

## **POMS Practitioner Forum / UCLA Global Supply Chain Blog**

### **Yihaodian's co-founder and CEO and 2012 POMS MKS Practice Excellence Winner Gang Yu (于刚) shares his insights about “his career path and e-commerce in China”**

Interview conducted by Christopher Tang in Shanghai

November 1, 2012

Founded in 2008, Yihaodian.com is China's fastest growing company – a B2C retailer selling over 900,000 SKUs to consumers online. In addition to winning the first prize for Deloitte Technology Fast500 Asia Pacific in 2011 with 19,200% growth in three years, its success has motivated Walmart to strategically invest in Yihaodian in both 2011 and 2012. The success of Yihaodian is phenomenal because Chinese consumers are prudent about online purchases especially when consumer protection laws are not fully enforced in China and making home deliveries in China can be a logistical nightmare. To learn more about the success recipe, I interviewed Yihaodian's Chairman Gang Yu in Shanghai.



Photo of Gang Yu

#### **1. *Knowing Chinese consumers are prudent about online purchases, how does Yihaodian overcome this hurdle?***

The major concerns Chinese consumers have about online shopping are centered on the following: a) authenticity and quality of products; b) safety of online payments; c) reliability of delivery; d) quality of post-sale services. Yihaodian has adopted the following strategies to win customers' trust:

- i) We build the foundation of our corporate culture on Integrity, Customers, Execution, and Innovation. We enabled “no questions asked” free return policy, and implemented a very rigorous quality control process with severe penalties to merchants and suppliers who supply fake products.
- ii) We formed an antifraud department to fight online theft and to ensure customer information safety.
- iii) We built our own delivery team in 2010 with delivery stations now located in more than 40 cities to fulfill about 70% of our orders. One of the KPIs to measure

this team is On-time Delivery rate. As of today, our On-time delivery rate is reaching 98%, comparing to industry average of ~85%.

- iv) We tied our Customer Experience Index to every employee's salary, bonus, and promotion. This resulted in a remarkable improvement of our customers' satisfaction rating, rising from 84.4% to 92% after the implementation of this policy.

**2. *In addition to rising cost, there are logistical challenges of making home deliveries in China. How does Yihaodian to provide excellent service at competitive price?***

We add a delivery station only when the order density in a given geographic region exceeds a pre-determined threshold so that our delivery cost per order is within an acceptable level. We developed our own Transportation Management System (TMS) to optimize our delivery station network structure, order assignment, and delivery routes. To ensure high quality delivery services, we provide recurring training to our delivery associates. Every week in the delivery team's staff meetings, an important discussion topic is to share stories on what they have done to exceed customers' expectations.

**3. *With the presence of giant stores such as Walmart, Carrefour and Tesco and online giant such as Taobao (a B2C unit under Alibaba) in China, what are Yihaodian's competitive strategies?***

Our strategy is to enter the e-commerce market through FMCG products which allows us to gain high conversion rate and customer loyalty through high frequency of repeated purchases. This enabled us to quickly build our customer base and website stickiness. We then add other product categories to offer customers a full range of products to meet their needs. Our major advantages comparing to the offline retailer are: lower operating cost due to elimination of physical stores and associated costs; unlimited selections due to the very nature of e-commerce (currently we offer more than 900,000 SKUs, and a typical supermarket offers about 25,000 SKUs); providing more convenience to customers by delivering to their homes. Our core competence comparing to online competitors is our supply chain management. We internally developed a full fledged of systems including: supplier management, procurement management, inventory management, warehouse management, price intelligence system, transportation management, and fulfillment optimization. These systems optimize our supply chain to gain operational effectiveness, high accuracy, and fast response.

**4. *With Walmart's investment in 2012, what is Yihaodian's investment strategy to sustain its profitable growth?***

We continue to invest on our core competences including talents, systems, and supply chain infrastructure. We will learn from Walmart on its retail excellence, supply chain optimization practice, and how to best serve customers. In addition, we will gain maximum synergy with Walmart by leveraging Walmart sourcing capabilities, logistics infrastructure, and e-commerce technologies.

5. ***With your outstanding academic record (conducted graduate studies in Physics at Cornell, received a PhD in Decision Sciences from the Wharton School, served on the faculty at UT Austin, and published many research articles in top academic journals and written excellent academic books), can you tell us why and how you decide to start an online retailing business in China?***

I have strong desire to create value, to have the opportunity to improve peoples' life, and to prove myself with my wisdom, knowledge and expertise. I feel fortunate to ride on the wave of the rapid growth of Internet technology and e-commerce in China, to have a great partner, and to have created a business model that can serve the mass Chinese customers. My academic background on supply chain management, my early entrepreneurship experience by developing real-time decision support systems, and my professional management experience at Amazon and Dell all helped me in terms of knowledge, vision, execution, perseverance, and leadership for founding Yihaodian. My earlier career all seemed to be a great preparation for this endeavor.

6. ***Knowing our POMS members view you as our role models, can you share some advice for our members?***

I have the following advice:

- Operations Management is a great profession and it can bring companies remarkable competitive advantage.
- There is a huge gap between academic concepts and real-world applications. Researchers in this field need to work with companies on real world issues, to gain top management buy-in and users' support, to properly simplify the problems and adopt OR/OM modeling and information technology to tackle real world problems.
- Entrepreneurship is a marathon, not a 100-meter dash; a solid foundation must be built for long term success.

- Challenges and hardships are part of the game. The more difficult is an endeavor, the higher value it usually will result in.  
Entrepreneurship needs passion. Passion can make impossible possible. With passion, one can endure hardships and fully enjoy the journey.

**\* Dr Gang Yu will be delivering his plenary speech at the 2013 POMS conference in Denver. Please do not miss this great event!**