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Research on Financial Performance of Chain Supermarkets During Strategic Transformation

-- A Case Study of Yonghui Superstores

Peiyi Wang, Lunzhi Gan, Zhiyan Zhou

Sichuan University of Science & Engineering, Yibin, Sichuan, 644000, China

Abstract

Over the past few years, conventional retail companies have been subjected to double pressure coming from the emergence of online e-commerce sites and community group-buying, and therefore have found themselves in the midst of a transformation cycle where stock restructuring and quality improvement have become a norm. This paper takes the strategic transformation of "quality retail" in 2024 in Yonghui Superstores, which adopts the Pangdonglai model of transformation, as an example and examines the company's annual statements for the period 2021-2025 and Q1 2026, analyzing financial changes through the lens of profitability, solvency, efficiency, and growth potential. The results show that the transformation of Yonghui is following a "pain for short-term, little improvement" pattern, which is based on three major financial contradictions: huge expenses incurred for transformation reducing profit; high leverage and rigid debts leading to liquidity problems; and improvements in efficiency based on shutting down the stores. In order to solve these problems, this study will offer actionable strategies in three major areas: upgrading proprietary supply chain brands, optimizing capital structure, and improving the operations of existing retail outlets. These suggestions seek to assist Yonghui in dealing with the financial risks arising from its transformation process and improve its operational efficiency, providing an empirical benchmark in the process for assessing such transformations from the financial perspective.

Keywords

Yonghui Superstores; Chain Retail; Strategic Transformation; Financial Performance; Liquidity Risk.

1. Background of Yonghui Superstores' Strategic Transformation

Since 2021, the domestic physical supermarket industry in China has fully entered the stage of stock inventory adjustment. Online shopping and community group buying have constantly led the flow of customers away from offline physical stores. Hypermarkets with a model of scale expansion and selling goods at lower prices to make large profits have gradually been less competitive. As a whole, the industry is developing toward an intrinsic development road with focus on product quality and offline shopping experience[1]. In the face of such industry changes, Yonghui Superstores, which operates one of the most well-known domestic fresh food supermarkets, has been trapped in the dilemma of operation and has had shrinking income and declining capital structure since a long time ago. Along with the internal reforms brought about by strategic investment, the company launched a "Quality Retail" strategic transformation plan in 2024, benchmarking itself after Pangdonglai.

1.1. External and Internal Motivations for Strategic Transformation

From the external perspective of the industry, online channels keep eating into the market share of offline fresh food retailers. According to statistics published by the National Bureau of

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Statistics, by 2025, online retail sales of physical products took up 25.9% of the overall retail sales; the online penetration rate of fresh produce was up by around ten percentage points compared with the number in 2019. Community group buying and front-end warehouse instant retail models have utilized their delivery flexibility and low operating costs to grab the essential fresh food consumers. New retail brand such as Hema has strengthened its focus on the mid-to-high-end fresh food sector, adding further pressures on traditional comprehensive supermarkets. In the meantime, the logic of development of the industry has been transformed. According to the research done by the China Chain Store & Franchise Association (CCFA), only 25% of chain supermarkets have seen positive store net increase in 2025, while 80% of companies choose to renovate their current store instead of opening new stores. The whole industry has been entering the stage of ''slimming down and quality improvement,'' and consumers' needs have changed from only looking for cheapness to paying attention to the shopping environment, quality of products, and services[2]. Pangdonglai has become the reference model in the industry transformation process because of its solid quality assurance system, customer service orientation, and stable profit performance per store. Various regional chain supermarkets began benchmarking their renovations from 2024 to 2025, which led to the creation of market consensus on the value transformation through quality and service in the physical retail sector.

A comprehensive review of the company’s operations and financial position reveals that there has been a consistent loss suffered by the firm annually between 2021 and 2025 amounting to 12 billion yuan. The loss suffered by the firm is the highest compared to any other A-share supermarket. The operating income of the firm has continuously decreased from 91.062 billion yuan in 2021 to 53.508 billion yuan in 2025, which has effectively reduced the size of its business operation by almost half. Inefficient stores and a long supply chain, as a result of earlier expansion, have been continuously lowering the company’s performance, while the traditional fresh food sales method has not helped to reduce the losses. Since there have been ongoing losses, the net assets of the company have been continuously dwindling, and hence the debt to asset ratio has reached 88.60% by the end of 2023, which is well above the 70% ratio in the retail industry. In September 2024, Miniso invested a 29.40% stake in Yonghui for 6.27 billion yuan, becoming the biggest stockholder. With the strategic investment of money from another company, Miniso is now leveraging the strength it has in the supply chain of consumer goods to undertake a comprehensive overhaul of the products and operations of Yonghui based on Pangdonglai.

