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Analysis of O2O Model's Development Problems and Trend

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Abstract

Future competition not only exists in the products and channels, but also exists in the resource integration and terminal consumers. O2O mode is new commerce model which does a deeper explore to the sales channels, and has a very good prospect. But there are certain obstacles in its development. This paper analyzes their respective advantages of two kinds of sale models under the background of electronic commerce, including online electricity sales mode and offline store sales model. Then it points out the problems that are needed to solve in the development process of O2O mode. At last, this paper analyzes the five networks needing to be built in the process of O2O model integration.

Keywords

1. Introduction

People who hold resources and consumers can win in this industry. Since the rise of Internet (especially the mobile Internet) and e-commerce, the Omni-Channel is often considered by the major merchants as a strategic direction of a traditional business, that puts all the "customers contact" including traditional channels based on the aid of the application of Internet and information integration as the sales opportunities and channels, in order to achieve maximum of potential traffic and purchases deal. The better model development is currently O2O mode (Online To Offline). O2O is an electronic commerce mode based on online effective interactivity. This efficient integration mode between virtual world and real world gets support and recognition from all walks of life. O2O aims to maximize the use of offline and online resource; they promote each other and depend on each other to achieve a win-win situation [1]-[4].

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O2O, unlike Omni-Channel's perspective of business thinking, puts more attention on the maximization of consumption value, and makes consumption cost of customer lower through building the systematic process and the consumption system; O2O realizes the transformation process from the simple vendors or manufacturers to life service providers by developing the biggest advanced technology and commercial environment.

2. Analysis of Two Patterns of Online e-Commerce

2.1. Advantage of Online e-Commerce Mode

China's e-commerce started late, but its development is rapid. Since the establishment of Taobao, a large number of electric business enterprises grew up, and, its online commodity trading appeared with explosive growth (**Figure 1**). They absorbed many small entities sellers on the platform. The reason why this online store has many sellers is mainly that the display of shop goods close to zero cost, no stock, and sellers have risk-free inventory for commodities although they have no professional experience.

In a word, these sellers simply put main energy into online infrastructure, including IT system to be build, fine decoration details of online store page, team building, etc. Some sellers with vivid web design have been very successful to show their own products, and win a lot of successful online transactions.

2.2. Advantage of Offline Entity Sales Model

Offline entity model whose core is the shopping experience still maintain a strong competitive advantage. While online e-commerce price has certain advantages, customers need better service in this era of giving priority to customer demand, and not just the low price. The development of e-commerce is limited after all. Entity industry cannot be replaced at all by service industry anyway. Especially the new electronic products, have taken the customer experience as its tenet to retain customers only through better service experience. E-commerce in its business essence is difficult to achieve good service, which is the one important reason why entity industry cannot be replaced at the moment.

So the advantages and disadvantages are summed up as follows: (**Table 1**).

2.3. The Development Trend of Online and Offline Integration

As the e-commerce still warming trend in 2014, more and more consumers begin to turn to offline store, online flagship store, or to buy goods in e-commerce platform or mobile client through related e-commerce sites query. Whether e-commerce or no e-commerce, both within the Taobao and out of Taobao, only the basic daily IP traffic
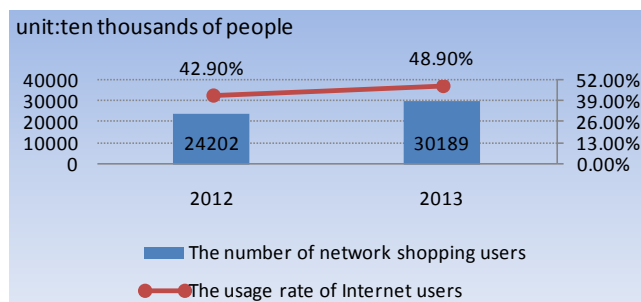

Figure 1. The number of users and usage rate of mobile network shopping.

Table 1. The advantages and disadvantages between online and offline.

	Online	Offline
Advantages	a. Low cost, Zero inventory b. No risk investment and no professional experience	a. Personalized service and deeper customer experience b. Logistics in a timely manner
Disadvantages	a. Lower customer loyalty b. Credit problems c. The limited logistics service	a. The higher inventory cost b. The personnel quality in demanded, and the higher training cost c. The products have no quality guarantee.

operating sites have or daily UV, they have basic business value. The growing number of Internet users reflects the growth of the whole flow supply, and the growth of the e-commerce group is a form of traffic demand growth. Obviously, the customer traffic supply falls short of demand on the background of the growth of absolute number of netizen in Internet has slowed, but the absolute number of electric business absolutely continue to surge. The client drive is becoming economic main body, the customer traffic flow and direction become new power to drive the development of new commodity supply chain, and this kind of power will trigger a new business model, which called O2O and mobile e-commerce business integration model.

