

# Wholesalers' Role Changes Under the E-Business: A Case of the Alcohol Industry

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## Abstract

*During the past decade, E-business develops rapidly in China and the distribution channels have also changed. In such a revolutionary environment, traditional wholesalers face great challenges. The number of wholesalers in Yi Wu that have closed down is more than 8000. Hence some of them tried to innovate the original business model to adapt to the changing environment. However only few wholesalers are successful, such as Beijing Sally Shoes World, Winebibber.*

*So how do the wholesalers make the revolution and survive under the pressure from the e-business? The article will first analyze the weaknesses of traditional business model. And then, from some wholesalers' successful revolutions, the article will find out some factors that cause the changes success and new features of their innovative business models. In the last, the article is going to give some advices to wholesalers about the response to e-business trend.*

**Keywords:** E-business, Revolution, Business Model, Alcohol industry

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## Introduction

It is well known that traditional business model is produces-distributors- wholesalers-retailors-consumers. Wholesalers are in the penultimate link, so they should have strong bargaining power to win high price difference. However, due to the development of E-business, the business model has changed for produces-(distributors)- retailors-consumers. Their bargaining power is weakening quickly.

With the development of the technology, the E-business started to spring up in 1990s in China and then great changes have taken place in people's lives. People can chat with friends on the net. Besides, people begin to shop online instead of going out. So the retail sector was hit. Many companies and primary distributors also set up its own flagship store on the Internet.

Under the double pressure, the wholesalers are in trouble. The number of wholesalers in Yi Wu that have closed down is more than 8000. Many alcohol wholesalers have overstocked a large backing of stocks. In addition, most wholesalers' business volume falls rapidly.

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### **The weaknesses of wholesalers**

Under the strong attack of the e-commerce company, we can find many weaknesses of wholesalers which caused them at a disadvantage.

***Not enough money.*** Most wholesalers are not very big. Their registered fund may be just ¥ 100,000 and some are a little bit better, half a million. But, they need to do many things, such as renting workshop, hiring workers. They should purchase the product from senior distributors in advance. It is obvious that sales of alcohol product (in addition to beer) are slow. So these products will overstock for long time.

Red Peach is a traditional wholesaler, set in 1990s. It mainly deals in liquor, beverage and other products wholesale. It owns more than one thousand retailers and hundreds of products. Its daily sales ever topped ¥ 100,000 several years ago, but now only ¥20,000~¥40,000. Amazingly, the value of the inventory product was a million on average before and now it is more than 3 million. Besides, Red Peach should purchase plentiful products in order to obtain discount, which caused money is not working.

Due to not enough money, most wholesalers cannot make right choice when opportunity comes. They are in this state of affairs repeatedly.

***Weak bargaining power.*** Because of the transformation of the business model, the bargaining power of wholesalers is increasing weakening fast. Some companies choose to set up its own flagship store on the Internet and reduce collaboration with distributors and wholesalers. So wholesalers must put more effect to gain the power of attorney or purchase these products from others with high price. In addition, consumers can buy products directly online and retailers have bad performance because consumers don't go the store any more. Hence, retailer will pay more attention to the price wholesalers give.

***Not better marketing team.*** The organization of wholesalers is small. It is always composed with a few employees who deliver goods to retail stores. Most of them don't have higher literacy level and maybe just know words. Of course, if wholesalers own the power of attorney from the companies, the companies will send one or two salesmen to the wholesalers. However, these salesmen are just responsible for their own products and the wholesalers have many kinds of products. Beyond that, due to not enough money, the wholesalers cannot employ professional marketer.

***Fierce competition.*** The alcohol products are various. Every alcohol company will not choose only one distributor and every distributor will select many wholesalers in one district. So every wholesaler has many competitors.

In Shanghai, though there are many retailers and restaurants, most of them choose suppliers based on the prices and don't have constant partner. So the wholesalers should consider how to maintain the relationship with the retailers and restaurants and win more profit.

To make the matters worse, some wholesalers can acquire products from other areas with low price. Some wholesalers' price is higher, although they have the power of attorney, but they also should pay the deposit. Because of this, some wholesalers

give up the power of attorney and purchase these products from other channels, which causes the market is more competitive.

