

Research on the Differentiated Competition Strategy of Membership-based Retail Stores

-- Taking Sam's Club as An Example

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Abstract: In recent years, new retail has gradually started to catch people's attention. During the current intensified competition in the retail industry, it has become an important competitive strategy for retail companies to increase user stickiness by providing exclusive membership services and creating a distinctive paid membership system. Taking Sam's Club as an example, competitive strategies of membership-based retail stores were analyzed in this paper from the perspective of differentiated competition strategy, and the rationality and implementation suggestions of membership-based retail stores to shift from the cost leadership strategy to the differentiated competition strategy.

Keywords: Membership retailing, Competition strategy, Sam's Club, Differentiation strategy.

1. Introduction

In the intensively competitive supermarket chains, many hypermarkets have serious problems of homogenous and aging commodity structure. Professor Michael Porter believes that the core meaning of strategy is to make trade-offs. The "new retail" business form often brings about a complex array of choices for Chinese retail companies. In the trend of competition related to the homogeneous commodity structure, how to transform customer resources into the decisive factor of market operation and loyal customers has become a critical indicator to measure retail companies' core competitiveness. To develop and adhere to a differentiated strategy that meets a company's own conditions will enable the business to have a lasting competitive advantage in the fierce industry competition.

2. Concept of Competitive Strategies and Their Classification

2.1. Concept of Competitive Strategies

Professor Michael Porter defines competitive strategies[1] as actions to attack or defense, thus occupying a favorable position in the industrial environment and successfully

responding to the challenges of the five forces, so as to obtain premium incomes. He believes that the essence of competitive strategies is to obtain a long-term sustainable competitive advantage when a company takes actions different from other companies in response to the five forces of competition in the industrial structure environment, and the core of the company's competitive strategies is to gain the competitive advantage.

The structure-conduct-performance (SCP) theory of industrial organization analysis was established by Harvard University, which is based on the price theory and analyzes industries by structure-conduct-performance, constructing a systematic analysis framework (SCP analysis framework), i.e., market structure-conduct-performance. Professor Michael Porter proposed an SCP paradigm-based model according to the five competitive forces as presented in Figure 1. That means the state of internal competition in an industry depends on the following five forces: competition in the industry, power of suppliers, power of customers, potential of new entrants into the industry and threat of substitute products. Porter's five forces model can well reflect the competitive environment among the industries in which a company is located, and it is also an efficient analytical tool for strategy formulation. At present, the model is widely adopted in competitive strategy analysis in various industries.

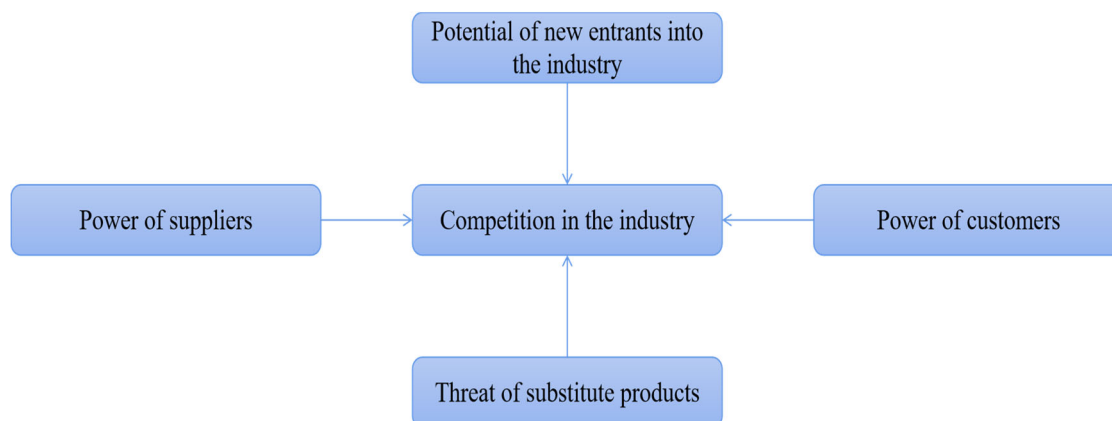


Figure 1. Porter's "Five Forces" Model Analysis

2.2. Classification of Competitive Strategies

Professor Michael Porter divided the competitive strategies of companies into three categories as displayed in Figure 1, and they are cost leadership strategy, differentiation strategy, and focus strategy.