There is no denying that, the entity industry still gives a support of our country economic artery. So if they want to have strong competitiveness in such economic trends, they should not only build their own trading system (including the construction of the platform, products promotion, store layout, etc.) in the field of e-commerce platform, but also cooperate between online and offline, balance layout of goods distribution online and offline, and balance the relationship between the form and sales price so that realize complement each other, promote each other, and then build online and offline integration business model.

For example, Suning has transformed successfully into O2O mode about online and offline double fusion. Compared with the traditional shopping mode, Suning O2O shopping mode fuse online and offline, and gets through the data between online and offline member, payment and after sales, logistics, etc. Make online be trading platform to offline stores. Online obtain consumers and then drainage to offline. Consumers can screen services online, and also clinch a deal by online settlement. Offline can not only provide consumers with display, experience, and other functions, but also can be logistics distribution site. The O2O model of Suning as follows: (**Figure 2**).

3. The Research of Realize Online Integrated Problem

3.1. The Layout of the O2O Need to Secure the Support of Traditional Enterprise Decision-Makers

Offline guide to online need the support of policy makers. From the intuitive level, we can discover that O2O destroyed the traditional enterprise solid mode and organization system, as well as the traditional sales channels. It is difficult to change the traditional thinking, and it is also difficult to gain support and decision makers to make policymakers understand the profit pattern of O2O. Offline guide to online, for example, the lost is in the interests of the entity shop, where the entrepreneur's enthusiasm is, how to bring offline sales to online, all these need time to be proved, and how to get understanding and recognition from decision-makers.

3.2. How to Change User Flow Leaded by Consumption Habits

How online bring traffic and sales to the offline. From the point of practice, there is a big piece of no coincidence degree between online and offline consumers. Consumers may be more willing to spend a certain amount of money on a physical store than to place an order online. Because of their traditional consumption idea, they would feel more ease if they purchase in a physical store when they need to buy merchandise of big value and good quality, it is the most obvious when they use commodity in the home especially. To persuade and guide the consumer's process ,either from the perspective of the commodity prices, the emotional care, or to move con-
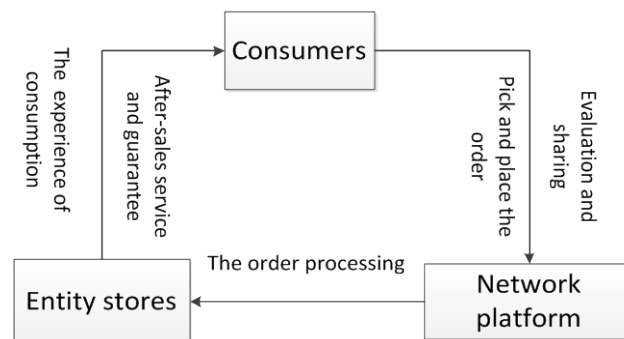

Figure 2. The O2O model of Suning.

sumers from the humanistic spirit, e-commerce conversion rate will be made by customer perception of value and price upside down and secondary experience to decide except the drainage technique .

Traditional stores, the business process is a process of "turning a visitor into a customer, turning the customer into the regular, making familiars VIP member", the cumulative members process is so slow. In the face of today's e-commerce, more and more consumers choose online shopping. However, Customers who purchase online can't experience the entity shop service of face to face, customers who purchase offline can't enjoy novelty online discount. Whether online or offline, the number of membership is increasing continuously and losing at the same time.

Such as Starbucks, who gave up online group-buying for that there is no customer loyalty. Starbucks choose cooperation with the third-party payment, per one hundred electronic payments in the United States and Canada, have one payment from Starbucks, while in China' stores, per ten consumptions, there is one from a cash card.

3.3. The Difference between Online and Offline

It's not only to do some diversion, but how to make difference. Because online provided actually is a kind of service that cannot experience offline. It includes appreciate and cognition early to the new products, the balance of the price differential, indifference of channels.

Any e-commerce are unable to get rid of disturbance that comes from these three factors, as follows, percent conversion, per customer transaction, and passenger flow cost (AD). The percent conversion is one of the most important factors. The factors affecting the conversion can be summed up in the degree of inversion in value and price, which is called popularly "cost performance". As e-commerce business, anything they do is making high cost-effective for consumers, high cost performance is the key to impress consumers, in addition, in order to improve cost-effective, it also needs precision flow and high quality. Because the goods' value is the largest reflect for people in need. How to create a perfect, efficient supply chain logistics system to control the cost in order to reduce the cost or increase profits, how to use the collected data to understand the consumer psychology, how to show consumer goods value and convince consumers with details page and advertising material, and then to enhance the brand value. All these are the issues to consider.