### **Main Change Method**

Under the pressures from the E-business and personal weaknesses, some wholesalers chose to close up and many wholesalers made revolutions with e-commerce. In the present environment, there are several major changes B2C, O2O, Platform Strategy.

**B2C.** Considering the liquor sales cycle is long and the return is low, wholesalers changed their business model. They selected to sell goods directly to consumers. This method shortens sales channels and wholesalers can win more profit. In addition, money collecting is fast and the wholesalers don't concern the collection of accounts receivable. Many of them distribute leaflets in the neighborhood. Some Use the Internet to reform.

Brewmaster Network set in 2010 and it was a very small wine agent before. With the development of the Internet, Hao Hongfeng, CEO of Brewmaster Network now, found the advantage of the net and then founded the Brewmaster Network. Firstly, Brewmaster set multiple prices and he built self-support logistics system. Gradually, this strategy to low price and group price has attracted some customers and sales have improved a lot. Secondly, Brewmaster negotiates with some big wine companies about the lower purchasing price. Obviously, Brewmaster is successful and many alcohol companies have collaborated with Brewmaster, such as Wu Liangye, Maotai. In the end, Brewmaster forges an alliance with some platforms, such as Taobao.com, Tianmao.com and so on.

**O2O.** O2O is Online to Offline. That is to say, combine offline commerce with the Internet. We cannot estimate that every wholesalers suffered from high adverse effect. Some is almost untouched by the Internet and have strong market influence in their district. In the other hand, although some has been affected by the Internet, their market impact is powerful thanks to their multiple shops.

Some of them use O2O to get the customers online for Offline services in order to maintain the market share.

1919 wine & spirits importer and retailer Network sets in 1998. Initially, 1919 was just traditional wholesalers and focused on its regional sales. As its own strength grows, it didn't satisfy its own area and opened chain supermarkets and multiple shops to achieve more consumers. With the development of the Internet, 1919 discovered the transmission capacity of the Internet and use the Internet to increase its impact in the alcohol industry. Besides, it makes an alliance with some alcohol companies and platforms like Brewmaster. 1919 is committed to be Wal-Mart in wine.

**Platform Strategy.** Platform strategy is a business model that connects more than two specific groups, provides them with an interactive mechanism, meets the needs of all groups, and profits from them. In the contemporary wine industry, some companies created some platform to gather all kinds of wine manufacturers such as manufacturers, distributors, wholesalers. At present, most companies using the

platform strategy is not wholesalers, but platform strategy is a method where wholesalers make revolutions. Wholesalers are more familiar with others and know the business model more.

JiuS.net set in 2013 and it is committed to providing large-scale integrated service platform for all kinds of wine manufacturers. It provides wine management services, liquor marketing services, liquor information services. Every wine manufacturer can sell goods to end customers and can find new cooperative partners. JiuS.net facilitates all parties to profit and helps some companies to expand their market without build new networks like Brewmaster or open multiple shops like 1919.

### **Success Factors**

***Reduce information asymmetry.*** Whether it was before or not now, there is information asymmetry. For producers, they cannot deliver product information directly to the customers. However, alcohol product quality is most important for customers. Otherwise, they are incapable of acquiring the information of customers. Based on this, they may be defeated if they make revolutions to face terminal customers straightforward. For customers, they cannot gain whole product information. So they will increase the risk of purchase cannot purchase the correct wine products they want.

From the example of Brewmaster and 1919, we can find they reduce information asymmetry. In fact, they are still wholesalers or distributors. They fully understand customers information in the way they use Internet to face customers directly and then they know the need of customers based on communicating with customers. So the upper companies can predict the market and know the information from the number of the alcohol products wholesalers order. In addition to this, it is beneficial for customers. Customers can obtain the product information by chatting with wholesalers online and then make the optimum decision.

***Balance the power between producers (distributors) and consumers.*** As it is known to us, bargaining power is not equal in the traditional business model. Producers and distributors have strong bargaining power because they have many buyers and their companies are big. However, customers are small and have little market influence. They are just forced to accept the price that producers, distributors wholesalers or retailers provide. Gradually, the gap between producers (distributors) and consumers is bigger and bigger.

