

# Research on the Financial Performance of Scenario-Oriented Transformation of Business Models: An Exploratory Case Based on Suning.com

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## Abstract

Improving service quality through the scenario-oriented transformation of business models delivers a better service experience for users. Such transformation leads to changes in corporate financial performance, which in turn reflect the effectiveness of the transformation. This paper selects Suning.com Group Co., Ltd. as the research object and analyzes its financial performance from 2017 to 2022 through case analysis and literature research. Firstly, it introduces the research background, significance and methods, then summarizes the relevant theories as the theoretical foundation for the subsequent case analysis. The paper presents an overview of Suning.com, elaborates on the development process of its scenario-oriented transformation of business model, and finally analyzes the impact of this transformation on its financial performance. Through in-depth case analysis, the research conclusions are summarized to provide references for other retail enterprises.

## Keywords

business model, scenario-oriented, smart retail, Suning.com

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## 1. Introduction

With the rapid advancement of science and technology and the increasing diversification of consumer demand, traditional business models have gradually failed to adapt to the ever-changing market environment [1]. Therefore, many retail enterprises are seeking an important way for innovative breakthrough and sustainable development—the transformation of business models to be scenario-oriented. This transformation is not only a response to changes in the external environment, but also a necessity for the internal development of enterprises. By building scenarios closely related to consumers' lives, the accurate push of products and services is realized, thereby improving user stickiness and conversion rate [2].

In recent years, the rapid development of technologies such as artificial intelligence and the Internet of Things has provided enterprises with a new perspective and tools, enabling them to gain a deeper understanding of consumer demand and market changes. The application of these technologies has driven the innovation of business models and brought unprecedented development opportunities for enterprises [3].

In the new era, people's increasing requirements for the quality of life have boosted the development of the domestic service economy. The ever-changing economic environment and the gradual maturity of technologies such as big data are driving the progress and development of China's retail industry, which also influences the choice of business models for retail enterprises. To occupy an important position in the retail industry, enterprises must keep pace with the times and enhance their core competitiveness. In the current environment, business model innovation is the most sensible choice [4]. How to innovate business models and improve the economic benefits of enterprises has become the focus of industry development and corporate competition.

## **2. Case Introduction of Scenario-Oriented Transformation of Suning.com's Business Model**

### **2.1 Overview of Suning.com**

Suning.com Group Co., Ltd. (referred to as “Suning.com”), founded on May 15, 1996 and listed on the Shenzhen Stock Exchange in July 2004, is a leading smart retail service provider in China with its headquarters in Nanjing, Jiangsu Province. Its predecessor is Suning Electronics. During the era of Internet retail, Suning.com has continuously promoted the strategies of smart retail and scenario interconnection, expanding its product categories in an all-round way, realizing omni-channel online access and omni-customer integration. By opening up the supply cloud, user cloud, logistics cloud, financial cloud and marketing cloud, it has achieved full coverage from online to offline, from cities to counties and towns, and from shopping malls to communities, providing consumers with an ubiquitous 1-hour scenario life circle solution that comprehensively covers consumers' daily living needs. Its operated commodities include comprehensive categories such as traditional home appliances, department store goods, books, daily necessities and virtual products. In 2020, Suning.com was again listed in the *Fortune* Global 500, and ranked first in the retail industry with a brand value of 296.815 billion yuan in the 2020 *China's 500 Most Valuable Brands*. As of June 2020, Suning.com's offline omni-scenario network has covered the whole country, with various innovative Internet stores of the “one large, two small and multiple specialized” format such as Suning Plaza, Suning Carrefour Community Center, Suning Department Store, Suning Retail Cloud, Suning JIWU and Suning Red Baby, ranking among the forefront of domestic offline networks; Suning.com's online business, through self-operation, open platform and cross-platform operation, has become one of the top players in China's B2C industry, with a total of 602 million retail members.