1.2. Implementation Core Contents of the "Quality Retail" Transformation

In 2024, Yonghui set up a new brand image-"National Supermarket, Quality Yonghui"-and simultaneously launched transformation projects in three aspects, namely, store remodeling, supply chain restructuring, and organization and brand transformation. The company made efforts to pursue “the closing of inefficient business and the standard remodeling of stores” and make full use of Pangdonglai’s products and service standards to realize internal improvement.

Regarding the operations in the store, the firm gradually improved the product and service lineup of 31 stores with a quality-oriented renovation approach, which made the company form a renovation model that is replicable for future use. During 2025, 284 existing stores had numerous cases of restructure in which the turnover of products was above 67%. Moreover, there was also an increase in the proportion of imported and low-profit brands. Stores considered benchmarks showed an increase in sales from ¥200,000 to ¥300,000 prior to the restructure to ¥500,000 to ¥700,000 after restructure. Unprofitable and inefficient stores, which are known as tail-end stores, were discontinued with the closure of 381 stores during 2025. The closure process was conducted via lease expiration and equipment disposal, which helped reduce expenses related to leasing and staffing.

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In the realm of the supply chain, Yonghui completely applied the “bare-price” model of direct procurement of fresh produce, resulting in a farm-to-store procurement approach that increased the direct procurement percentage of fresh products above 60% and doing away with the supermarket practice of earning income through channel fees in order to cut down the fresh produce procurement cost at the source[3]. At the same time, the company improved its loss management processes in relation to fresh produce, utilizing tiered procurement, in-store processing, and other measures to bring the overall loss rate in fresh produce below 3%.

As far as organizational and brand management was concerned, the company ramped up R&D and marketing of its own brand, launched new brands for baked goods, ready-made meals, and everyday needs and used Miniso’s supply chain capabilities as an investor in order to fill gaps in high margin product lines. However, at the end of 2025, the private label sales only constituted 2.1% of the total revenue. This is an indication that there is still a great potential for further category development. At the same time, in September 2025, Wang Shoucheng, who had firsthand knowledge about the Pangdonglai store renovation, became the CEO of Yonghui and adopted four dimensions of operations: cultural elevation, organizational efficiency, quality of product and scenario selling and set common standards for quality control, service, and employee incentives across all stores. Along with the transformation, the company sold idle property and non-core investments, earning CNY 1.815 billion which was to be invested into renovation of the stores, improvements to the supply chain and other transformation expenses.

1.3. Short-Term Financial Impacts Caused by Transformation

The strategy that Yonghui intends to implement in order to achieve these transformations is very aggressive in nature since it involves the closing of all its outlets before gradually undertaking the renovations of the same. All expenses incurred as part of the restructuring process will be incurred in the FY 2025, putting the firm under immense pressure financially in the short run, though there will be numerous benefits to be derived from this in terms of revenues in Q1 2026. In 2025 the firm concentrated the release of substantial transformation-related costs: store retrofitting, disposal of obsolete equipment, and opening expenses for newly renovated outlets together incurred a one-off loss of RMB 8.8 billion; large-scale closures further added lease-default penalties and redundancy compensation, augmenting current-period expenses. The obsolescence of slow moving items, along with the emergence of new stock keeping units, led to the write-off of inventories, hence leading to decreased gross margin and loss overall in the year 2025.

Based on the timeline approach, 2025 is the year of maximum financial strain, with the consolidated net loss of the parent company amounting to RMB 25.52 billion, and the highest values of the leverage ratio and the short-term liquidity risks. By Q1 2026, most activities in closing underperforming stores came to an end, and the positive effect of the use of a direct fresh-produce procurement supply chain and standardized adjustment of stores started to be felt. The sales of the adjusted stores increased by 16.57 % Y/Y, and the gross margin improved significantly, producing the consolidated net profit of RMB 2.87 billion for the period. This outcome breaks the trend of negative quarter-by-quarter results of several years in a row and indicates that the company has moved from the liquidation stage to the second stage of transformation, namely sophisticated deep operations.

