

Distribution logistics of online fashion retail business in China: A case study of VANCL

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Abstract-*The rapid development of information technologies brings more convenience to people. Information technologies, especially the Internet, not only save time for consumers and companies but also provide them with more channels and opportunities for interaction and conducting transactions. One business revolution brought by Internet is online shopping – shopping and buying products in online stores or websites. Nowadays, online shopping has become a new consuming model for consumers both in China and around the world. This paper analyses online shopping for fashion in China and investigates the impact of online shopping on logistics industry using the case of “VANCL”.*

Keywords: logistics; online shopping; fashion retail business; China

1. BACKGROUND

The history of online shopping in China can be traced back to the launch of television shopping channels in early 1990s. Television shopping channels are TV channels which use their live programmes to promote different products and stimulate consumers' intention to purchase these products (Chen and Tsai 2008)[1]. Starting with only two channels in 1992, there were over 100 television shopping channels in China in 2007, broadcasting over 90,000 hours of shopping programmes and generating sales of about RMB10 billion each year (Xue, Zhou, and Yu 2009)[24]. Television shopping sales accounted for 0.4% of the total retail sales of consumer goods in China. While television shopping provides the Chinese consumers fairly good non-store shopping experiences and convenience, the Internet boom in early 2000s in China brought drastic changes to the television shopping marketplace and development.

The Internet bloom has changed the life style and behaviour of Chinese consumers thoroughly. According to the data from China Internet Network Information Center (CNNIC), starting from 2000 the number of netizens in China grew at an annual rate of 300 percent and reached more than 100 million people in 2005, ranking second after USA worldwide (Rong 2005)[16]. As of December 2016, the total number of netizens in China increased to 731 million people with Internet penetration rate reached 53.2% (CNNIC 2017)[4]. The portion of male netizens to female netizens was 52.4 to 47.6. According to the report of CNNIC (2017)[4], the netizens in China were apparently dominated by the youths. Over 73% of netizens were aged 10 to 39.

Chinese netizens spent around 26.4 hours online per week. Majority of the netizens used Internet to search for product information and 63.8% of them even conducted online shopping and purchased products via Internet. This wide adoption of the Internet in product search and purchase has invoked the transition from shopping via television to shopping online in China.

There has been a rapid growth in the online shopping market in China over the last decade. The number of online shopping users reached 467 million in 2016 with an utilization rate of close to 64% (CNNIC 2017)[4]. The online sales in China rose to over RMB5 trillion in 2016 (Tong 2017)[18]. As far as fashion and apparel goods are concerned with, the report of Li & Fung Research Centre (2012)[10] has shown that online apparel sales in China were kept on increasing dramatically, from RMB15 billion in 2007 to RMB205 billion in 2011, accounting for 26.7% of China's total online retailing market and 14.3% of China's total apparel sales. As of 2015, the online apparel sales in China reached RMB723 billion (Wang 2016)[20]. Nowadays, most Chinese fashion retailers have utilized online shopping platform as their sales channel. Based on the way they utilize the online shopping platform, the fashion retailers are being classified into pure-clicks fashion retailers (e.g. VANCL, Moonbasa and Mecox Lane), multi-channel fashion retailers (e.g. LOVO, Luthai and Banngo) and fashion retailers selling online (e.g. Joeone, Shishangqi and Peace Bird). Among all, VANCL is one of the most successful fashion retailers that have leveraged the online shopping platform.

2. VANCL

VANCL is an online apparel company established in China in October 2007 by Mr. Chen Nian. VANCL sells mainly men's and women's fashion products. It emphasizes the simple life style in order to bring a good experience to the customers. VANCL has been rated as the largest online own-brand apparel retailer in China, leading the Deloitte Technology Fast 500 Asia Pacific 2009 ranking with a 3-year revenue growth rate of close to 30,000% (Wei and Zhou 2011)[21]. The business model of VANCL is similar to that of its previous competitor PPG. PPG, founded in 2005, was a fashion company marketing products to Chinese customers mainly through print media, television and online media. PPG pioneered an e-commerce model of fashion whereby the company targeted at low to medium-end fashion markets with a wide range of suppliers, distribution channels and media advertising (Wu and Bai 2010)[22]. Learned from PPG's success, VANCL improved the business model of PPG by optimizing the selection of suppliers, using self-built logistics and focusing mainly on online shopping platform and advertising. Finally, VANCL took over PPG in terms of sales in China. Though some of the business techniques are referred from PPG, VANCL has stuck to its duty and has innovated its sales model and marketing activities, thereby attracting more Chinese customers (Yang 2012)[26].

