

Study on the Influence of “New Retail” Mode on Financial Performance of Yonghui Supermarket

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Abstract: In the new wave of retail industry reform, the dual challenges of constrained growth in offline physical stores and the gradual fading of online dividend have forced retail enterprises to accelerate their transformation. Both online retailers and physical supermarkets have realized that in order to maintain the company's long-term sustainable development, it is necessary to achieve a seamless connection between the company's online and physical businesses, and use the latest technologies such as big data to provide customers with targeted products and services, improve the customer shopping experience, achieve better operational results, and continuously improve performance. The inevitability of transformation is obvious, but how to integrate it into the overall work is a problem faced by most retail enterprises. As a leader in China's retail industry, Yonghui Supermarket has played a pioneering role in the new retail transformation.

This paper takes Yonghui Supermarket as a research sample and comprehensively uses literature research and case analysis methods to construct a multi-dimensional framework to evaluate the effect of new retail transformation. Firstly, the connotation of new retail theory is traced, and the core theory of enterprise performance evaluation is sorted out. Secondly, through the cross-analysis of financial indicators, non-financial indicators and economic added value (EVA) model, the transformation effect is quantitatively evaluated. Finally, the research concludes that Yonghui Supermarket's profitability fluctuated during the transformation of new retail, the expansion of brand awareness in non-financial performance fell short of expectations, and the comprehensive evaluation based on the EVA model showed that the EVA value of Yonghui Supermarket from 2018 to 2022 showed a trend of fluctuating first and then deteriorating significantly.

Through a series of analyses of the case, this paper intends to put forward several application suggestions for other companies facing transformation: first, optimize capital allocation and structure; second, deepen supply chain integration and cost control; third, differentiate online business positioning and implement precise marketing; fourth, optimize store layout and business format innovation.

Keywords: Financial Performance; New Retail; Economic Value Added

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1. Introduction

With the upgrading of consumption and technological innovation, the retail industry is undergoing profound changes. traditional physical retail is limited by high rents, high labor costs and e-commerce impacts, and the growth is weak; Online retail is also facing growth bottlenecks due to the fading of traffic dividends and intensified homogeneous competition. In

this context, the “new retail” model has become the core direction of the transformation of the retail industry by integrating online and offline channels, using big data and artificial intelligence technology to reconstruct the relationship between “people, goods and fields”. China’s State Council further accelerated this trend with its Opinions on Promoting Innovation and Transformation in Brick-and-mortar Retail in 2016.

Under the new economic norms and highly Internet-based forms of human society, traditional retail enterprises should take advantage of current new technologies and combine them with logistics to create new businesses. Retail enterprises should take the initiative to update their business models and combine the advantages of online and offline in order to have the possibility of sustainable development. As a leading enterprise in the field of fresh retail in China, Yonghui Supermarket has taken the lead in exploring new retail transformation since 2015, and its development path is typical. On the one hand, Yonghui has carried out business innovation through “super species” and “warehousing stores”, and cooperated with JD.com and Tencent to carry out omni-channel integration and supply chain optimization, realizing business model upgrades; On the other hand, the financial risks exposed during its transformation also reflect the general challenges of the new retail model.

Therefore, this paper takes Yonghui Supermarket as the research object to evaluate the financial performance of its transformation to a new retail model, analyze the factors affecting financial performance and put forward suggestions to improve financial performance, which has certain reference value for the future development of Yonghui Supermarket and even the retail industry and enhances its competitiveness, and can also provide practical reference for similar enterprises.

2.Current situation research

2.1 New retail-related research

Some scholars have conducted research on relevant aspects of new retail, elaborating on the background, connotation, and development trends of the new retail model, and have published related literature.

At the level of new retail business models, Zhang Jianjun pointed out through trend analysis that in the context of the digital era, it is difficult for a single retail channel to meet market demands, and the collaborative integration of online and offline resources is becoming the inevitable direction of industry development^[1]. Wang Zhengpei proposed from the perspective of development logic that the evolution path of the new retail model presents significant problem-oriented characteristics - to solve the shortcomings of traditional retail experience as a breakthrough, relying on technological innovation to form a dual driving mechanism of service upgrading and value appreciation^[2]. At the level of business model innovation, Wang Xuhui systematically explained the ecological characteristics of new retail, believing that it breaks through the boundaries of traditional retail and builds an integrated business ecology that integrates omni-channel services, smart logistics networks, financial technology support and scenario-based social networking^[3]. The classical analysis framework proposed by Osterwalder and Pigneur is more operational, and its nine-element model covers key modules such as value proposition design, customer relationship management, and core resource integration, providing a systematic tool for business model innovation^[4]. Qi Yan’s research conclusions further added that in the innovation practice of retail enterprises, technology iteration constitutes the basic support for transformation, and the reconstruction of value network needs to be realized through specific means such as channel optimization, business focus and deepening of customer relationships^[5]. In terms of the development trend of new retail, Hao Shujun innovatively proposed from the perspective of brand marketing that digital technology empowerment makes product personalization strategies possible, which can effectively strengthen consumers’ sense of brand belonging and stimulate the transformation of consumer behavior by giving products anthropomorphic characteristics^[6]. Wen Yuxuan warned of potential risks in the expansion of new retail, pointing out that although the asset-light operation model can quickly expand the market, the imbalance of capital structure caused by high leverage may exacerbate financing constraints, which in turn affects the stability and long-term competitiveness of the supply chain^[7].

2.2 Research on financial performance

In the evolution of financial performance evaluation theory, Tallal and Jared emphasize that corporate performance evaluation needs to comprehensively consider financial and non-financial dimensions, and relying solely on monetization indicators will lead to one-sided decision-making basis^[8]. Sun Haiying argued from the perspective of scientific evaluation that financial performance, as the core yardstick of enterprise value measurement, directly affects the effectiveness of corporate governance

decisions^[9]. In terms of evaluation method innovation, Stewart's economic value added (EVA) model is a milestone. This indicator breaks through the limitations of traditional accounting profit and ignoring the cost of equity capital through the full-caliber accounting of net operating profit and cost of capital, and realizes the accurate measurement of shareholders' value creation ability. Fan Jinjuan and Guo Hui's latest research suggests that a composite evaluation framework should be constructed including traditional financial indicators, EVA value analysis and DuPont decomposition model, and the robustness of conclusions should be improved through multi-dimensional cross-verification^[10]. In the study of the influencing factors of financial performance, Xue Qiao pointed out that the executive equity incentive mechanism can optimize the efficiency of R&D resource allocation and ultimately drive the growth of enterprise value by alleviating agency conflicts in R&D investment^[11]. In view of the heterogeneity characteristics of enterprises, Tang Wenxiu's comparative research found that compared with enterprises dominated by state-owned capital, private enterprises have more advantages in R&D input-output efficiency, and the intensity of product market competition will positively adjust the promotion effect of R&D investment on financial performance^[12]. Wang Xinhong warned of capital structure risks, and his research shows that a high proportion of equity pledges by major shareholders will exacerbate agency problems and significantly weaken company performance, and a sound internal control mechanism can form effective checks and balances on this^[13].