2. Four-Dimensional Financial Performance Analysis of Yonghui Superstores During Transformation

In order to be in line with the current financial performance appraisal system in the retail industry, primary financial information of the period of 2021-2025 and Q1 2026 is adopted in this paper. The financial performance of Yonghui Superstores in the transformation period of

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"quality retail" is analyzed using an analysis index system in four aspects including profitability, solvency, operational efficiency and growth potential, where the changes in the trend of indices are quantitatively described using tables. All the data used in this study are derived from Yonghui Superstores' public financial statements and Tonghuashun financial database.

2.1. Profitability Analysis

Table 1. Core Profitability Indicators of Yonghui Superstores (2021-2025 & Q1 2026)

Indicator	2021	2022	2023	2024	2025	Q1 2026
Operating Revenue (Billion RMB)	910.62	900.91	786.41	675.74	535.08	133.67
YoY Operating Revenue Growth (%)	—	-1.07	-12.71	-14.08	-20.82	-23.53
Comprehensive Gross Profit Margin (%)	16.03	17.94	18.99	18.91	19.83	22.77
Net Profit Attributable to Parent Companies (Billion RMB)	-39.44	-27.63	-13.29	-14.65	-25.52	2.87
ROE (%)	-59.94	-58.82	-33.53	-33.11	-137.28	—

Data Source: Annual Reports of Yonghui Superstores(2021–2025), Q1 2026 Financial Report

As for the revenue scale, operating income of Yonghui reduced unilaterally in 2021-2025; the revenue scale reduced by half during five years. Each year, this tendency became stronger and resulted in 20.82% of revenue reduction in 2025. As for Q1 2026, revenue reduction amounted to 23.53%. Such a reduction can be explained not only by the decrease in competitiveness in the market but also by the strategy of the firm aimed at closing of some of its stores. 381 stores, which operated inefficiently, were closed in 2025. And the dramatic reduction in the number of stores impacted negatively on the total revenue level. However, it should be noted that stores, which had passed the "Pang Donglai" renovation project, showed very good performance and had 16.57% of sales increase due to this reason.

The gross margin indicator shows a steady growth trend over time. Gross margin in total was just 16.03 % in 2021. Because of implementation of the direct procurement strategy concerning fresh produce and improvement of the loss control system, gross margin is increasing each year and at present it is equal to 19.83 % in 2025 and even to 22.77 % in Q1 2026. The direct procurement strategy helps to reduce middlemen and additional pricing markup while loss rate of fresh produce was decreased from 8 % to less than 3 %, and this reduces the losses from revenue because of decreasing the fee for using traditional supermarket channel, which proves that the supply chain restructuring strategy was effective in increasing profitability of products. Nevertheless, the low percentage of private labels, 2.1 %, prevents differentiation and margin increase possibilities.

As far as the company's profits go, one should note the gradual increase in profits after the transformation period. There have been losses for the last five years from 2021 to 2025, when the company had a net loss of CNY 2.552 billion. The entire cost of transformation was CNY 880 million, which included renovation, assets write-off, closure of stores and staff reduction. The asset write-off accounted for CNY 700 million. Excluding these non-recurring items and losses, the core business still incurred a loss of approximately CNY 1 billion. In Q1 2026, the large-scale store-closure cycle essentially concluded, and the dual effects of supply-chain cost reductions and revenue gains from store remodeling were fully realized, yielding a net profit attributable to shareholders of CNY 287 million, a year-on-year increase of 94.40 % and marking the first quarterly profit in five years. Nonetheless, a single profitable quarter does not suffice to confirm a full-year profit turning point; moreover, ROE plunged to −137.28 % in 2025,

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and the persistent heavy losses continue to erode net assets, severely impairing shareholder returns. The durability of the profit recovery therefore remains subject to validation by longer-term data.