### **2.2 The Process of Scenario-Oriented Transformation of Suning.com's Business Model**

#### **2.2.1 Online Retail Transformation Stage**

After its successful listing in 2004, Suning.com built its own brand and its physical professional retail business was deeply loved by the public. With the development of e-commerce, Suning recognized the future development trend of online retail and started the construction of an online platform. In 2010, Suning.com's online mall was officially launched, entering the e-commerce B2C field and building China's top e-commerce online shopping platform. Due to the rapid development of the Internet, offline retail declined sharply, and Suning.com began to focus on the integrated development of online and offline businesses. To realize retail transformation, Suning.com acquired mother and baby B2C platforms such as “Red Baby” in 2012, which was its first merger and acquisition in the e-commerce field and expanded part of its business categories.

#### **2.2.2 O2O Transformation Stage**

The O2O transformation stage witnessed a remarkable development journey of Suning.com. During this stage, Suning.com not only successfully realized the transformation from traditional retail to Internet retail, but also consolidated its position in the fierce market competition, laying a solid foundation for its sustainable development in the future.

In the O2O transformation stage, Suning.com adopted the Internet retail strategy of “one main body with two wings”. The so-called “one main body” refers to Internet retail as the core, deeply integrating the advantageous resources of online and offline businesses. The “two wings” refer to the open platform and smart logistics: attracting more partners through the open platform to jointly build an ecological circle;

improving distribution efficiency and optimizing consumer experience through smart logistics. The implementation of this strategy enabled Suning.com to achieve remarkable results in the O2O field. The company entered the mid-term of new retail transformation in 2013, accelerating the development speed of corporate retail and expanding the strategic layout of corporate retail. In addition, Suning.com changed its corporate name and proposed the Internet retail layout of “one main body with two wings”, achieving success in taking the lead in building the O2O model, implementing the same price for the same products online and offline, and realizing the integration of online and offline businesses. Furthermore, the company acquired PPTV to leverage its online resources for traffic diversion and expand the marketing field. In the O2O transformation stage, Suning.com obtained more high-quality commodity resources by establishing close cooperative relations with suppliers, and also gained greater advantages in terms of price and promotion. It also attached great importance to technological innovation and talent training. In 2014, Suning.com actively promoted the integration of various retail channels and supply chains to ensure the smooth progress of the enterprise's transformation to the O2O model. In the mid-term of new retail transformation, Suning.com adhered to the dual-line integrated development strategy and laid out omni-channel marketing to provide consumers with a one-stop shopping experience.

### **2.2.3 Smart Retail Transformation Stage**

In the smart retail transformation stage, Suning.com deeply recognized the importance of digital transformation. With the rapid development of science and technology and the constant changes in consumer demand, the traditional retail model has been difficult to meet market demand. Through the application of advanced technologies such as big data and artificial intelligence, Suning.com has realized accurate insight into and rapid response to consumer demand. It has also strengthened cooperation with the supply chain, optimized supply chain management, and improved operational efficiency and service quality. Meanwhile, it has enhanced brand building and marketing innovation to attract more consumers' attention and trust, and carried out various marketing activities to stimulate consumers' purchasing desire and boost sales performance. Suning.com also paid special attention to improving user experience by optimizing its shopping process and enhancing after-sales service quality, providing consumers with a more comfortable shopping environment. Its user-centric philosophy made Suning stand out in the fierce competitive environment.