2.3 Literature review

From the perspective of research methodology, the academic research on the transformation effect of new retail mostly uses cross-enterprise panel data to carry out large-sample quantitative analysis, and its conclusions generally verify the positive effect of this model on enterprise performance, indicating that the business indicators after transformation show a significant optimization trend compared with the baseline level. Based on the complexity and multifaceted nature of the new retail model in China's localization practice, although the digital transformation of the retail industry has continued to deepen in recent years, the longitudinal tracking research on the evolution of performance before and after the transformation of specific enterprises is still insufficient. The purpose of this study is to quantitatively evaluate the impact of the implementation of the new retail strategy on the value creation of Yonghui enterprises, find out the problems of financial performance under the new retail model and give specific improvement measures, enrich the research on the financial performance of Yonghui Supermarket's new retail transformation, and put forward transformation and optimization measures to adapt to China's retail ecology, so as to provide methodological and empirical reference for subsequent research.

3.Introduction to Yonghui Superstores' New Retail Model Transformation

3.1 Overview of Yonghui Supermarket

3.1.1 Company profile and main business

Founded in 1995, Yonghui Supermarket Co., Ltd. (hereinafter referred to as "Yonghui Supermarket") is a benchmarking comprehensive enterprise in China's retail industry. Its business network covers a variety of commodity categories such as fresh food, household daily necessities and consumer electronics, relying on the supply chain advantages and brand accumulation formed by deep cultivation in the past 30 years, and firmly ranks in the leading camp of domestic chain supermarkets. Adhering to the concept of "customer value first", the company continues to consolidate its market competitiveness through business innovation such as warehousing member stores and community fresh food stores and intelligent shopping scene service upgrades. The implementation of the differentiation strategy has enabled it to break through in the Red Sea competition, and in 2022, it will continue to rank among the top 100 Chinese chains with a revenue scale of more than 100 billion yuan, and the consumer satisfaction index will reach the industry-leading level.

In terms of Yonghui Supermarket's main business by industry, the retail industry accounts for the vast majority, specifically about 93.38%; In terms of products, fresh food and processing accounted for about 47.43%, nearly half, which fully reflects the distinctive characteristics of Yonghui Supermarket based on fresh commodity management. Combined with the gross profit margin indicators, it can be seen that although the gross profit margin of fresh food retail is relatively low, due to its rigid demand, it will attract a large number of regular customers to consume here, and drive the sales of other products with this volume, see Table 3-1 below.

Table 3-1 Yonghui Supermarket's main business by industry in 2022 (unit: 100 million yuan)

Industry						
Retail	841.28	720.66	11.34	-0.98	-2.07	0.96
services	59.63	2.95	95.05	-2.32	-32.67	2.22
Fresh and processed	399.00	349.31	12.45	-2.27	-3.47	1.09
Food supplies	442.28	371.34	16.04	0.22	-0.72	0.79

Source: Yonghui Superstores' 2022 Annual Report

3.1.2 Industry Position and Development Journey

Yonghui Supermarket was founded in 2001. Starting with its first store in Fujian, it gradually expanded and grew into the remarkable scale of thousands of stores today. Its development journey can be divided into the following stages:

(1) Initial stage (1995-2001) : The supermarket transformation model of traditional farm markets laid the foundation.

In the 1990s, China's consumption structure underwent accelerated upgrading, with a continuous decline in the Engel coefficient driving innovation in retail formats. At that time, traditional farm markets faced a crisis of trust due to issues such as management disorder and lack of quality control over goods. In 1995, Zhang XuanSong keenly identified policy trends and opened the first "Gule Weili Supermarket" in Fuzhou, initiating the practice of transforming traditional farm markets into supermarkets. In 1998, the brand was upgraded to "Yonghui Superstores," establishing a foundation for differentiated competition through standardized operations and a direct fresh produce procurement model.

(2) Expansion Phase (2001-2016) : Fresh Product Strategy Driving National Layout

Facing competitive pressure from foreign giants like Walmart, Yonghui focused on the high-frequency, essential nature of the fresh product category to build a supply chain moat. In 2001, Fuzhou Yonghui Supermarket Co., Ltd. was established, implementing a strategy of "regional consolidation followed by inter-provincial replication." This phase unfolded in several key steps: Regional Penetration: Starting with its initial entry into the Chongqing market in 2004, Yonghui added over 20 new stores within five years. Capital Boost: Its 2010 IPO on the A-share market, which raised 4.18 billion RMB, accelerated expansion into first-tier cities (Beijing, Shanghai, Guangzhou, Shenzhen) and central/western regions. Model Replication: Through mergers, acquisitions, and integration, Yonghui achieved standardized, cross-regional replication of its fresh product supply chain. By 2016, the number of stores surpassed 500. During this phase, Yonghui established its industry position as the "Fresh Food Champion," leveraging its core capability of maintaining a fresh product loss rate 50% lower than the industry average.

(3) Transition period (2016-2024) : New Retail Ecosystem Restructuring

In response to consumption upgrades and e-commerce competition, Yonghui launched its "Four-Cloud Strategy" (Yunchuang, Yunshang, Yunchao, Yunjin). Through business model innovations such as the "Super Species" and membership-based warehouse stores, online sales accounted for 14.3% of total revenue by 2022. Partnerships with JD.com and Tencent enabled smart supply chain enhancements and technological empowerment, reducing inventory turnover days to 28. By the end of 2022, Yonghui operated 1,033 stores nationwide, generating over 91 billion RMB in revenue and ranking fourth among China's Top 100 Chain Retailers, achieving significant economies of scale.

3.2 Transformation Outcomes of Yonghui Supermarket's New Retail Model

3.2.1 A store closure wave surges at Yonghui Superstores, as explorations of new business models falter

Yonghui Supermarkets' new retail transformation has yielded mixed results amid fierce industry competition. While the company successfully expanded its online sales contribution to 14.3% by 2022 and reduced inventory turnover days to 28 through technological partnerships, its store network underwent significant contraction. After peaking at 1,440 stores in 2019, the company closed 407 locations over the next three years, leaving 1,033 stores by 2022. Several much-hyped new formats failed to gain traction: the premium "Super Species" concept shrank from 88 stores to just 6 locations; the community-focused Yonghui Mini stores reported losses of 130 million yuan in 2021; and the non-membership warehouse format, limited by its conversion from existing hypermarkets, saw only 55 renovations with no further expansion, criticized for lacking inherent "warehouse DNA." This contrast between digital progress and physical retrenchment highlights the challenges traditional retailers face in balancing innovation with sustainable growth.

3.2.2 Yonghui Yunchuang, the new retail division established in 2015, consistently reported losses, with its equity divestment further impeding development.