2.2. Solvency Analysis

Table 2. Core Solvency Indicators of Yonghui Superstores (2021–2025)

Indicator	2021	2022	2023	2024	2025
Asset-Liability Ratio (%)	84.47	87.49	88.60	89.87	94.61
Current Ratio	0.83	0.78	0.75	0.75	0.55
Quick Ratio	0.48	0.45	0.48	0.43	0.38
Monetary Funds (Billion RMB)	82.97	57.35	64.17	58.58	33.02
Short-term Borrowings (Billion RMB)	47.36	62.65	54.34	55.91	39.27

Data Source: Annual Reports of Yonghui Superstores (2021–2025)

In terms of long-term solvency risk, Yonghui's debt-to-asset ratio has risen continuously since 2021, increasing from 84.47 % to 94.61 % over five years, far exceeding the retail-industry benchmark of a 70 % safe zone. Net assets have been progressively eroded by cumulative losses; by the end of 2025 total assets stand at CNY 30.462 billion, total liabilities at CNY 28.821 billion, leaving an extremely thin equity base. The overall capital structure is approaching insolvency, and refinancing avenues are severely constrained by capital-market restrictions, further limiting funding for store restructuring and supply-chain upgrades.

Short-term liquidity risk shows a persistent deterioration. Under the retail business model, a reasonable current ratio ranges from 0.8 to 1.2, and a quick ratio should not fall below 0.6. In spite of that, Yonghui's current ratio in 2025 is merely 0.55 and quick ratio 0.38, meaning that liquid assets cannot offset current liabilities. Speaking of the matching of cash balance and hard currency debt, at the year-end 2025, the company had cash of only CNY 3.302 billion while short-term borrowings were CNY 3.927 billion, resulting in a cash deficit of CNY 0.625 billion. Coupled with the tough task of repaying long-term debt and lease maturity of over CNY 10.7 billion in the year, the liquidity gap is large. All through the transformation process, expenditures like lease cancellation fees, severance payments to employees, and investments in store renovation continue to decrease cash balance, while continuous losses prevent the formation of steady operating cash flow. The combination of payment pressure caused by debt and the necessity of funding transformation results in a vicious circle, making liquidity risks the main financial barrier for the change. Furthermore, the weak capital structure enhances market disagreement on the company's transformation value, as revealed by various valuation analysis[4], which shows considerable differences in market evaluation of Yonghui's ability to transform.

2.3. Operational Capacity Analysis

At the asset-scale level, the firm's total assets contracted continuously from 2023 to 2025, declining from RMB 52.052 billion to RMB 30.462 billion-a reduction of nearly 30%. This contraction stems chiefly from the closure of inefficient stores, disposal of idle fixed assets, and liquidation of slow-moving inventory, reflecting a strategic, proactive divestiture rather than a benign asset rationalization driven by enhanced operational efficiency. Although inventory turnover appeared to optimize superficially, rising from 7.16 times in 2023 to 8.24 times in 2025, this improvement lacked support from endogenous managerial upgrades. The primary drivers are the firm's deliberate purge of unsold goods and the shutdown of numerous offline

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outlets, which reduced the recorded inventory balance from RMB 7.631 billion to RMB 4.134 billion, thereby inflating turnover through a passive decline in inventory volume. It seems like the management of stocks in stores and adaptability of the product development process have not been realized, while there has been no apparent success regarding the turnover of stocks in each store.

Table 3. Key Operational Capacity Indicators of Yonghui Superstores (2023–2025)

Indicator	2023	2024	2025
Year-end Total Assets (Billion RMB)	520.52	427.49	304.62
Year-end Inventory Balance (Billion RMB)	76.31	70.58	41.34
Inventory Turnover (Times)	7.16	7.43	8.24
Total Asset Turnover (Times)	1.51	1.58	1.46

Data Source: Annual Reports of Yonghui Superstores (2023–2025)

In terms of total asset turnover, there has not been any substantive change over the three-year period, since it stayed relatively constant at a range of 1.46–1.58. The reason for such constancy is the simultaneous decrease in revenue caused by closing stores, when the company's asset base and revenues decreased concurrently, neutralizing any real increase in asset turnover efficiency. In the long run, recent improvements in operational metrics are the results of scaling down, rather than efficiency processes endogenously induced by optimizing product mix and leveraging online inventory management.

2.4. Growth Capacity Analysis

Four indicators are comprehensively adopted: year-on-year revenue growth rate, renovated store revenue growth rate, online business revenue share and asset scale growth rate, matching Yonghui’s transformation logic shifting from "store expansion" to "existing store quality improvement".