VANCL targets mainly those young white-collar workers in China with strong buying power. For these people, online shopping is almost indispensable in their life. Therefore, VANCL uses Internet as the only selling platform. It does not run any physical shops, factories or distribution channels. This is definitely a low-cost operation because the company can save rent and expenses like electricity, telephone, staff salary and stationary. Nowadays, VANCL extends its product range and offers 6 different categories of products in China market, including mens, ladies, children, shoes, home textile and furniture. With its strong ability to compete, VANCL has a good foundation in China. It took 28.4% of the market share of apparel online shopping market in China with revenue over RMB1.2 billion in 2009 (Wei and Zhou 2011)[21]. In 2013, sales revenue of VANCL reached RMB1.4 billion and monthly orders exceeded 0.27 million (China Digital Review 2014)[3]. Traditional service industry describes VANCL's success as a "miracle" (Shao 2012)[17].

3. THE IMPACT ON LOGISTICS INDUSTRY BY THE POPULARIZATION OF "ONLINE SHOPPING"

The appearance of "online shopping" has brought the concept of "Business-to-Consumer (B2C)" to another higher level (Shao 2012)[17]. B2C is to sell products and services to the consumers directly. With online shopping

platform, enterprises can do promotion, track customers' activities, receive orders and provide after-sales services through Internet, which are very different from through the traditional physical stores. Consumers can also buy products, pay the bill and check the latest status of the products using online shopping platform, without the need to go to the physical stores. Online shopping is welcomed in particular by consumers who are busy. With the popularization of online shopping, the online-shopping logistics become a contemporary area of focus among industry participants.

In 1990s, before the diffusion of Internet and online shopping, physical stores and television shopping channels were the two major buying channels for consumers in China. Therefore, the targets of the logistics providers at that time were mainly the traditional retailers selling through physical stores or television shopping channels. In 2001, China became a member of the World Trade Organization (WTO). Following China's entry into WTO, the logistics industry in China was opened to international market and thereby attracted dozens of foreign logistics companies. These foreign companies brought in many new changes (e.g. new models, new policies and new systems) to the China's logistics industry.

Since mid-2000s, the business of the traditional retailers in China has been negatively impacted by the rising of rent and labor costs and the worsening of economic performance in Europe and USA export markets. Moreover, the demand and purchase behaviour of consumers in China have also changed drastically due to the diffusion of Internet. An increasing number of consumers, in particular the youths, have shifted from in-store shopping to online shopping as they believe that they can get more choices and get rid of the location restriction via the online shopping platform. These market pressures have forced many traditional retailers to go online and also given rise to new online-shopping retailers or providers.

The growth of online shopping not only has revolutionized the fashion retail industry in China, but also has significantly influenced the operation of the related logistics industry. For in-store shopping, retailers in China traditionally use two types of logistic systems for transportation of their items, namely self-built logistics and common delivery. Self-built logistics is the logistics system established by a retailer or a company itself (Zhang and Guo 2012)[27]. Self-built logistics has the advantages of controlling the whole logistics process, speeding up the delivery time of products and reducing the lost or damage of products, thereby can increase the competitiveness of the retailer. It can strengthen the reliability of distribution channel of the retailer. Nevertheless, the costs are usually very high for financing the warehouse, distribution network and labor in self-built logistics (Lu, Liu, and Ma 2016). Common delivery is a cooperated logistics mode that is run by several carriers or shippers together through a distribution center or other

confederate organization (Yang, Zhang, and Li 2013)[25]. It is the way of logistics that can distribute for many companies or retailers together, resulting in improved logistics efficiency (Ge and Jiao 2011)[5]. One problem with the use of common delivery is how to allocate the profit among different carriers or shippers (Liu and Chen 2008)[11]. For online shopping, product prices and delivery time are key successful factors for the retailers. In order to minimize operating costs (thereby lower product prices) and increase shipping efficiency, some online-shopping providers in China have shifted to a third logistics system, namely third-party logistics (3PL). 3PL is the use of a third-party company to perform firm's product distribution and materials management functions (Hussain, Assavapokee, and Khumawala 2006)[8]. 3PL has the advantages of fast and wide distribution, large-scale, and high efficiency (Wang 2012)[19]. The rapid development of online shopping has also significantly changed the job market structure of logistics industry and the roles of logistics companies in China. Facing the challenges from increased market competition and the demand for better online-shopping logistics in recent years, online-shopping providers in China have begun to look for and employ experts in logistics to help improving their distribution and service efficiency. This rising demand for logistics experts has led to a higher degree of division of labour in the logistics industry in China. The number of related posts has increased dramatically. Besides, logistics companies have been forced to adjust their roles due to the increasing trend of online shopping. Take Shun Fung Express as an example. Shun Fung Express is a famous forwarding company and 3PL provider in China. When the company was established in 1990s, it was operated as an "agent" and mainly delivered big items for its clients. With the rising demand for shipping of break-bulk cargos from online-shopping retailers and buyers, Shun Fung Express has changed itself to a medium-end document and small package carrier (Chen and Sun 2012)[2]. Existing key clients of Shun Fung Express include VANCL and Taobao.