Yonghui Yunchuang, the new retail division established in 2015, consistently reported losses, with its equity divestment further impeding development. Its "Yonghui Life" format integrated convenience store features, fresh produce, and online operations but struggled with external competition and internal inefficiencies, accumulating 1.32 billion yuan in losses from 2016 to 2018 and becoming a financial burden. Due to strategic differences, the founding Zhang brothers split the business in 2018, with Yonghui Superstores transferring 20% of Yunchuang's equity to Zhang Xuanning. Although the parent company repurchased the stake two years later, Yunchuang's performance remained dismal—generating merely 475 million yuan in revenue against 379 million yuan in losses in 2021. Repeated equity transfers failed to resolve the issue, ultimately leaving the listed entity to bear the losses and dragging down overall performance.

3.2.3 Yonghui Yunshang's core business spiraled out of control, with its subsidiary Caishixian becoming insolvent.

The core central kitchen operations of Caishixian under the Yunshang division faced similar challenges. Yonghui's subsidiary, Shangshu Yonghui, underwent bankruptcy liquidation in 2020, while Caishixian was insolvent during the same period. Although it received a capital injection of 1 billion yuan from Tencent and other investors to alleviate financial pressure, the low gross margin of the fresh food business necessitated reliance on external funding. In 2019, Yonghui lost control over Caishixian, leading to its exclusion from the consolidated financial statements. That year, Caishixian reported revenue of 3.194 billion yuan with a loss of 370 million yuan. By 2022, Yonghui recognized an investment loss of 1.08 billion yuan from Caishixian under the equity method.

3.2.4 Yonghui Yunjin faced business contraction amid frequent compliance issues

In 2019, Yonghui Cloud Finance, despite holding a financial license, faced obstacles in business development: its enterprise financial product "Hui Shangchao" was criticized for non-standard user information collection and opaque loan terms; its consumer finance product "Xiao Hui Dai" encountered the chaos of third-party collection even after repayment, which led to user complaints. Such compliance issues led to a decline in the trust of Cloud Finance's business. Coupled with intensified industry competition, the overall business showed a contracting trend and failed to effectively support the construction of Yonghui's ecological closed loop.

4. Financial Performance Evaluation of New Retail Transformation

4.1 Financial Performance Analysis Based on Financial Indicators

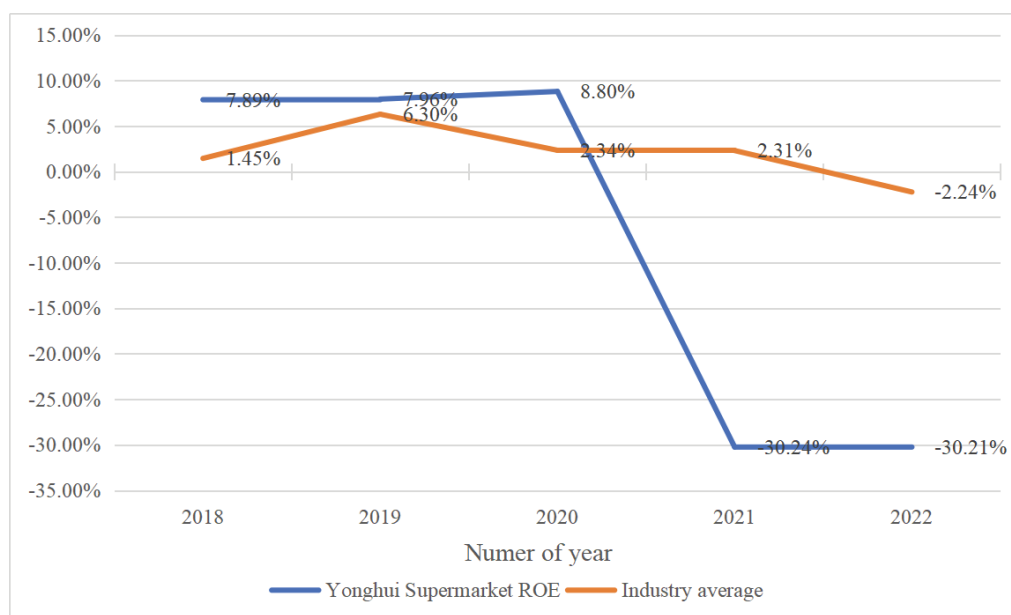
This article includes return on equity and total asset turnover under the financial performance category, using Yonghui Superstores' financial data from 2018 to 2022 as a basis to conduct financial performance evaluation and analysis from the perspectives of profitability, operational capability, debt-paying ability, and development capability.

4.1.1 Profitability Analysis

For traditional retail enterprises, under the dual pressures of overall industry slowdown and rising labor costs, achieving high profitability has become the core goal of their new retail transformation. A critical evaluation metric in this transformation process is ROE (Return on Equity), which comprehensively reflects the company's profitability.

Data source: Guotai An Database

Figure 4-1: Chart of Return on Equity for Yonghui Superstores and Industry Average from 2018 to 2022



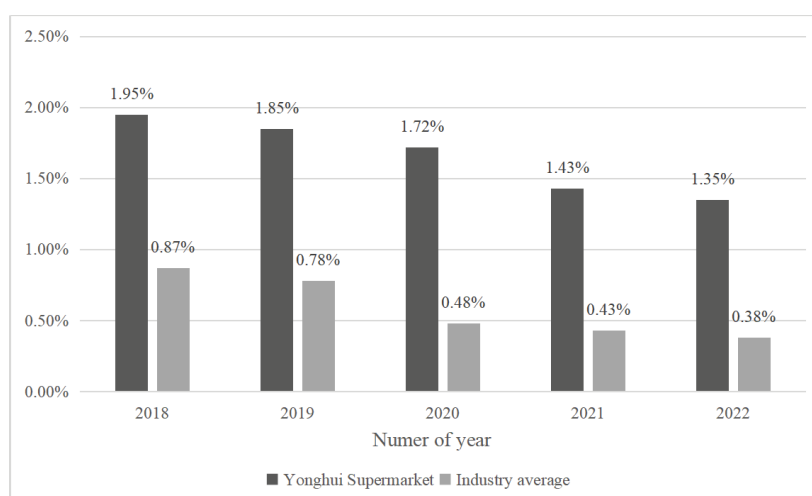
As shown in Figure 4-1, from 2018 to 2020, Yonghui Supermarket's ROE showed a steady upward trend, particularly achieving slight growth during the pandemic period from 2019 to 2020, contrary to the overall downward trend in the retail industry. This was mainly due to the vigorous expansion of community-based businesses represented by Yonghui Mini Stores. However, from 2020 to 2022, Yonghui's ROE exhibited a sharp decline and remained consistently below the industry average, falling to -30.21% in 2022. Overall, considering the industry as a whole, Yonghui's ROE showed a continuous downward trend, indicating that its new retail transformation failed to provide sustained support for improving ROE and instead became a drag on the company's development. It is worth noting that after 2021, Yonghui Supermarket vigorously promoted its self-developed YHDOS system. By 2022, the infrastructure for large-scale investment, including the data middle platform, was basically established. Relying on the YHDOS system, Yonghui Supermarket was able to curb continued losses to some extent, but the overall situation remains far from optimistic.

4.1.2 Operating Capacity Analysis

Total asset turnover is a key indicator for assessing a company's asset management efficiency and operational capability. The turnover of current assets directly reflects the speed of asset circulation and the activity level of sales. An increase in turnover speed often implies enhanced profitability and the ability to convert investment returns.