Table 1. Competitive Strategy Classification

In the entire industry	Cost leadership strategy	Differentiation strategy
A niche market	Focus strategy	

2.2.1. Cost Leadership Strategy

A company with the cost leadership strategy can have a competitive advantage and achieve total cost leadership in the industry by taking a series of measures to reduce its operating costs. A company's cost leadership includes not only a price advantage, but also measures such as supplier sourcing, inventory management and supply chain optimization.

Retail companies implement the cost leadership strategy by attempting to reduce costs in every part of distribution, from procurement, transportation, inventory to sales. The ultimate goal of cost leadership is to enhance the bargaining power of companies towards suppliers through scale economy. There are two issues that need to be noted here: firstly, cost leadership should not be pursued alone by neglecting the core elements such as services; secondly, the purpose of cost leadership is not for companies to involve in a price war, let alone for them to obtain a pure price advantage.

2.2.2. Differentiation Strategy

The differentiation strategy means that a company attracts individual users with differentiated needs by creating services that are distinctive and unique from those of competitors, thus gaining a high premium. Companies that adopt the differentiation strategy are often outstandingly innovative and capable of execution. For a retail company, there are many areas to manifest its differentiation, so it should be greatly innovative and distinctive if it wants to adopt the differentiation strategy. In the process of implementing the differentiation strategy, the most common problem is that the

company may take price as a differentiation means, while ignoring the important factor of services. If a retail company can only attract customers to its stores through price differentiation, but is unable to provide distinctive differentiated services, competitors will quickly imitate and lower their prices and parties concerned will fall into a vicious circle of price wars. Hence, it is arduous for the company to gain a lasting competitive advantage.[2]

2.2.3. Focus Strategy

This strategy only serves a specific niche market in the industry. Unlike those employing the other two strategies, companies adopting the focus strategy are often unable to compete in the overall market and thus having to retreat to a particular niche market segment for competition. Strategies of these companies are usually aimed at gaining a competitive advantage in a niche market, rather than acquiring a general competitive advantage in a broader market. The focus strategy can be divided into the cost focus strategy and the differentiation focus strategy.





A company with the focus strategy can choose multiple niche markets, but the more specific this market is, the more superior its services are, the more durable the focus strategy will be.

3. Research on the differentiated competition Strategy of Sam's Club in the Chinese market

3.1. Context of China's "New Retail" Market

China's Internet economy changes have had a profound impact on social development, and China's physical retail sector is undergoing radical changes. Consumption is being upgraded, scenes are being reconstructed, and traditional retail and online e-commerce are mutually converging under the leadership of new and innovative technologies such as big data and cloud computing[3]. In such an environment of new retail, the competition of membership-based store market in the retail industry is heating up, and the pattern of membership-based store industry is changing with the launch of the first Fresh Hema X membership store and the first Costco store.[4]

Table 2. Membership supermarket competition in China in 2021

	Sam's Club	Costco	Metro Club	Hema X membership
LOGO				
Membership Fees	Ordinary member (¥260/ year) Excellent member (¥680/ year)	¥199/ year	¥199/ year	¥258/ year
Number of stores in China	27	2	2	7
Brand characteristics	①Deeply cultivated in China for 25 years, the stores are widely distributed. ②Strong bargaining power with suppliers	①Strong supply chain management ability. ②Experienced in overseas management.	①Metro has developed a food traceability system; ②B-side business has more advantages.	①Hema X membership mainly sells fresh food. ②Deep integration of online and offline retail services

3.2. Applicability of Sam's Club's Differentiation Strategy in the Chinese Market

In such a unique Chinese business environment as "new retail", the essence of retail companies' transformation to "new retail" companies is to reconstruct the three basic elements of "people-commodity-field".

