerce used to be just a sales channel, but now it underlies everything we do."

Seamless transitioning from offline to online

The Intime case shows that retailers can achieve a seamless transition from offline to online if they build and reinforce their critical capabilities.

But first, each individual retailer needs to determine what strategy works best for it, since there is no one-size-fits-all approach.

For instance, Alizila reports that Intime launched free shipping in China for all in-app purchases and partnered with Cainiao, **Alibaba's** logistics network, to deliver orders within a 10-kilometer radius of any store location. Free nationwide shipping for in-app orders could be a perk that attracts even U.S. consumers.

The initial success of **Amazon Prime** has a lot to do with this "unlimited free two-day shipping on eligible items" offer. And today, retailers such as Walmart, Target and Amazon offer free delivery for valid orders made through their shopping apps on their online stores, but several Western retailers still do not have their own shopping apps.

Investing in a retail mobile app is an excellent starting point for Western retailers that want to gain more insight into consumer behavior while also generating greater sales and engagement.

Also, **McKinsey** points out the importance of digitizing and automatizing in-store activities to free up time for experienced personnel. Expanding the use of self-checkouts and mobile checkouts while also providing remote-management tools for store associates and field managers are just a few of McKinsey's ideas.

Build additional streams of income

In America, convenience stores were over-performing even before the COVID-19 crisis.

According to the **National Association of Convenience Stores**, U.S. convenience stores experienced a 16th straight year of record in-store sales in 2018, with total sales rising 8.9 percent to a total of \$654.3 billion.

Jeff Lenard, vice president of strategic industry initiatives at the National Association of Convenience Stores, told CNBC that "the value of convenience has never been higher."

This logic is especially true in a new post-COVID-19 reality where more than **42 million American workers have lost their jobs**, and many families cannot even afford the most basic living expenses.

Consequently, department stores should stretch to incorporate the convenience store concept into their operations.

Last March, Target announced it was going to test a **6,000-square-foot convenience-store concept** and, surely, other retailers will follow suit.

Retailtainment

To be fair, most Western malls are boring and seem frozen somewhere in the 1980s.

Anyone who has traveled to Dubai, Singapore, Seoul or in any tier-1 city in China knows that today's "modern malls" are less about shopping and more about engagement.

These days, shoppers can buy anything they want online, so why would they go out and spend their dollars in an offline store when they have convenience, great service and lower prices at home? The answer is interaction and emotional engagement.

Only malls that ramp up their engagement can survive post-pandemic. But U.S. department stores can follow in Alibaba's footsteps.

According to the **South China Morning Post**, the Chinese ecommerce giant offers "a smooth experience, in line with the hi-tech habits of the target demographics."

From "**virtual shelves**" and smart mirrors to speakers, **livestreaming** sessions with KOLs, and personalized gamification elements to **tech-enabled retail stores**, Alibaba has created a retail space that more closely resembles an innovation lab than a boring shopping mall.

In short, U.S. department stores must innovate to stay relevant.

At a time when customers are growing increasingly worried about their safety and are fearful about shopping out of the house, they will need an extra push to help them rediscover department stores.

Therefore, only retailers that are sensitive to the desires and vulnerabilities of their consumer base will be able to persist in this new, unfamiliar world.

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