Data source: Guotai An Database

Table 4-2 Changes in Total Asset Turnover of Yonghui Superstores and Industry Average from 2018- 2022

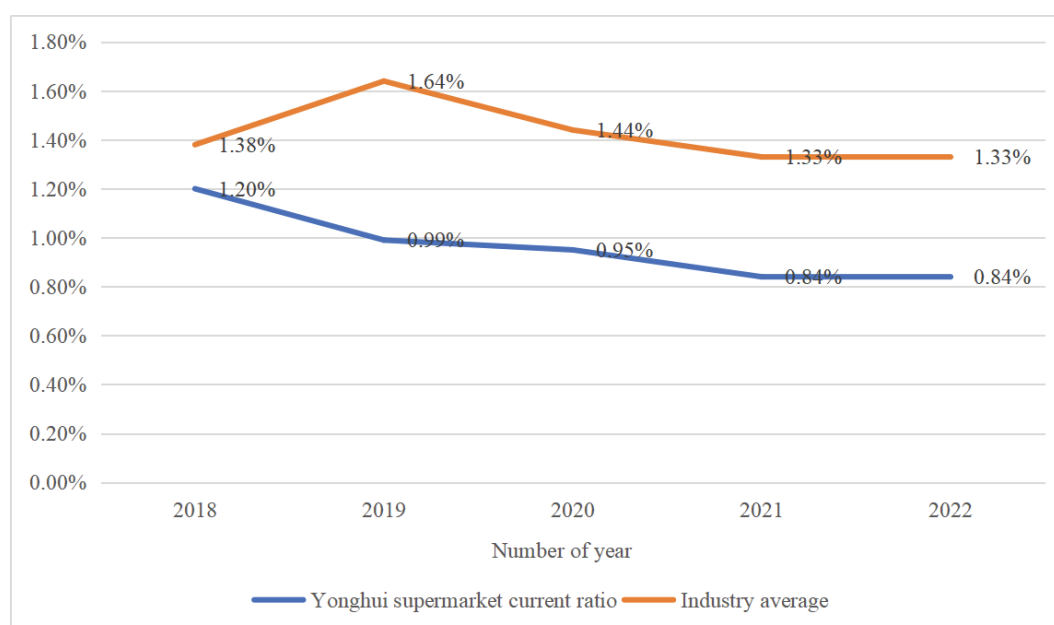


According to Figure 4-2, from 2018 to 2022, Yonghui Superstores' total asset turnover continuously declined, highlighting challenges in its asset management efficiency. This phenomenon mainly stems from the company's structural adjustments and the advancement of innovation strategies, such as large-scale physical store expansion and the development of new business segments. Although these investments aim to expand the market, they have partially resulted in diluted customer density, thereby lowering asset turnover. How to optimize asset utilization efficiency and balance expansion scale with returns has become an urgent operational challenge for Yonghui Superstores.

4.2.3 Solvency Analysis

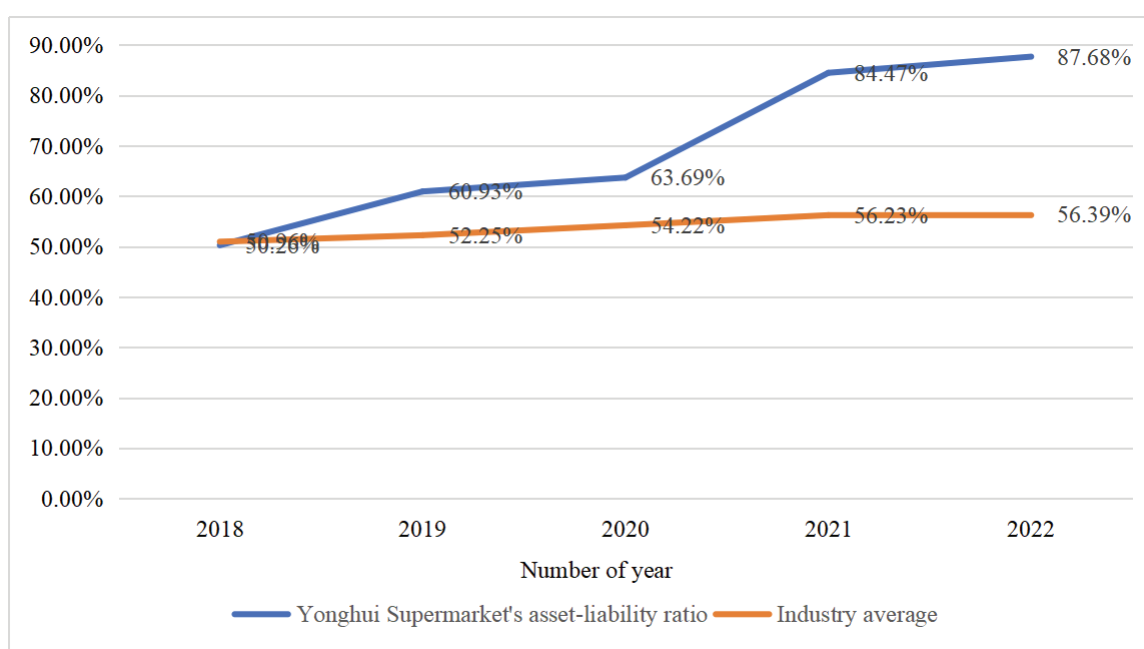
Data source: Guotai An Database

Figure 4-3 Changes in Yonghui Supermarket's Short-term Solvency and Average Values from 2018 to 2022



Data source: Guotai An Database

Figure 4-4 Changes in Solvency of Yonghui Superstores and the Industry Average from 2018 - 2022



Figures 4-3 and 4-4 present Yonghui Supermarket's post-transformation debt repayment indicators, including the current ratio and debt-to-asset ratio. The current ratio measures short-term debt-paying ability, while the debt-to-asset ratio reflects long-term debt repayment stability. The data show that Yonghui's debt-to-asset ratio is higher than the industry average, whereas its