From the scale-growth perspective, between 2021 and 2025 the company’s operating revenue experienced five consecutive years of decline, and total assets continuously contracted, marking the definitive termination of the traditional outward-growth model that relied on new store openings. In the context of industry-wide stock competition, Yonghui voluntarily abandoned indiscriminate store expansion, and its growth logic shifted entirely to quality-enhancement and revenue increase of existing stores. Growth across business segments displays marked divergence: stores that have undergone standardized transformation in line with the “Pang Donglai” model exhibit pronounced operating growth; in Q1 2026, sales of remodeled stores rose 16.57 % year-on-year, with concurrent increases in average transaction value and repurchase rate, indicating stable endogenous growth potential. Conversely, unremodeled legacy stores continue to experience foot-traffic erosion, dragging down overall revenue growth; in Q1 2026, total revenue still fell 23.53 % year-on-year, and uneven store-renovation progress hampers overall growth performance.

Incremental support from online channels remains insufficient. By the end of 2025, revenue from instant online retail and community group-buying accounted for only 18.9 % of total sales. The lagging online-channel rollout fails to offset the scale gap caused by offline foot-traffic loss. Compared with peers such as Hema and Gaoxin Retail, Yonghui lags in digital-operational development and the construction of pre-positioned warehouses; the online business has yet to generate a stable second-growth curve. Overall growth capability is therefore heavily reliant

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on the successful implementation of offline store upgrades, revealing a pronounced weakness in diversified growth-channel deployment.

2.5. Comprehensive Evaluation of Financial Performance

Considering the trends across the four major dimensions of indicators, the quality-retail transformation initiated by Yonghui Superstores in 2024 exhibits a dual, phase-specific characteristic of "short-term pain and marginal improvement." The year 2025 represents the peak of concentrated financial pressure from the transformation, with a confluence of adverse financial metrics: a sharp contraction in revenue, record-high annual loss, a debt-to-asset ratio approaching 95 %, and a pronounced short-term liquidity gap. One-off transformation costs compounded by a historically weak financial structure have jointly exposed both operational and financial risks.

In the first quarter of 2026, financial data convey a positive marginal signal: the direct-procurement supply-chain model continues to elevate the aggregate gross margin, and the completion of store renovations yields stable revenue growth. After a five-year hiatus, the firm has returned to quarterly profitability, thereby substantiating the long-term value of the store-upgrade and supply-chain restructuring strategies benchmarked against Pangdonglai. Nevertheless, current financial improvements possess clear limitations; profit restoration rests solely on a single quarter's short-term data, rendering its sustainability uncertain. The substantial debt load and liquidity shortfall remain insufficiently addressed, and a fragile capital structure continues to constrain investment in the transformation. Enhancements in operating and growth metrics are chiefly derived from store closures and asset contraction, rather than from organically developed operational efficiency or diversified growth channels. Overall, the transformation's positive effects are emerging, yet financial risk has not been fully eliminated, and a considerable period remains before the enterprise achieves a fully restored, healthy financial performance.

3. Core Financial Problems and Root Causes During Yonghui's Transformation

Based on quantitative financial performance analysis across four dimensions, intertwined financial pain points in profitability, capital structure and asset operation during Yonghui's quality retail transformation can be clearly identified. This section first summarizes three core financial problems of the transformation period, then analyzes deep-seated contributing factors from three layers: internal transformation strategies, accumulated historical operating legacies and external industrial competition environment.

3.1. Core Financial Problems During Transformation

3.1.1. Concentrated Recognition of Large One-Time Transformation Costs Suppresses Normalized Profitability

In 2025, the firm had reported a net loss of CNY 2.552 billion to the parent company, which was the lowest ever performance level by the company since the process of restructuring. The steep drop in the profitability of the firm was attributed to the one-off charges arising from the renovation of the stores as well as closure of the stores. One-off charges relating to store decoration, fixed assets write-down and store openings stood at approximately CNY 880 million, while the asset impairment charge amounted to more than CNY 700 million; together, these one-off charges impacted the quarterly earnings adversely. Despite excluding the one-off charges, the operations recorded a loss of about CNY 1 billion.

Regarding the profit structure, the profit streams of the company are quite limited, as the growth of profit depends on the low rate of growth of the gross margin, resulting from the direct purchasing of the fresh produce from the suppliers. As regards the private label cluster, which

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is among the key profit-generating channels in the retail sector, it is quite delayed, with just 2.1% of the revenue share being gained via the sales of the private label goods compared to 30% in the most profitable companies[5]. In addition, the low rate of development in the store renovation process has resulted in 50% of all the stores not being renovated in accordance with the Pangdonglai scheme.