Furthermore, online shopping has also changed the supply chain management of products. For traditional in-store shopping, most of the products will be sent to the warehouses of merchants after the production process and then be distributed to the stores later on. Online shopping cuts out the step of distributing to stores. The products will be sent from warehouses to the online shoppers directly. Given that online shoppers have different preferences for transport mode and look forward to receive the goods in the shortest time, it drives 3PL providers or the logistics department of the online-shopping companies to strengthen and enhance the facilities of their logistics centres. Some providers and companies have enabled the "one-stop" express and convenient service, thereby to add value to and increase the competitiveness of their goods. Another main measure is to put forward the quality inspection. Take VANCL as

an example. All goods will be transferred to the central stock area for inspection before sending to the district warehouses and buyers. This helps to shorten the day of stock-in to 5 days. The expenses in human, stocking and distribution have also been reduced thereby (MaiJiaKan 2013)[13].

4. THE LOGISTICS SYSTEM USED BY VANCL FOR ITS ONLINE SHOPPING STORES

As mentioned above, there are 3 types of logistics system available for online-shopping providers in China, namely self-built logistics, common delivery and 3PL. In response to the various constraints and challenges faced by the company in the market, VANCL has adopted different logistics systems at different stages of its development.

In the first few years after the company was established, VANCL did not have many businesses and lacked funding. Its customers were very geographically dispersed and were mainly individuals with small orders. Facing this difficult operating environment, VANCL chose to outsource its logistics activities to 3PL providers. By using 3PL providers, VANCL could distribute its products according to the specific circumstances of the customers. Funds and resources could therefore be spent on other areas to grow its business. Nevertheless, outsourcing the logistics activities led to a couple of problems. First, products of VANCL sometimes could not be shipped to the customers on time. In 2008 Chinese New Year, many staff of the outsourced 3PL providers were off-duty. The distribution was affected and the businesses were lost eventually. Second, VANCL could not control and monitor the quality of services provided by 3PL providers to its customers. Poor services provided by some 3PL providers had negatively influenced the image of VANCL among the customers. Third, the reliance on 3PL providers had jeopardized VANCL's relationship with its customers. Distribution is the most important part of the business of an online company because it is the only direct point of contact with the company's customers. Outsourcing the distribution logistics to 3PL providers had deterred VANCL from having a direct contact with its customers and building close relationship with them.

In response to the problems of outsourcing the logistics activities to 3PL providers and the significant increase in the number of orders from online shoppers, VANCL designed to shift from 3PL to self-built logistics. On 15th April 2008, VANCL set up a subsidiary, Beijing Rufengda Express Company, to handle all its distribution and logistics activities. Since Beijing Rufengda Express Company belonged to VANCL, this enabled VANCL to closely monitor the logistics process of its products and to provide value-added services to its customers. For a logistics service provider, special goods such as fragile and valuable products are big concerns. By using self-

built logistics, inspections on products would be carried out by VANCL at central stock area which helped improve the reliability of distribution process and lowered the damage rates. The distribution network of VANCL in China expanded very quickly, from 3 cities and 5 points in 2008 to 28 cities and 150 points in 2012. Meanwhile, the service reliability was maintained at 98% with a complaint rate of less than 0.3%. No complaint on staff attitude was recorded. VANCL experienced strong growth in its business during the said period (Yang 2012)[26].