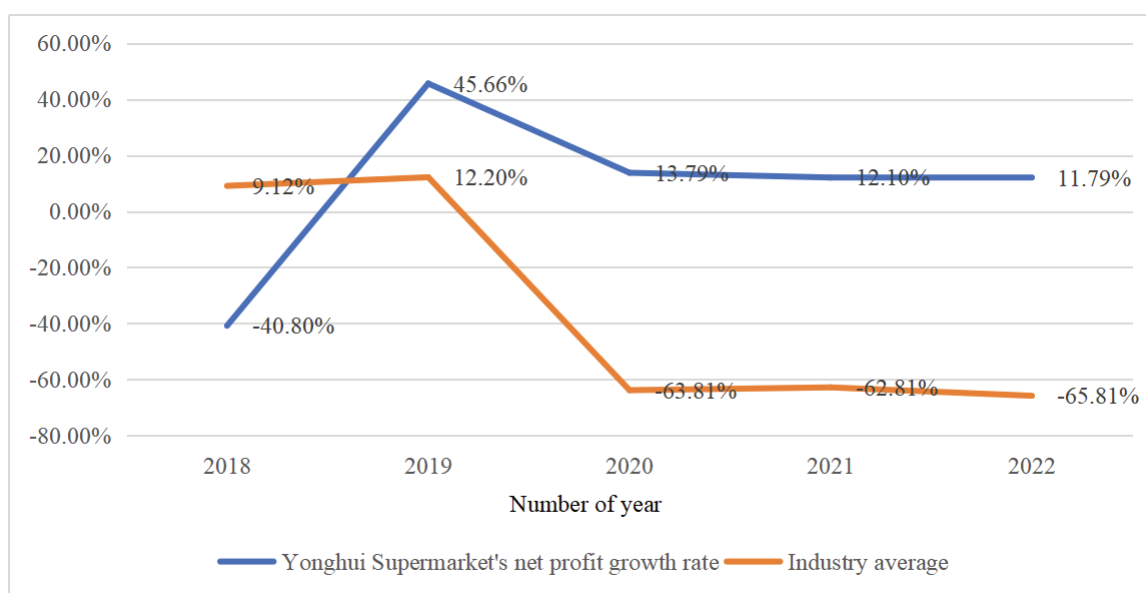
current ratio remains below the industry standard. This situation may be related to the advancement of the new retail strategy: inventory management delays lead to a reduction in current assets, while scale expansion accompanied by increased purchase frequency may slow down the payment cycle to suppliers. Although overall debt has risen, the growth of current liabilities directly lowers the current ratio, weakening short-term debt flexibility. Therefore, optimizing liquidity management under the new retail model has become key for Yonghui to improve its short-term debt-paying ability.

4.2.4 Development Capability Analysis

In terms of measuring the development capability of Yonghui Superstores, this paper starts from two indicators: total asset growth rate and net profit growth rate, and conducts comparative analysis in conjunction with the industry averages of each indicator. Among them, the total asset growth rate represents the changes in the growth of a company's total assets and can be used to measure the company's expected development potential and overall stability.

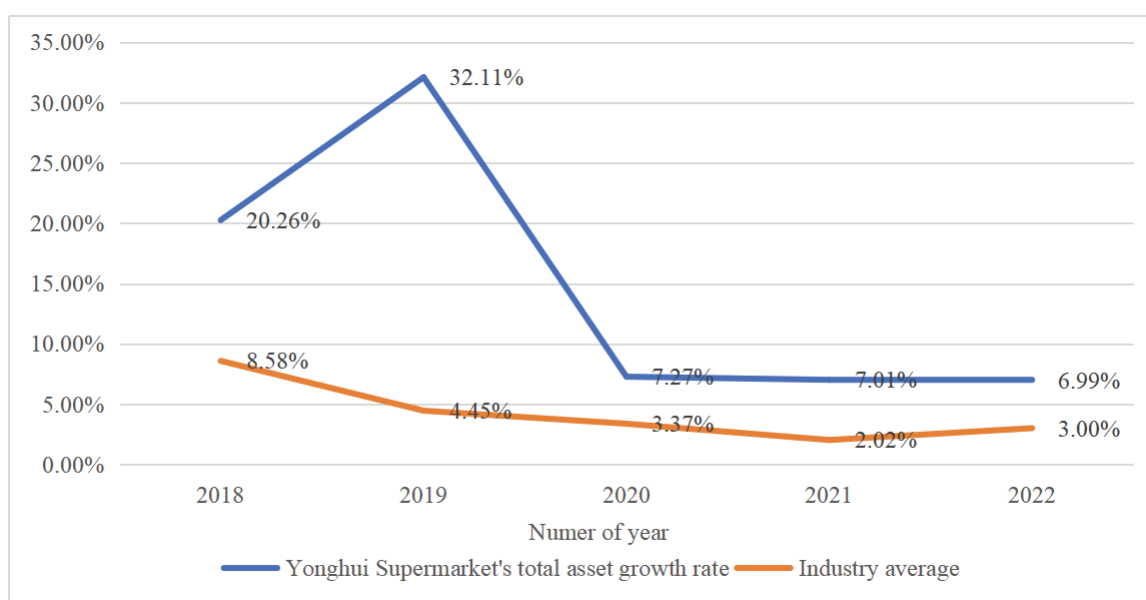
Data source: Guotai An Database

Figure 4-5 Changes in Net Profit Growth Rate of Yonghui Superstores and Industry Average, 2018-2022



Data source: Guotai An Database

Figure 4-6 Changes in Total Asset Growth Rate of Yonghui Superstores and Industry Average, 2018-2022



As can be seen from Figures 4-5 and 4-6, Yonghui Superstores' total asset growth rate in 2018 was significantly higher than

the industry average, but the gap with the industry gradually narrowed in the following years, reflecting a gradual weakening of its total asset growth momentum. Net profit growth rate, as an important indicator of a company's value expansion and development capacity, was affected by the overall shift of the industry from positive to negative and frequent store closures after the 2020 pandemic. Although Yonghui was impacted, it still maintained positive net profit growth from 2020 to 2022, maintaining an expansion trend. Overall, although Yonghui's development speed has slowed, it still shows a certain positive growth trend compared to the industry average.

4.2 Analysis of Non-Financial Performance Based on Non-Financial Indicators

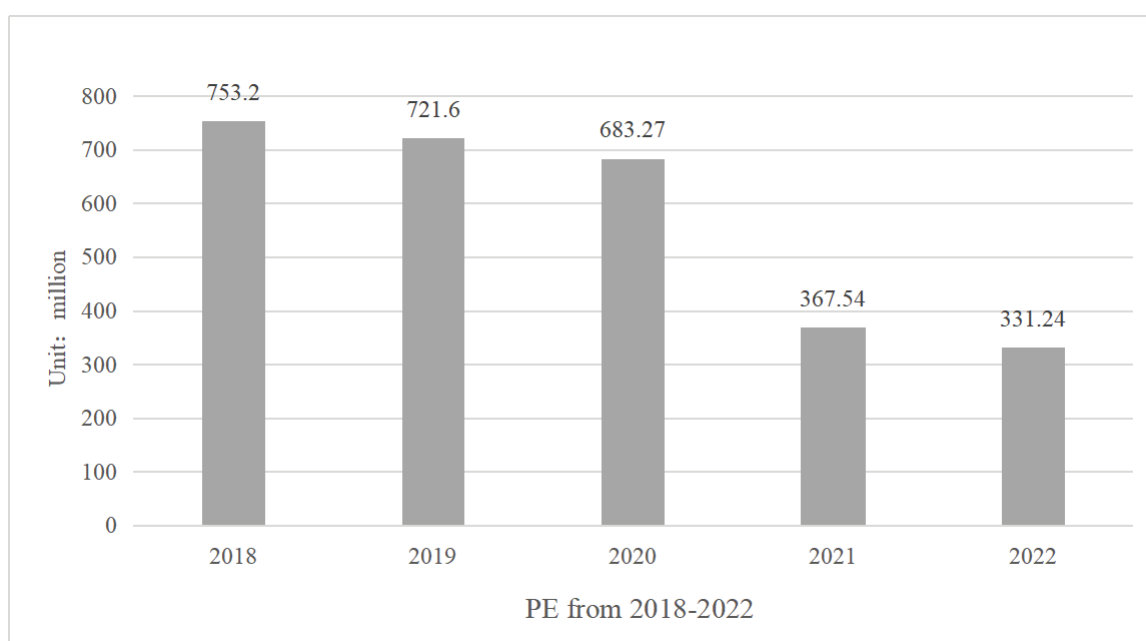
Based on Yonghui Supermarket's new retail model, this paper incorporates brand awareness, category sales proportion, and gross profit ratio into the non-financial performance dimension for enterprise performance analysis.