Ikea don't sell things online firmly, which is different from Suning. If it can directly buy Ikea products on the Internet rather than go to the store, the customers will don't have the strong brand feeling of shopping experience anymore.

3.4. The Insufficiency of O2O Model in Logistics, Inventory and Supply Chain Management of Congenital

First, O2O mode can't improve the delivery service and commodity experience, unable to solve the problem of user trust; Second, O2O mode need high requirement of line strength and the degree of localization; Third, O2O mode emphasizes only paying online and offline experiences, lack of a clear concept of the fresh market positioning, market demand, quality assurance, and user consumption habits.

4. The Analysis of Development Pattern of O2O e-Commerce Integration in the Age of the Internet

O2O e-commerce integration pattern needs to establish and improve integration mode which including the physical network, service network, logistics network, data network and mobile network. How to build the five networks, this paper analyzes as follows:

4.1. Physical Networks

There are two forms of the physical network. One is represented by Haier's offline store mode; the other is virtual nationwide layout experience mode which is called Heike convenience store. Offline entity stores can be layout on a national scale. Entity network needs entity business's operation to be digital transformation and experience, including terminal entity equipment of digital (such as virtual fitting), digital marketing (LED interaction), mobile payment (QR code or NFC payments), independent service (independent checkout), CRM management (No card member, Customize privilege), commodity information (electronic price tag) etc.

4.2. Service Network

Service network is a service auxiliary system by means of physical network and mobile network. It offers both social communication and relationship maintenance, information transmission (using the micro letter, weibo and other social tools), serve the customer experience, complaint response, etc.; It also provide entity process services of online consumption and the rights, including online order (online buying), service experience (go to the store or pick up the goods), marketing return (discount stores), making an appointment (offline payment) and so on.

4.3. Logistics Network

The construction of logistics network is based on the user's individualized demand. Integrate highly and cultivate deeply four networks consisting of the Internet, logistics network, service network, the marketing network, to construct competitive advantage driven by the user experience in the whole process formed by combination of emptiness and reality. By building the country network and the provinces and cities radiation network, to make the customer experience the advantage of great distribution services through resources integration. The logistics network needs the national inventory synchronization, as well as increase or decrease inventory keep seamless synchronization. There is a core that O2O sector needs to have a virtual warehouse, including the national all items online data, and can realize inventory synchronization. On the basis of these, it just can have the synchronization of logistics system. Because most of the enterprises regard regional synchronous growth as the core, any transaction can be delivered by the area branch warehouse. The efficiency of logistics will be the fastest the most direct. Logistics network eventually solve a problem: one is the efficiency, the second is cost, the third is experience.

4.4. Data Network

In the process of the realization of the O2O, data network provide a powerful background analysis and calculation system. The entire industry from consumers order to the brand, from brands to raw materials, from raw materials to all links, use data to get through all the industrial chain, so the efficiency changed thoroughly previous production status. Through Data mining of the O2O e-commerce users, including data collection, data preparation, data conversion, data extraction, data mining, mining using and other process are used to analyze the characteristics of user groups, and then analyze users' personal characteristics, gain valuable knowledge, in order to gain business value.

Data help do a better understand of the need of customers, online users get in to the mall through micro letter or other mobile platforms. They obtain the data about user's age, gender, usual spending habits through marketing encouraging and technical means. According to the above several basic dimensions, they can determine the user's consumption habits to do the precise marketing effectively. In this part, the above e-commerce companies have no essential difference. The mobile Internet has a very good function, such as LBS positioning. Through technical and marketing incentives, encourage users to share their address. When the addresses are accumulated enough, it can paint basically specific consumer groups' area of the street about some company, and the data can be directly transferred to offline stores to provide support. The mobile e-commerce data already is not only convenient for online marketing, but also has effected offline real decisions.

4.5. Mobile Networks

The popularity of smart phones, and the younger trend of use age of shopping software, as well as each big e-commerce enterprise promote actively in the mobile client, make Chinese users' habits of mobile shopping be formed gradually. With the more and more use of 3G network and more and more Wifi free places provided, integration model of online, offline and mobile e-commerce has a rapid growing environment (**Figure 3**). Under the influence of the Internet thought, O2O model is currently the latest marketing model. This model combines offline business opportunities and the Internet, make Internet become offline trading desk. Especially the emergence of QR code, becomes the key to mobile operators who enter the mobile Internet and layout the future O2O e-commerce.