Although self-built logistics has the advantages in time and flexibility, it requires VANCL to put a great deal of money to build the warehouse and to purchase the related equipment. VANCL has found it very hard to reap a good return from these investments. Therefore, VANCL has changed from a pure self-built logistics system to a mix of self-built logistics system and 3PL system subsequently. Beijing Rufengda Express Company is responsible for 1st and 2nd line cities, like Beijing, Shanghai and Guangzhou. 3PL providers are used for 3rd line cities and those cities with poor transportation network. This mixed system not only can meet the requirements of most customers, but also can gain the customers' confidence on the distribution and logistics services provided by VANCL. It also results in lower operating costs for VANCL.

5. SUCCESSFUL MARKETING STRATEGY OF VANCL

Apart from logistics, another factor leading to the success of VANCL is its marketing strategy. VANCL offers its fashion products, in particular clothes, based on the needs of people rather than the practice of the fashion industry. Fashion industry in China traditionally follows a two-season cycle in product offering and sells different season clothes according to the planned schedule. Take the autumn and winter clothes as an example. Fashion shops in China traditionally only sell the autumn and winter clothes from autumn to the Chinese New Year's Eve. They all switch to spring and summer clothes starting from the Chinese New Year's Day, so-called "Spring Festival". This is a bad news for the consumers who need those warm autumn and winter clothes as the weather after the "Spring Festival" is still very cold in many areas of China. VANCL has recognized this consumer need and therefore has made its autumn and winter clothes available after the "Spring Festival". Because of this, VANCL has successfully attracted a large group of customers from other fashion brands (Xie 2012)[23]. VANCL also puts much effort in its promotion and strives to strengthen the relationship with its customers. It set up an interactive platform, "VANCL Star", on its website in Mar 2011. "VANCL Star" is a mix of a social media website and e-commerce (Millward 2013). It allows customers to model clothes which they bought from VANCL and share their photos with others. Similar to

Twitter or Sina Weibo, customers can have fans or followers, 'likes' and galleries of their own photos. At the same time, customers can also browse through photo galleries of other customers wearing VANCL's clothes through the platform. All photos are accompanied by an e-commerce list for the clothes with price and "add to cart" button. "VANCL Star" has successfully engaged different consumer groups across China for VANCL. It has built up reputation and generated market knowledge for VANCL. The data gleaned from "VANCL Star" has also helped VANCL in adjusting its marketing strategy (Huang 2012)[7].

6. CHALLENGES FACED BY VANCL

VANCL has received many good comments in the market and is supported by a large group of loyal customers. However, there are some internal and external factors which may jeopardize its future development.

First, although VANCL has invested a lot in marketing and brand positioning, it has failed to continuously improve and innovate itself. In recent years, VANCL has focused only on providing clothes of the same quality and at similar low price. It has not spent resources on increasing the quality of its clothes nor promoting and enhancing its brand image. Clearly, customers will not choose VANCL again after the upsurge unless they see a substantial change in VANCL's marketing and branding effort.

Second, VANCL has experienced difficulties in managing its operation and controlling its costs. Since its establishment, VANCL has been striving to be the leader in the online fashion industry in China. During the first few years, there was a rapid growth in the online orders placed with VANCL by customers. VANCL therefore expanded its operation and recruited many staff (Guangzhou Daily 2011)[6]. This rapid expansion however resulted in substantial increase in the operating costs, like salary, procurement costs, production costs and logistics services costs, for the company. The increase in the operating costs was so large that it swallowed up nearly all VANCL's operating margin. In 2012, VANCL was forced to lay off about 2,000 staffs and reduce the number of self-distribution cities from 26 to 6 (Peng 2012)[15].

Lastly, the integration of supply chain of fashion industry in China is very poor. Chinese fashion manufactures and retailers encounter big problems in ensuring the reliability and speed of their suppliers and the efficiency and services quality of their distributors. Fashion companies, like VANCL, which outsource many activities to suppliers and distributors are forced to postpone their production time in order to offer clothes with good quality (Shao 2012)[17]. Such a delay has adversely affected customers' confidence on the companies.

7. CONCLUSION

Online shopping is considered as an important alternative channel alongside traditional offline selling channel (Lee, Eze, and Ndubisi 2011)[9]. With the growth and development of Internet and global business network, online shopping will become the central part of people's lives in the future ultimately. Being the first movers in the online-shopping market in China, VANCL and its online fashion competitors enjoy larger reach of customers, lower cost of operation and more efficient in production and inventory management. Nevertheless, the existing supply chain of fashion industry in China is still far from perfect. To ensure the long-term survival and success, VANCL and its online fashion competitors should strive for excellence in their supply chain and make an effort for optimization of their distribution logistics systems in China.

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