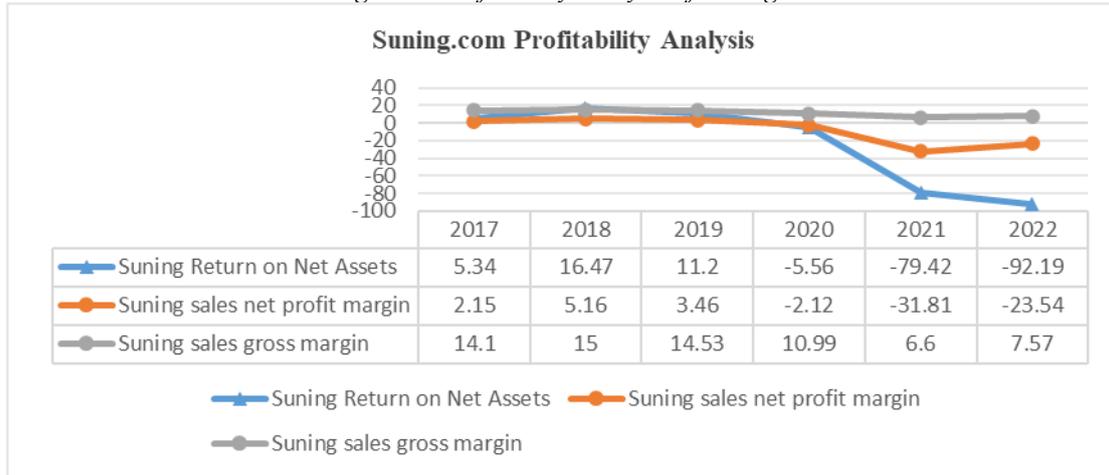
In general, the smart retail transformation stage was a period full of challenges and opportunities for Suning.com. Through digital transformation, online-offline integration, brand building and other measures, Suning.com successfully realized the transformation from traditional retail to smart retail, which enhanced its market competitiveness. Adhering to the business philosophy of innovation-driven and customer-first, Suning.com has continuously promoted the development of smart retail and built a scenario-oriented retail model. Both online platforms and offline stores are committed to providing consumers with an immersive shopping experience and higher-quality services to meet their diversified needs.

## **3. Analysis of the Financial Performance of Suning.com's Scenario-Oriented Business Model Transformation**

### **3.1 Profitability Analysis**

As shown in Figure 1, Suning.com's return on net assets in 2018 was 16.47%, a significant increase compared with 5.34% in 2017, indicating a good profitability performance. It can be seen that the online business has brought financial performance to the enterprise under the influence of scenario-oriented transformation. The return on net assets, net profit margin on sales and gross profit margin on sales have declined year by year from 2019 to 2022, and the return on net assets and net profit margin on sales have been negative since 2020. Since 2019, affected by the COVID-19 pandemic, the income of offline stores has decreased, physical stores have operated in phases and door-to-door installation services have gradually declined, while the proportion of online services has increased. At the same time, the implementation of the expansion strategy to expand market share has led to an increase in operating costs. As a result, the operating income in 2019 was 24.2 billion yuan more than that in 2018, but the net profit in 2019 was 3.32 billion yuan less than that in 2018. The net profit margin on sales also showed a downward trend with the decrease in total sales.

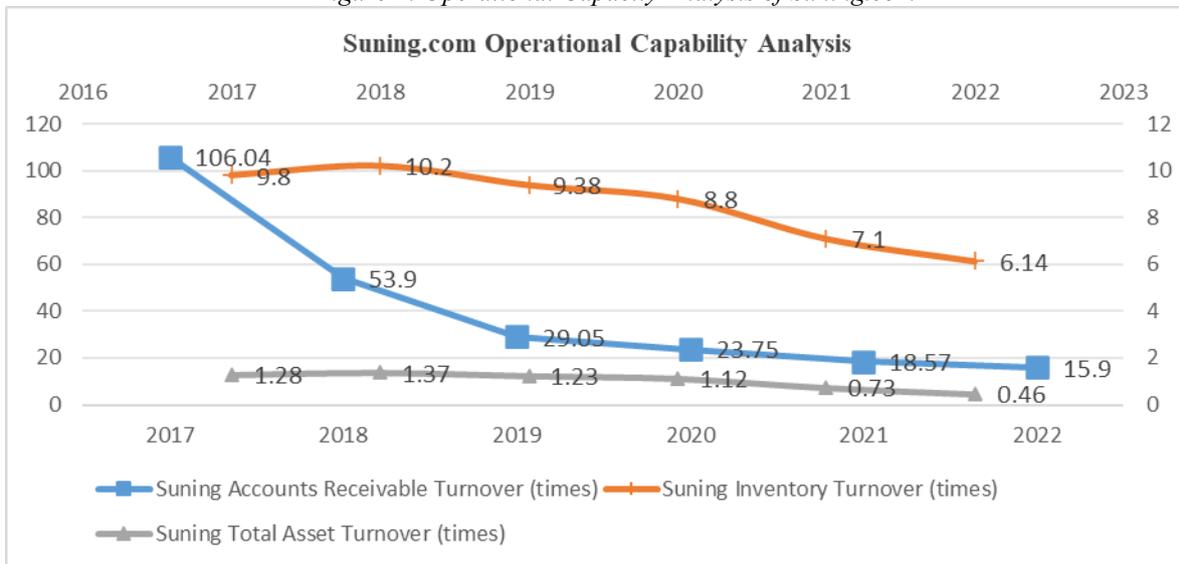
Figure 1: Profitability Analysis of Suning.com