The instant communication tool in the top of list, combine online services with applications to improve greatly the user viscosity, and platform barriers to competition has been formed. By moving the versatility business to

the same platform, it can achieve real-time order, inquiry, information push actively, membership management and that the omni-directional mobile self-service. Customers can also use micro letter, companies Alipay to complete the payment, to avoid the trouble of change. In order to realize the integration, e-commerce companies should achieve information sharing, including mobile devices of the client and the real network, service network, logistics network and data network. It requests the construction of the mobile phone network security mechanism, and the development and maintenance of software security can achieve more rigorous and more generalization.

4.6. Case Analysis

Haier Riri shun, as the first Internet brand whose value is billions of, integrate advantages of virtual network (e-business platform), physical network, logistics network and service network, provides one-stop shopping experience for consumers, also provides users with the household design of online, interactive experience, personality of product customization, synchronization and so on. Riri shun arranges itself in creating O2O four network advantages, specific as follows: (**Figure 4**).

5. Conclusion

O2O is upgraded from e-commerce to the business of electronic. It also brings upgrade that electronic commerce department plays a role in organization management department (**Figure 5**). The integration of online, offline and mobile electronic commerce ensures a series of products sales and service through the complete supply chain system, at the same time, to satisfy the consumers demand in goods, services, experience, price, etc. On the one hand, consumers can enjoy the goods store experience and human services; on the other hand, they can be able to use mobile client to surf the Internet anytime and anywhere to pick a variety of products, or they choose goods and place an order in the stores, and then pick up by customer themselves. The dual experience online and offline, and convenience provided by mobile client for the consumer, reduce greatly the risk of shopping, at the same time, also save shopping time and improve the efficiency of the clinch a deal and turnover. These successful trading models become free advertising to customers who will buy goods next time and to promote surrounding community marketing. The way, offline promotion and online deals, has gradually influenced the secondary consumption habits of customers.
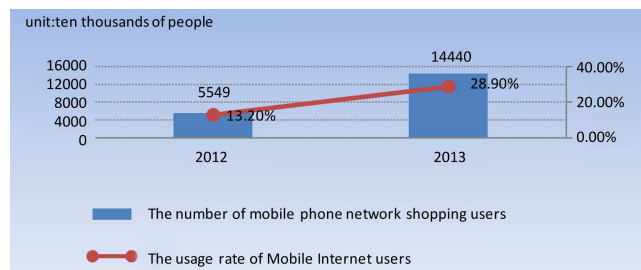

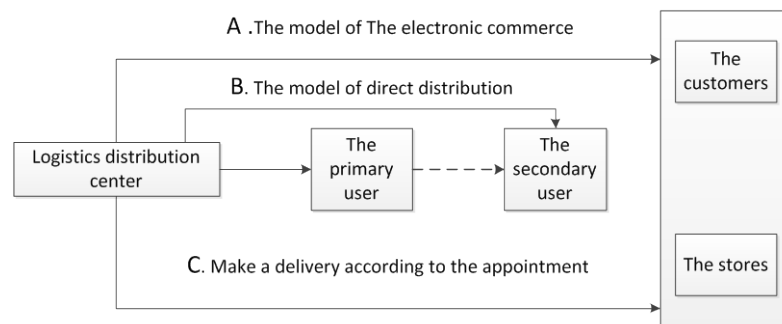**Figure 3.** The number of users and usage rate of mobile network shopping.

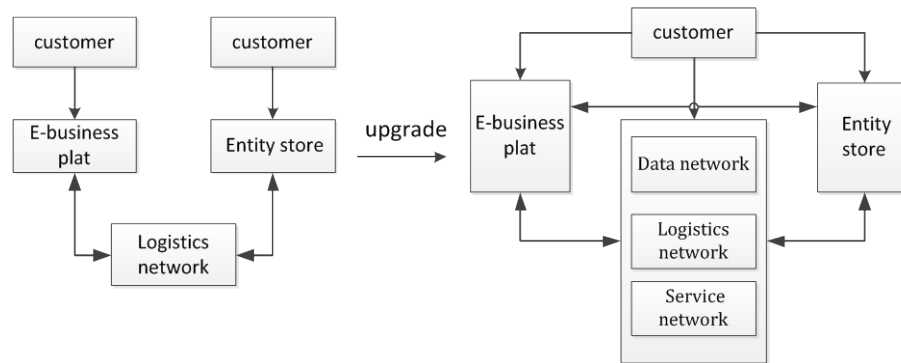**Figure 4.** The O2O model of Ri ri shun.

Figure 5. The upgrade of O2O model.

Acknowledgements

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