4.2.1 Brand awareness

Brand awareness reflects the extent to which consumers are aware of a brand and, to some extent, indicates a company's industry status and competitiveness. Since customer awareness is difficult to quantify directly, here we use Yonghui Superstores' market value (PE) as a reference indicator.

Data source: Guotai An Database

Figure 4-7 Yonghui Superstores 2018-2022 Market Value (PE) Change Chart



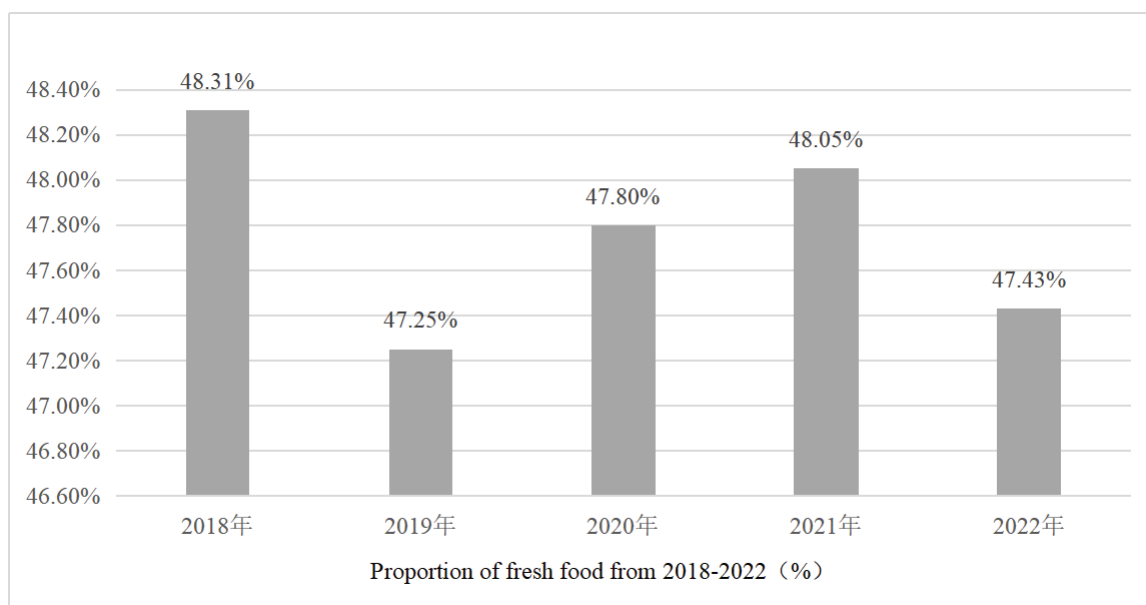
From the trend of the data in Figure 4-7, Yonghui Superstores experienced a significant decline in market value between 2018 and 2022, with its market value dropping sharply from 75.32 billion yuan in 2018 to 33.124 billion yuan in 2022, nearly halving. There are two main core factors behind this phenomenon. First, the store expansion strategy did not achieve the expected goals. In 2022, the operational data of Yonghui Superstores' Bravo stores showed that 36 new stores were opened throughout the year, while 60 stores were closed, and only 10 new store agreements were signed. The frequent store closures and lagging store expansion not only triggered negative market expectations regarding its stock price but also severely constrained the continuous expansion of the brand's market influence and were unfavorable to improving consumer brand awareness. Second, growth in customer traffic encountered bottlenecks. Yonghui Superstores initially relied on fresh food categories as the core means to attract customers, driving sales growth in other categories. However, with the rise of e-commerce platforms, community group buying, and other emerging retail models, its target customers were largely diverted. Weak growth in customer traffic directly led to fewer brand exposure opportunities, which in turn caused a decline in consumer brand awareness of Yonghui Superstores, ultimately negatively affecting its market value performance.

4.2.2 Store Operations Status

Category sales proportion is an important indicator for assessing the inventory structure and rationality of purchasing in

a store. Enterprises can use this data to optimize their product mix and accurately position their key products, thereby enhancing overall sales efficiency. Taking Yonghui Superstores, which focuses on fresh produce as its core business, as an example, the fresh produce category holds a strategic central position in its business structure. The following analysis is based on the proportion of fresh produce in its retail business over the past five years.

Figure 4-8 Change in the Proportion of Fresh Produce at Yonghui Supermarket from 2018 to 2022



Yonghui Supermarkets' main business is comprised of two major segments: food products and fresh produce. According to the data shown in Figure 4-8, in 2022, revenues from food products and fresh produce reached 39.9 billion yuan and 44.2 billion yuan respectively, with fresh produce consistently accounting for 47%-49% of the total. The operation of fresh produce has distinct characteristics: it involves a wide and dispersed variety of products, low standardization, high spoilage rates, strict requirements for turnover efficiency, and comparatively lower profit margins than other supermarket categories. For offline supermarkets, customer traffic is fundamental to sales conversion, which is why locations are often concentrated in densely populated areas. Fresh produce, with its high-frequency consumption nature, serves as a core traffic driver. In China, daily demand for fresh produce is robust, and frequent purchasing habits make it a traffic engine for both physical stores and e-commerce platforms. Moreover, fresh produce can guide consumer movement within stores, stimulating 'impulse buying' behaviors, thereby indirectly increasing the average transaction value.

Table 4-1 Gross Profit Margin by Product Category of Yonghui Supermarket, 2018-2022

Project Proportion (%)	2018	2019	2020	2021	2022
Fresh produce	14.86	13.22	13.84	11.36	12.5
Food products	19.23	18.72	18.60	15.25	16.4

Data source: Guotai An Database

In terms of the gross profit margin performance of fresh products, although the pandemic had a certain impact, causing a slight decline in gross profit margins, fresh products, as essential daily necessities during the pandemic, allowed Yonghui Superstores' supply advantages in fresh products to be fully highlighted. From 2021 to 2022, although the sales of Yonghui Superstores' fresh products fell by 2.2%, their gross profit margin grew by 1.14% contrary to the trend. At the same time, sales of food products increased by 1.15%. This data indicates that the fresh product business and food business are showing coordinated growth, further confirming that Yonghui Superstores' business model, characterized by fresh products, effectively drives traffic and promotes overall business development, demonstrating that its business structure is reasonable.