### 3.2 Operational Capacity Analysis

As shown in Figure 2, Suning.com's accounts receivable turnover rate has been declining continuously, especially a significant drop between 2017 and 2018, falling from 106.04 times in 2017 to 53.90 times in 2018, a decrease of 52.14 times. During the period of business model scenario-oriented transformation, all retail enterprises have shown different downward trends. Due to the transformation of the business model, the expansion of the enterprise scale has directly led to an increase in accounts receivable and payment for goods receivable. In 2019, affected by the COVID-19 pandemic, Suning.com relaxed its accounts receivable policy to ensure transactions with suppliers. This measure reduced Suning.com's accounts receivable turnover rate, but in the long run, it has a promoting effect on the sustainable development of the enterprise and enhances its market competitiveness.

Figure 2: Operational Capacity Analysis of Suning.com

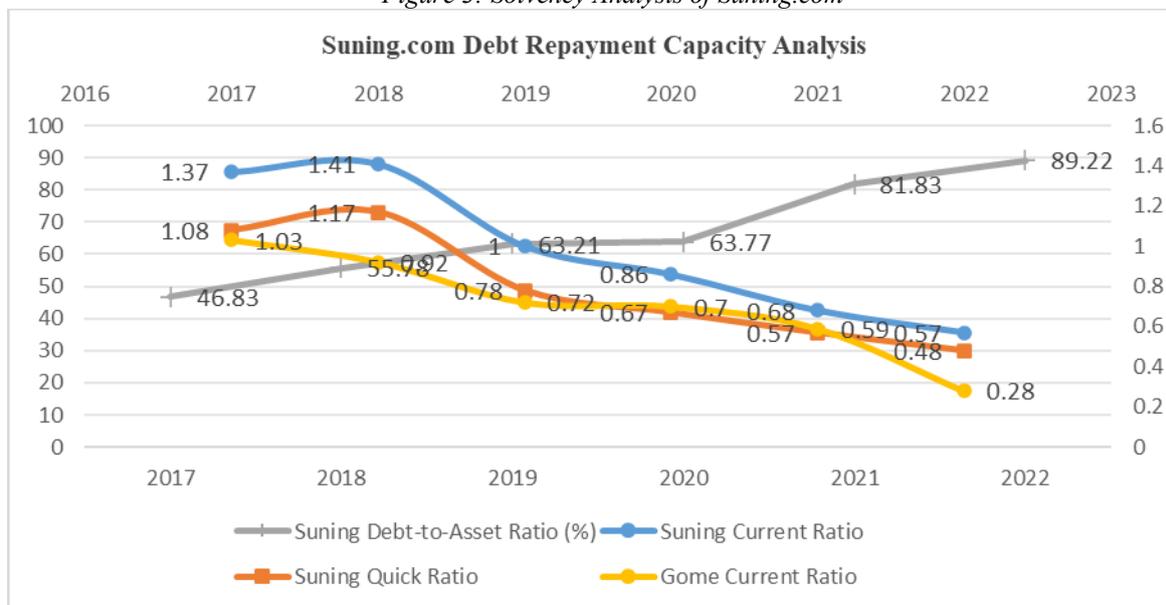


### 3.3 Solvency Analysis

As shown in Figure 3, Suning.com's asset-liability ratio has been increasing continuously from 2017 to 2022. Although the COVID-19 pandemic broke out at the end of 2019, the asset-liability ratio in 2020 was still 0.56 percentage points higher than that in 2019, with a growth rate of 18.06 percentage points in 2021. Through analysis, it is found that Suning.com issued additional bonds and borrowed loans, leading to an increase in the asset-liability ratio. Current ratio and quick ratio are important indicators to measure an enterprise's short-term solvency. Both Suning.com's current ratio and quick ratio first rose and then fell, increasing from 2017 to 2018, which indicates that Suning.com's short-term solvency and liquidity have been