From the example of Brewmaster and 1919, we also can see they both Balance the power between producers (distributors) and consumers. Firstly, they are also small for producers or distributors in the beginning, so they scale up and prompt the impact. For instance, 1919 opened hundreds of multiple shops Then, they negotiate with upper producers and distributors on behalf of customers. Considering Brewmaster and 1919's high sales volume, many wine companies are willing to give more discounts. In the end, the power of customers is increasing and the power of the producers and distributors is lower.

**Segment customers.** From the traditional business model, we can make conclusions that the traditional wholesalers' consumers are fixed and they are the retailers, restaurants and some individuals in their areas. Based on their logistics level and some limitation from upper companies, they cannot go to other sites from current areas. Besides, consumers are not only the retailers, restaurants and some individuals, but also the group. So consumer groups are not subdivided, and then wholesalers cannot provide differentiated service, which caused they are unable to win profit maximization.

From the main change method above, these three companies fix different target groups. JiuS.net is bound to service all kinds of wine manufacturers. It provides the platform to help all kinds of wine manufacturers to market and scale. For Brewmaster, the group purchase is more significant and with the rapid of the Internet, the group purchase is more popular. In opposition to Brewmaster and JiuS.net, 1919 devotes itself to improve brand ability and give consumers more convenience. They get a lot of loyal customers based on different approaches and avoid fierce competition.

### **Suggestion**

**Alliance between giants.** Earlier in the article, we know the size of the traditional wholesalers is relatively small and they have not enough money and staff. So they are easy to defeat if they make revolutions. It is necessary to make indispensable alliance. Considering different situation, there are three ways of alliance.

The first one is to make the alliance with the platforms. If you are just a small wholesaler, you can attend the web like JiuS.net. if your management is better, you can also consider the web like Taobao.com. in the way, you need not pay more attention to marketing.

Acquisition is another way of alliance. Last year, some newspapers reported Wngjiu Network plan to acquire 1919. Although this news wasn't proved, it also provides one method. If some wholesalers plan to drop out, they can improve themselves and then seek for be acquired.

The last one is to make the alliance with other same level wholesalers. Obviously, it is suited for small wholesalers in the initial step. During the time, the alliance can concentrate all advantages and develop quickly.

**Based on the consumers.** Any theories tell us that all business success is based on consumers. For the wholesalers, retailers, restaurants and individuals are their consumers. Every party attaches importance to different things when they purchase. Retailers and restaurants think price and rate is important, but individuals pay attention to the quality. Therefore, the wholesalers are supposed to understand and analyze consumption preference and then make corresponding reform.

At the first, the wholesalers should use the Internet. They can create your own web site like 1919 and Brewmaster, or they attend some webs like JiuS.net, in order to reduce information asymmetry. In general, the wholesalers collect the consumer information and facilitate the flow of information between the consumers and producers or distributors.

Next, the wholesalers negotiate with upper companies on behalf of consumers. They should put effect on win lower price through high sales, which is good for consumers and them.

***Set up own marketing team.*** Earlier in the article, we know the traditional wholesalers lack good market team, but it is necessary to own the marketing team under the E-business. Of course, in different stage, the wholesalers should take different actions.

Initially, considering the money and scale, the wholesalers are unable to employ more salesmen. Therefore, the wholesalers just make better use of their existing staff. For salesmen upper alcohol companies send, the wholesalers are supposed to give some profit to them if they help marketing other products when they market their own products. For the employees, the wholesalers should select some employees to undertake some marketing tasks. These employees chosen must be familiar with the market and have good social skills.

With the expansion of scale, initial market team cannot meet market requirements. In addition, the wholesalers need professional to run the E-business and acquire more market share. Through the early accumulation of capital, the wholesalers should employ several professional then gradually increase the number. When the personnel reach a certain level, the wholesalers should consider giving up their original teamwork composed of employee and salesmen and set up special apartment.

Regardless of social development and scientific progress, the wholesalers should make the revolutions instead of keeping quiet at present