4.3 Comprehensive Evaluation of Financial Performance Based on the EVA Model

EVA is a metric used to measure a company's performance. It can reflect the achievement of the company's current operational goals and also allow managers to make scientific and rational forecasts about the company's future development. Economic Value Added (EVA) is an indicator for evaluating business performance. If EVA is positive, it indicates that the company has created new value; if it is negative, the opposite is true. The EVA calculation formula is as follows :

Economic Value Added = Net Operating Profit After Taxes - Total Invested Capital $\times$ Weighted Average Cost of Capital

Among them,

Among them, Net operating profit after tax = Sales - Operating expenses - Related taxes; Total invested capital = Interest-bearing debt + Cost of equity

Weighted average cost of capital = Cost of debt $\times$ (Debt / Total capital) $\times$ (1 - Tax rate) + Cost of equity $\times$ (Equity / Total capital)

4.3.1 EVA Calculation Adjustment Item

Based on adjustments made by domestic and international companies when applying the EVA theory and considering the uniqueness of the industry in which Yonghui Supermarket operates, the accounting adjustments for calculating EVA under the new retail business model, following the principles of materiality priority, controllability, data availability, and industry applicability, are specifically as follows:

- (1) Asset Impairment Adjustment: Under the new retail model, Yonghui Supermarket's inventory and receivables increase with sales growth. Asset impairment losses need to be included in the EVA adjustments to proactively manage potential asset loss risks.
- (2) Non-operating Income and Expenditure Adjustment: Non-operating income such as government subsidies should be excluded, as such short-term policy support does not reflect core operating capabilities and should be deducted from EVA calculations.
- (3) Construction in Progress Adjustment: Traditional accounting treats construction in progress as an asset, but under the new retail model, newly added stores under construction have not yet generated actual benefits, and thus should be excluded from assets in the adjustments.
- (4) Deferred Income Tax Adjustment: When calculating EVA, it should be based on current income tax, with deferred tax liabilities added back and deferred tax assets deducted, focusing on the impact on current cash flow.

4.3.2 Calculation of Net Operating Profit After Taxes and Capital Cost

After-tax Net Operating Profit (NOPAT) = Operating Profit - Income Tax Expense + (Interest Expense + Asset Impairment Loss + Development Expenditure) $\times$ (1 - Corporate Income Tax Rate) + Increase in Deferred Tax Liabilities - Increase in Deferred Tax Assets.

Table 4-2 Net Operating Profit After Taxes from 2018 to 2022 (Unit: 100 million yuan)

Year	2018	2019	2020	2021	2022
Operating Profit	12.64	16.40	22.85	-48.28	-32.98
Income tax expense	4.52	3.24	5.21	-2.27	-2.19
Including: Interest expenses	1.48	3.51	2.23	15.52	15.38
Asset impairment losses	0.69				
Development expenditures					0.11
Increase in deferred tax Liabilities	0.82	1.55	3.35	-4.44	-0.47
Increase in Deferred Tax Assets	0.37	2.18	0.52	5.63	2.20
Income Tax Rate (%)	25	25	25	25	25
Net operating profit after tax	10.19	15.16	22.14	-44.43	-21.84

Data source: Calculated and compiled from the CSMAR database

As shown in Table 4-2, the after-tax operating profit from 2018 to 2022 was positive, with the highest being 2.214 billion yuan in 2020. Factor analysis revealed that the after-tax operating profit in 2021 was negative mainly due to an increase in operating costs. The company's R&D investment in 2021 increased by 428 million yuan compared to 2020. In terms of technology investment and platform development, the company continued to increase investment in 2022.

According to Yonghui's annual report and the EVA adjustment principles, the formula used in this paper to calculate total capital is: Total Capital = Total Shareholders' Equity + Asset Impairment Provisions – Impairment Provisions for Construction in Progress – Net Construction in Progress + Deferred Tax Liabilities – Deferred Tax Assets + Short-term Borrowings + Trading Financial Liabilities + Non-current Liabilities Due Within One Year + Long-term Borrowings + Bonds Payable + Long-term Payables.

Table 4-3 Total Assets Calculation Table from 2018 to 2022 (Unit: 100 million yuan)

Year	2018	2019	2020	2021	2022
Total Equity	204.08	194.32	204.54	203.93	110.77
Net amount of construction in progress	4.23	2.92	1.74	1.94	4.1
Deferred tax liabilities	0.45	1.27	2.82	6.17	1.73
Deferred tax assets	1.65	2.03	4.21	4.73	10.36
Short-term loan		36.9	108.13	138.9	109.48
Non-current liabilities due within one year					20.7
Long-term loan					10.21
Total assets	198.65	227.54	309.54	342.33	238.42
Debt-to-capital ratio	0.00%	16.22%	34.93%	40.57%	58.88%
Equity capital ratio	100.00%	83.78%	65.07%	59.43%	41.12%

Data source: Guotai An Database

4.3.3 Calculate the weighted average cost of capital

Weighted Average Cost of Capital = Cost of Debt $\times$ (Debt / Total Capital) $\times$ (1 - Tax Rate) + Cost of Equity $\times$ (Equity / Total Capital)

Debt capital = short-term loans + long-term loans + non-current liabilities due within one year + long-term loans + bonds payable + long-term payables ;

Equity capital = Total capital - Debt capital

The first step is to calculate the cost of debt capital. For simplicity, this article takes the cost of debt capital for Yonghui Superstores by choosing the benchmark one-year bank loan interest rate.

The second step requires calculating the cost of equity capital for Yonghui Superstores. This article uses the Capital Asset Pricing Model (CAPM) to calculate it: $Re = Rf + \beta \times (Rm - Rf)$, where: Re is the cost of equity capital; Rm is the expected return of the asset portfolio; Rf is the risk-free market rate; $Rm - Rf$ is the risk premium of the asset portfolio; and β is the market risk coefficient of the investment. The risk-free interest rate is chosen as the benchmark one-year bank deposit rate; the risk premium is based on China's GDP growth rate; and the risk factor is taken as the beta value weighted by the market capitalization over 250 trading days. The calculation results are shown below.

Table 4-4 Cost of Equity Capital Calculation Table

Year	2018	2019	2020	2021	2022
Risk-free interest rate	1.50%	1.50%	1.50%	1.50%	1.50%
Risk factor	1.32	0.99	0.77	0.62	0.62
Market risk premium	6.90%	6.60%	6.10%	2.30%	8.10%
Cost of Equity Capital	10.61%	8.03%	6.20%	2.93%	6.52%
Cost of debt capital	4.35%	4.35%	4.35%	4.35%	4.35%

Data source: Guotai An Database

Table 4-5 Table of Weighted Average Cost of Capital

Year	2018	2019	2020	2021	2022
Debt-to-capital ratio	0.00%	16.22%	34.93%	40.57%	58.88%
Equity capital ratio	100.00%	83.78%	65.07%	59.43%	41.12%
Cost of debt capital	4.35%	4.35%	4.35%	4.35%	4.35%
Cost of Equity Capital	10.61%	8.03%	6.20%	2.93%	6.52%
Weighted Average Cost of Capital (WACC)	10.61%	7.44%	5.55%	3.50%	5.24%