improved through scenario-oriented transformation. However, they have been declining since 2019, with the most significant drop in 2019. This is not only affected by the COVID-19 pandemic, but also due to Suning.com's acquisition of Carrefour, which generated a large amount of loans and led to a decline in solvency. However, compared with Gome Retail, which did not carry out the transformation, Gome Retail's current ratio has been lower than that of Suning.com and decreased year by year, with the short-term debt repayment pressure increasing year by year. The comparative analysis shows that the scenario-oriented transformation has a certain effect on improving Suning.com's short-term solvency.

Figure 3: Solvency Analysis of Suning.com



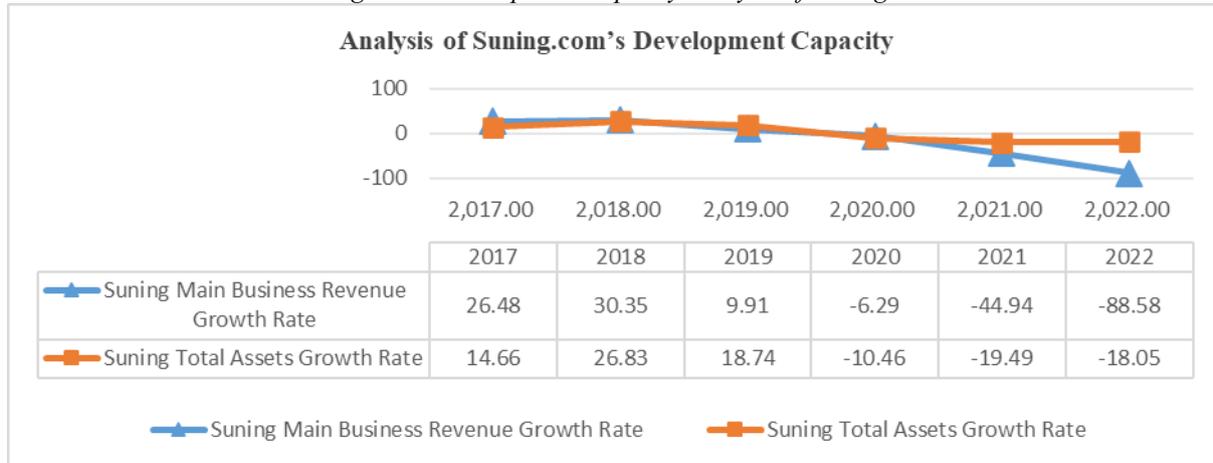
### 3.4 Development Capacity Analysis

As shown in Figure 4, before the outbreak of the COVID-19 pandemic, Suning.com's total assets were increasing continuously. In 2017, the scenario-oriented transformation of Suning.com led to an upward trend in its accounts receivable, inventory goods and other assets. After the strengthening of O2O operation, the multi-line linkage mode led to an increase in the enterprise's sales volume and a significant growth in main business income. The growth rate of main business income increased from 26.48% to 30.35% between 2017 and 2018, an increase of 3.87 percentage points. Through comparison with other retail enterprises, it is found that the scenario-oriented transformation has improved the enterprise's profitability and brought economic benefits. The growth rate of Suning.com's main business income has been decreasing continuously from 2018 to 2022. The outbreak of the COVID-19 pandemic at the end of 2019 led to a drop in the growth rate of main business income from 30.35% to 9.91%, and it fell to -6.29% in 2020 due to the pandemic, which restricted people's outdoor consumption and the turnover of physical stores. The growth rate of main business income of many retail enterprises has declined, but Suning.com's decline range is relatively small compared with others.