The characteristics of the "new retail" require Sam's Club to make the following changes and adaptations: First is to deeply synergize and integrate multi-channels into "omni-channel". Consumers will visit different retail outlets, such as physical stores, Taobao and Jingdong e-commerce platforms, Meituan and other take-out platforms, WeChat stores and live web channels, so Sam's Club should create a variety of sales venues to meet customer demands. Second is to digitalize operations. Omnichannel sales scenarios will bring massive amounts of customer data, and the ability to process and efficiently use this data is the basis for making operational management decisions. Third is intelligent management. Intelligent touch screen, smart shelves, face recognition, VR and other IoT equipment will be essential for physical stores. These devices will enhance users' experience at stores and improve the convenience of shopping. Fourth is customer community. The "new retail" reshapes people, commodities and fields, which emphasizes that "people" is prioritized and whose core is consumer experience, revolving around the principle of "people aggregation, demand satisfaction, service improvement". Fifth is supply chain socialization. Under the "new retail", there is an assignment of the property in goods, and manufacturing and structural upgrade. Consumers are everywhere.

In conclusion, Sam's Club has been in trial operation online for several years. Its large and loyal consumer base is the foundation for its survival. Under the "new retail" business form, consumers' needs are constantly changing and updating, and the key to competing in the Chinese market is to continuously meet the differentiated needs of consumers based on the "people-oriented" principle. Therefore, the differentiation strategy is more applicable to Sam's Club.

3.3. The implementation path of Sam's Club's Differentiated Competition Strategy in the Chinese Market

3.3.1. Differentiation to Improve Customer Experience and Maintain Renewal Rate

The Sam's Club Paid Membership system means that retailers can capture a growing group of loyal middle class and above customers with outstanding purchasing capacity. For example, Sam's Club offline customer unit price is around RMB 1,000. As of January 2020, Sam's Club paid memberships reached 2.88 million, up 30.9% from the 2.2 million memberships disclosed in 2018.

Sam's Club's application of a portfolio strategy to reconstruct the basic element of "people" will be achieved through differentiation. Both the differentiation of Sam's Club's products and that of the services that customers receive will be crucial to Sam's Club's to continuously acquire competitive advantages in the future. In the Chinese market, Sam's Club's can choose to enhance the user experience with deeper differentiation, and deliver the ultimate differentiated Sam's Club's service experience by continuously optimizing every part. In China, Sam's Club should continue to

differentiate its category selection policy by abandoning overall product categories and focusing on a few outstanding local suppliers. Through such category selection differentiation, Sam's Club can not only attract high-end customers with individual needs, but also help quality suppliers grow.

3.3.2. "Cloud Warehouse" Helps Expand Sam's Club Membership Stores

In terms of Sam's Club's internal strengths, "fields" should be reconstructed by repositioning the company. Sam's Club's should not be limited to a retail company in its positioning, but should be upgraded to a full-category online lifestyle service platform. Among many retail forms, membership stores are less affected by online channels due to their experience-based scenarios, which has won some time for Sam's Club's intensive cultivation of its services. Since December 2017, Sam's Club's membership stores have established cloud warehouses in core areas of Shenzhen, Shanghai, Beijing and other cities, and joined hands with Dada Express to provide members with "speedy delivery" service to ensure that more orders can be delivered in an hour. As of December 2020, the service has covered all 22 cities where Sam's Club is located, with nearly 100 cloud warehouses.[5] The average daily delivery volume of a single warehouse has increased more than 10 times compared to that when the collaboration began.

3.3.3. Development of New Private Brands to Improve Competitive Thresholds

In the "new retail" business form, each retail industry becomes homogenous, and gradually falls into a price war. Therefore, a retail company's private brands will become the business's core competitiveness. In order to improve its core competitive strength, a retail company should cultivate their own self-management ability, reduce their dependence on suppliers, and continue to develop new private brands.[6]

In order to improve competitive thresholds, it is recommended to deeply engage in suppliers' supply chain construction, collaborate with suppliers to develop a corresponding data analysis and information sharing system, increase the scale of original equipment manufacturers, optimize resources in all aspects, and form the blueprint of a strategic alliance. For private brands, it is easier for companies to control their quality, which can not only reduce their own operating costs, but also bring a distinctive and differentiated experience for consumers.

4. Conclusion

As the trend of new retail approaches, Sam's Club are facing both unprecedented opportunities for growth and fierce competition in the market. In this context, Sam's Club should continue to pursue its differentiation strategy, develop the offline market, while stepping up its online shopping business, continuing to understand Chinese consumers' preferences, improving its business model and philosophy according to the needs of the Chinese market, and seizing the new development opportunities brought by the new retail.

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