Data source: Guotai An Database

4.3.4 Calculate the EVA value of Yonghui Superstores

By calculating the after-tax net profit, total investment cost, and weighted average cost of capital as mentioned earlier, we now apply the EVA calculation formula to obtain the EVA values of Yonghui Superstores for the years 2018-2022. The results are shown in the table below:

Table 4-6 EVA Values from 2018 to 2022 (Unit: 100 Million Yuan)

Year	2018	2019	2020	2021	2022
Net operating profit after tax	15.60	10.19	15.16	22.14	-44.43
Total Investment at the End of the Period	198.65	227.54	309.54	342.33	238.43
Weighted Average Cost of Capital	10.61%	7.44%	5.55%	3.50%	5.24%
EVA value	-5.47	-6.73	-2.02	10.15	-56.93

Data source: Obtained through compilation and calculation from the Guotai An database

From Table 4-6, it can be observed that the EVA values of Yonghui Superstores from 2018 to 2022 show an overall trend of initially fluctuating and then significantly deteriorating. In 2018-2019, EVA remained negative and the negative value expanded, mainly due to the impact of e-commerce on traditional supermarkets, low gross margins in fresh food, and cost increases from store expansion, coupled with relatively high weighted average cost of capital. In 2020, due to the essential demand for fresh food during the pandemic, growth in online business, and cost control measures, the losses narrowed. In 2021, with the maturity of the online-offline integration model, the emergence of economies of scale, and a reduction in capital costs, EVA turned positive for the first time. In 2022, affected by the recurrence of the pandemic, a surge in cost pressures, and a sharp increase in asset impairment losses, EVA plummeted to -56.93, indicating significant value destruction. This change is closely related to the particular characteristics of the industry in which Yonghui operates: the fresh food sector is characterized by low margins, high wastage, and continuous investment demands due to the transformation to new retail, which, combined with the challenges of a capital-intensive business model, leads to considerable fluctuations in value creation capability. Overall, however, since implementing new retail strategies, Yonghui has shown overall positive progress, and its innovation and layout in business formats are sustainable. In the future, by optimizing capital allocation, integrating the supply chain, differentiating online business positioning, and optimizing capital structure, the company can seek a balance between efficiency improvement and risk control to achieve sustainable value creation.

5. Research Conclusions and Recommendations

5.1 Research conclusion

Yonghui Superstores' transformation to a new retail model has, to some extent, propelled the company's development but also exposed many issues affecting its performance. Specifically:

In terms of financial performance, the company's profitability showed a fluctuating trend of rising first and then falling. From 2018 to 2020, Yonghui Superstores steadily increased its return on equity (ROE) through measures such as community business expansion, even achieving growth against the trend during the pandemic. However, after 2020, due to various factors, ROE sharply declined and remained below the industry average, falling to -30.21% in 2022, indicating that the new retail transformation failed to provide sustained support for ROE.

In terms of non-financial performance, brand awareness was affected by slower-than-expected store expansion and bottlenecks in customer traffic growth. Market value dropped sharply from 75.32 billion yuan in 2018 to 33.124 billion yuan in 2022, nearly halving, and consumer brand recognition showed a declining trend. Regarding product category sales share, fresh produce consistently accounted for 47%-49% of total sales. While it drove overall business growth through its traffic-attracting effect and maintained a reasonable business structure, the high spoilage and low-margin characteristics of the fresh produce category remained, with its gross margin fluctuating slightly due to the pandemic and other factors.

Based on a comprehensive evaluation using the EVA model, Yonghui Superstores' EVA from 2018 to 2022 generally fluctuated initially and then deteriorated sharply. From 2018 to 2019, under competitive pressure from traditional supermarkets, the characteristics of the fresh produce business, and high capital costs, EVA remained negative and the negative values expanded. In 2020, due to the essential demand for fresh produce during the pandemic, enhanced online business, and cost control, losses narrowed. In 2021, the maturity of the online-offline integration model, scale effects, and lower capital costs resulted in EVA turning positive for the first time. In 2022, repeated pandemics, surging cost pressures, and a sudden increase in asset impairment losses caused EVA to plummet to -56.93, leading to substantial value destruction. This change is closely related to the low-margin and high-spoilage nature of the fresh produce sector, the continuous investment pressure from the new retail transformation, and capital structure issues under the company's heavy-asset model.

5.2 Suggestion

5.2.1 Optimizing Capital Allocation and Structure

Focus on core businesses and high-margin categories, reduce investments in inefficient stores and loss-making new business formats, and concentrate resources on fresh produce core business and high-margin proprietary brand products to improve capital efficiency. By optimizing the product mix, increase the sales proportion of high-margin categories to enhance profitability. Optimize the capital structure by reasonably adjusting the debt-to-equity ratio to reduce financial risks caused by high leverage. Financing channels can be broadened through equity financing and asset securitization to lower debt costs, extend debt maturities to match the return cycle of new retail investments, and improve corporate credit ratings to secure more favorable financing conditions.

5.2.2 Deepen supply chain integration and cost control

Strengthen vertical integration of the supply chain, further expand the scope of "direct sourcing from origin," establish long-term strategic alliances with more high-quality suppliers, and build or collaborate in constructing more fresh produce production bases to ensure the quality and stability of fresh products while reducing procurement costs. Optimize the cold chain logistics network, improve warehousing and distribution efficiency, reduce fresh produce loss rates, and consolidate a market position of both competitive pricing and quality. Promote digital supply chain management by utilizing technologies such as big data analysis and the Internet of Things to optimize the entire supply chain, accurately forecast market demand, reasonably control inventory levels, shorten inventory turnover days, and improve asset turnover rate. Achieve efficient data management and enhance operational efficiency through the supply chain management platform.

5.2.3 Differentiated positioning and precise marketing for online business

Clearly define an online business differentiation strategy, avoiding low-price competition with community group buying, and focus on 'premium fresh produce, instant delivery, and scenario-based services.' Provide customized and personalized products and services for mid-to-high-end customers, such as high-end imported fresh produce and specialty meal combinations, to enhance the online business's premium capability and user stickiness. Strengthen user operations and precision marketing by leveraging the technology and traffic advantages of partners like Tencent, deeply analyzing user data, accurately profiling consumers, and formulating personalized marketing strategies. Enhance the membership system through

points, coupons, exclusive events, and other methods to increase member repurchase rates and loyalty, while also using social platforms for brand promotion to raise brand awareness and online traffic conversion rates.

5.2.4 Optimize store layout and business format innovation

Plan store layouts rationally, optimizing the number and types of stores based on regional consumer demand and market competition. Close inefficient stores and focus on developing community fresh food stores, warehouse membership stores, and other formats that meet consumers' high-frequency essential needs. Use models such as 'one large store supporting three small stores' to increase store density and service coverage, thereby boosting foot traffic and market share. Proceed with caution in business format innovation; conduct thorough market research and feasibility analysis before launching new business models to avoid blind expansion. Focus on upgrading and optimizing existing formats, such as enhancing the shopping experience in warehouse membership stores, diversifying product offerings, and optimizing SKU structures to strengthen competitiveness and sustainability.

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