Total asset growth rate, the ratio of net profit to total assets, is an important indicator to measure the speed of a company's scale expansion, reflecting the growth of the company's asset scale in a certain period. Suning.com's total asset growth rate rose from 14.66% in 2017 to 26.83% in 2018, an increase of 12.17 percentage points, indicating the continuous expansion of total assets, the increase in the scale of wealth management products, the expansion of industrial layout and the enrichment of categories. The online-offline integrated model has improved the enterprise's sales scale, demonstrating excellent development capacity. Suning.com's total asset growth rate decreased from 26.83% in 2018 to 18.74% in 2019, because Suning Financial Services and Suning Stores were no longer included in the consolidated financial statements in 2019, resulting in a reduction in asset scale. The total asset growth rate in 2020 was -10.46%. Analysis shows that Suning.com's business decreased due to the impact of the COVID-19 pandemic and the new revenue standard, leading to a reduction in total assets. Relatively speaking, Suning has a good development

capacity, and the significant changes of the enterprise after the scenario-oriented transformation can be seen from the total asset growth rate.

Figure 4: Development Capacity Analysis of Suning.com



## 4. Conclusions and Recommendations

### 4.1 Research Conclusions

With the rapid development of the digital economy, traditional retail enterprises have gradually failed to keep up with the pace of development, and many retail enterprises have entered the e-commerce field to meet consumer demand and achieve future development. However, the dividend of e-commerce platforms has become saturated, and many enterprises have to increase costs and face reduced income for survival. Traditional enterprises have begun to adopt the new retail model of integrating online and offline businesses. This paper takes Suning.com as the research object, which integrates various online and offline scenarios and drives consumer shopping through scenario-oriented development. This paper analyzes the impact of the scenario-oriented transformation of business model on financial performance through the analysis of its financial performance, and conducts a horizontal and vertical financial analysis of Suning.com using its data from 2017 to 2022. Through the research, the following conclusions are drawn:

#### 1. Excessively fast expansion speed leads to increased costs

Suning.com is affected by high costs, lacking advantages in the retail industry competition. Blindly expanding the enterprise scale will lead to increased costs without a corresponding growth in operating income.

#### 2. Poor inventory management and low level of accounts receivable management

The total asset turnover rate and inventory turnover rate have been declining continuously, and a large amount of loans has led to a sharp drop in the accounts receivable turnover rate. Suning.com's logistics system needs to be optimized.

#### 3. Unstable development strategy and insufficient risk resistance capacity

The value brought by business model transformation to the enterprise was only reflected in 2018. The subsequent deviation in development direction and strategy has led to poor financial performance of Suning.com and reduced risk resistance capacity.

### 4.2 Policy Recommendations

Based on the above research conclusions, the following policy recommendations are put forward:

#### 1. Slow down the expansion speed and strengthen cost control

Enterprises should give full play to the advantages of online-offline integration, accelerate the integration of online and offline businesses, optimize the supply chain and realize product differentiation. Reduce

unnecessary offline advertising expenses and make the necessary advertising expenses focus on product promotion rather than just building corporate brand awareness. Close some stores with low profitability to reduce cost expenditure. Suning.com should clarify its positioning and not ignore its capabilities or indicators, which will lead to a decline in corporate competitiveness and is not conducive to its long-term development.

## 2. Optimize the logistics system and improve inventory management

Suning.com should continue to promote the smart logistics system and improve the enterprise's logistics and warehousing system based on the five elements of price, time, quantity, location and quality. Build a customized logistics system by leveraging digitalization, such as understanding customers' consumption preferences through big data, reaching sales agreements with product suppliers, and producing and processing products according to customers' preferences. With the gradual development of the retail industry, the online market will continue to expand, and Suning.com should expand the distribution scope of logistics, and improve inventory and accounts receivable management.

## 3. Strengthen internal risk management and adjust development strategies

Suning.com should strengthen internal risk management, continue to promote scenario-oriented construction, realize dual-line integration and build a more comprehensive smart sales model. It should pay attention to the personalized needs of consumers, provide them with higher-quality and more professional services, and improve the economic benefits of the enterprise.

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## Conflicts of Interest

The authors declare no conflict of interest.

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