3.1.2. Persistently Unbalanced Capital Structure Creates Prominent Short-Term Liquidity Debt Risks

As the losses of the business have been going on for a certain amount of time, there has been a drop in the net asset position of the business. The fall in capital during the period of transition has also led to the poor performance of the capital structure of Yonghui. As per the end of 2025, the ratio of debt to assets of the business will be 94.61%, which will cross the safe ratio of 70% in the retail industry. Not many assets are left with the business, and the firm is on the verge of bankruptcy.

Continuous losses over a certain period of time have led to a drop in the net equity position of the business. Additionally, the drop in the capital of the firm during the period of transition has also led to the poor performance of the capital structure of Yonghui. As per the year-end of 2025, the ratio of debt to assets of the business will be 94.61%, crossing its safety limit of 70% in the retail industry. There are not many assets left with the business; rather, the firm is going into bankruptcy.

Continued losses over time have made the net equity of the company drop. Also, the loss of capital during the transition period has made the capital structure of Yonghui to be badly affected. By the end of 2025, the debt to assets ratio will increase to 94.61 percent from the safe limit of 70 percent of the retail industry. There is nothing remaining in terms of the net assets of the business anymore, but the company is heading towards bankruptcy.

The liquidity risks in the short-term period are greater where the ratio of current for the year 2025 is estimated at 0.55 and the quick ratio is 0.38, both of which are less than the normal ratio in the industry. Cash flow is reported at CNY 33.02 billion, but this is not enough to settle the short-term loans of CNY 39.27 billion, making a cash flow deficiency of CNY 6.25 billion. This becomes even worse when it is considered that the obligations are rigid at an amount of CNY 107 billion of one-year maturity, consisting of long-term debts and leases. Cash flow deficiency, along with costs associated with change, makes a self-fulfilling prophecy. Lots of money go for debt repayment; therefore, investments in renovations in stores and improvement of the supply chain become reduced.

3.1.3. Passive Optimization of Operational Indicators Due to Low Endogenous Efficiency of Asset Operation

Based on the calculations of inventory and total assets turnover ratios, it can be stated that the inventory ratio will be increased while the total asset turnover ratio will remain unchanged in 2023–2025. Nevertheless, it is caused by the external impact of passive optimization of short-term performance indicators as a result of stores' closure and stock elimination and not by the impact of internal efficiency based on effective management. The book value of the inventory will decrease from CNY 7.631 billion to CNY 4.134 billion and total assets will fall down by almost 30%. Consequently, the ratio will be improved because of the reduction in the volume of asset and inventory. The operational systems are inefficient.

At the same time, development of online channel is far behind because only 18.9 % of total sales revenues come from the Internet channel and there is no ability to use e-commerce to ease the burden on offline inventories or to diversify sales scenarios. Brand development is taking place rather slowly, which results in product lack of differentiation. Inventory turnover cannot be supported by fast-selling SKUs.

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3.2. Factors from Within the Company That Can Contribute to the Transformation

3.2.1. Transformation Strategy of Aggressive "Mass Store Closures followed by Phased Renovations" Causes a Concentrated Focus on One-Time Costs

In the case of transformation of the Yonghui stores, at the very first step of transformation, the aggressive transformation strategy was selected by the company, implying the simultaneous mass closing of ineffective stores and massive renovation of existing stores, which presupposes great investment to be made in 2025. Such strategy of transformation usually implies the consolidation of expenses in one fiscal year and can serve as a classical accelerator of loss incrementing during the transition period of the retail business[6]. The mass closing of the stores implies the payment for lease contract breaking, the termination and optimization of the labor force payments to employees, as well as high expenses for store refitting, including renovation, disposal of obsolete equipment and acquiring of new goods. Also, due to changing the supply chain, there occurs the write-off of the obsolete goods and shortage of the new ones.

3.2.2. Historical Extensive Expansion Left Financial Legacies with Insufficient Corporate Transformation Buffers

During the industry's expansion phase, Yonghui persistently added stores at a large scale, financing this growth through debt and thereby establishing a long-term operating profile of “high leverage and low gross margin.” Prior to the 2021 transformation, the firm’s debt-to-asset ratio had already reached 88.60%, placing its capital structure in a high-risk zone. From 2021 to 2024, the company incurred consecutive losses, its net assets continuously eroded, and it failed to accrue sufficient cash reserves or high-quality assets as a financial cushion. When the transformation required substantial capital outlays and the concentration of one-off losses, the fragile balance sheet could not absorb performance shocks, thereby magnifying both losses and debt risk.

3.2.3. Lagging Development of Product Operation and Digital Management Systems

For an extended period, Yonghui has based its core operating logic on attracting customers through low-priced fresh produce, while neglecting the development of private-label and differentiated merchandise. This has led to a severely homogenized product structure and a paucity of high-margin profit carriers. Inventory management remains dependent on traditional manual control mechanisms; digital inventory alerts and dynamic replenishment systems are underdeveloped, resulting in persistent slow-moving stock and shrinkage at the store level. The company’s entry into instant online retail began late and with insufficient investment, producing a relatively low revenue contribution from online channels that cannot offset the revenue shortfall caused by declining offline foot traffic. Consequently, the firm’s asset operating efficiency is difficult to improve through internal management, impeding endogenous optimization.

3.3. External Environmental Constraints

3.3.1. Intensified Competition in Retail Tracks with Peer Transformation Diverting Customer Traffic

The competition in the offline supermarket sector exhibits a dual-pressure pattern, with online community group buying and front-store warehouses continuously diverting essential fresh-produce traffic; new-retail brands such as Hema are deepening their presence in the mid-to-high-end quality fresh-produce market, with GMV projected to exceed CNY 75 billion by 2025, revenue growth surpassing 40%, and sustained capture of premium customer segments. Traditional chain supermarkets also face intense intra-industry rivalry; firms like Gaoxin Retail and Jiajiayue completed store rationalization and supply-chain restructuring earlier, achieving stable profitability by 2025 and steadily expanding market share, thereby further compressing

Yonghui's foot traffic and profit margins. The industry as a whole has entered a stage of stock-level competition, with offline footfall growth stagnating and the difficulty of enhancing store quality and revenue rising sharply.

3.3.2. Solidified Online Consumption Habits Extend Offline Customer Flow Recovery Cycles

After years of widespread online retail adoption, consumers' habits of purchasing fresh produce and daily necessities online have become firmly entrenched, resulting in a continual decline in foot traffic at physical stores. Relying solely on store ambiance and service upgrades to stimulate visitor growth yields slow results. The consumer market overall exhibits rational, price-conscious characteristics, with consumers remaining highly price-sensitive. Acceptance of premium pricing derived from quality upgrades is limited, and the potential for increasing average transaction value per store has reached a ceiling. In the short term, it is difficult to offset the revenue gap caused by large-scale store closures through incremental revenue from individual stores, thereby extending the period required for firms to restore profitability.

4. Research Conclusion and Optimization Countermeasures

4.1. Research Conclusion

First, Yonghui's quality-retail transformation, benchmarked against Pangdonglai, exhibits a distinctive "short-term pain, marginal improvement" financial pattern. The year 2025 represents the peak of concentrated fiscal pressure from the transformation, as large-scale store closures and renovations generate one-off costs that are recognized en masse. Coupled with historically high leverage and ongoing core-business losses, this leads to a sharp contraction in revenue, a five-year high in net loss, a debt-to-asset ratio approaching 95 %, and a pronounced short-term liquidity gap. The confluence of multiple financial risks exposes operational shortcomings. By contrast, in the first quarter of 2026, the bulk clearance of inefficient stores is largely complete, and the cost-saving and revenue-enhancing effects of direct fresh-produce sourcing and standardized store upgrades are beginning to materialize. The company achieved a quarterly profit turnaround and a substantial rise in gross margin, demonstrating the long-term business value of the quality-focused transformation, albeit with unavoidable short-term financial sacrifice.

Second, there are three groups of financial problems that are interrelated during the transition process, which forms a negative feedback loop. Firstly, the large non-recurring expenses related to store refurbishment and asset disposition negatively affect profitability, and the delay in developing private label brands worsens the situation. Secondly, the losses are accumulated and reduce net assets, and along with continuous outflow of transformation funds, cause significant distortion of the capital structure; thus, the burden on short-term debt payment is high and leads to debt constraints, and therefore, restrains investment into store refurbishment and delays profit recovery. Finally, the improvement of inventory turnover and asset turnover ratios are attained passively by closing stores and reducing inventory; however, there are no procedures to improve internal efficiency and manage the product mix digitally.

Third, the dramatic change strategy followed by Yonghui of "centralization of large-scale store closures combined with bulk renovation of those stores" has exacerbated the company's short-term financial risk profile. In light of the current weak financial structure of the business, all the costs associated with closing down stores, renovating the stores, and transforming the supply chain into a new one are bundled into one fiscal year, resulting in a big spike in losses. Simultaneously, the pressure created by both online and physical competitors, coupled with consumers' preference for online purchases, prevents the expected increase in foot traffic to help the business through the transition period. While the renovated stores demonstrate their

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intrinsic growth potential, the financial stability of the company will depend on successful risk management, store renovations, and supply chain brand building.

4.2. Optimizing Financial Performance Countermeasures

4.2.1. Deepen Supply Chain System and Private Label Product Systems to Consolidate Profitability Foundations

Further emphasize the advantages of cost reduction through direct procurement of fresh products in the supply chain. Increase the direct procurement ratio of fresh products beyond the existing 60% of direct procurement, reaching more than 80% of direct procurement. Adopt complete standards of grading and processing of fresh products, together with loss prevention policies, to continually lower fresh products loss and normalize gross profit margin. Speed up the process of introducing private labels in all categories, utilizing the supply chain of our major shareholder Miniso for consumer goods. Diversify the range of private label products including processed food, bakery, and daily chemical products. Gradually increase the sales percentage of private label products to above 10% from the current 2.1%, differentiating profit drivers while overcoming the dependence of a single profit driver of gross profit margins from fresh products.[7]. Operationalize the same business model for the Pangdonglai, accelerating the upgrading process of existing old stores. Finish the quality upgrading process of all existing stores as quickly as possible, making up for the size effect lost from closing down stores through growing sales per existing store.

4.2.2. To Diversify Asset Revitalization for the Optimum Capital Structure and to Mitigate Short-Term Liquidity Debt Risks

Strictly regulate new interest bearing debts. Give priority to funds generated through the sale of assets and closure of stores for the settlement of short-term borrowings and lease liabilities and reduce the short-term rigid debt gap. Expedite the disposal of non-core equity holdings, redundant property and other uneconomic assets. Continue to generate funds from the monetization of external equity investments like Wanda Commercial Properties and use the funds to cover operating cash flows and mitigate cash liquidity problems. Implement a complete cycle expense budgeting and control system to consolidate existing success in reducing sales and managerial costs. Regulate fixed cost expenses, including store renovations, labor and lease costs, so that there is a reduction in sustained cash flows. Meanwhile, utilize the resources of the largest shareholder to implement capital operations techniques such as capital increases, debt extensions and debt to equity swaps to improve net assets, reduce excessively high asset liabilities ratio and strengthen the vulnerable capital structure.

4.2.3. Develop Efficient Operation of Existing Stores to Develop Internal Mechanisms of Efficiency Growth

With the introduction of a management system which emphasizes on "cultural elevation, organizational efficiency elevation, product quality elevation, and scenario-based sales elevation" the company has developed financial performance metrics for each store in terms of revenue, gross margin, inventory turnover and percentage of private label sales[8]. Evaluation of the core performance of store managers includes profitability of individual stores, thus promoting efficient inventory and product management in stores. A dynamic store break-even analysis model has been developed to constantly monitor the profitability data of each store. Those stores that do not reach profitability will be taken care of. Investment of capital and resources will be made in development of high quality stores that have made strategic adjustments. The goal is to make sure that those stores that have made strategic adjustments reach profitability rate of not less than 85% throughout the year.

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4.3. Research Limitations and Future Prospects

The research will only concentrate on the annual data of Yonghui Superstores from 2021 to 2025 and the first quarter of 2026. Short term and episodic data will not be enough to clearly identify the long term impact of quality transformation on the financial performance of the company. Moreover, this research adopts the case study design which reduces the generalization of the findings to other regional small scale chain retailers since the study has not adopted financial performance evaluation tools such as factor analysis, EVA and others. There is a need to monitor the complete financial statement of Yonghui in 2026 and beyond, carry out cross-sectional studies involving different chain retailers, and adopt complete financial performance evaluation models.

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