

# **The Neo-Classical Structural Functionalism: Time-Honored Brands Network Sale and Supply-Side Reform in China**

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*This study explores the internet application of time-honored brands in China to explain the role of internet in supply-side reform with aims to understand how time-honored brands maintain a competitive advantage in market. We develop an alternative framework of internet application based on insights from neo-classical structural functionalism theory and the field survey of time-honored brands in 2011. This paper demonstrates how the plus internet approach facilitates the time-honored brands to take advantage of external structural changes that strengthen the competitiveness.*

*Keywords: neo-classical structural functionalism, time-honored brands, plus internet*

## **INTRODUCTION**

“Supply-side reform” and “internet plus” are two prevalent terms used to depict the economic changes in China today. They are both officially initiated by the central government in recent years and exhibit prominent influence on economic structure transformation. In December of 2015, the Central Economic Work Conference set the tone for the structural reformation of supply side to cut overcapacity, reduce inventory, deleverage, reduce costs and strengthen weak links. The year of 2016 witnessed a critical development of this reform and a large number of enterprises started this reform with network sales. The common attempts they made were to open online stores.

This practice can also be viewed as a business response to the central government policy of “internet plus”. The recent decade in China witnessed great transition, which involves economic and social structure transformation, and in this process, a new growth point needs to be nurtured. The internet plus model is officially proposed to be the growth point with the purpose of accelerating modernization of traditional industries. The concept of “internet plus” was first officially promoted by Li Keqiang, the premier of China at the two sessions in 2015, and since then the internet plus mode was started across various industries in China. Liu Qiangdong, the CEO of jd.com,<sup>1</sup> gave an opening course at the annual session of jd.com in 2016 and made a claim that the internet industry in China had come to the end of the 15-year Phase 1.0, and faces Phase 2.0 in years ahead. At Phase 3.0 a new commercial civilization is expected to be formed.

According to the act “Measures to Promote Consumption Growth” issued by Beijing Municipal Commission of Commerce on June 24th of 2015, a subsidy of up to 50% will be rewarded to traditional

companies who run virtual stores on internet. This measure was adopted with the goal of establishing a commercial community where time-honored enterprises could achieve rejuvenation with joint efforts. This indeed encourages the reform of time-honored enterprises in China to expand their business through internet. But it was not long before they were discouraged by the remarks of Liu Qiangdong again. He claimed at the 16th Session of Entrepreneurship in China, which was held in Yabuli in Heilongjiang province that traditional brand operators should forget about e-commerce and he advised them to eliminate this department from their organization structures. Time-honored enterprises were frustrated and fell into confusion about their future at the time of internet society. On one hand, they are eager to find a right path for them to achieve successful transition; and on the other hand, they are in fear of “complete failure” and ending up with nothing in this technological revolution. Therefore, it is of great necessity for time-honored brands to make clear the role of internet in strengthening competitive advantage.

Such uneasiness of time-honored brands reveals that the booming of internet exposes them to unprecedented challenges. However, they need to appreciate the generative power of internet and its role in the supply-side reform. The issue is whether or not “internet plus” model can provide an efficient approach to enhance the competitiveness of their products or services of long standing.

We develop an alternative explanation of internet application to reconcile the functionality of internet with its reform in supply side. Instead of seeing “internet plus” as the reform approach—a view that is officially acknowledged in China in various industries—we propose “plus internet” approach where the views towards core competence and systemic competence (Prahalad & Hamel 1990, 79-91) are both valued and believed to be a challenge to traditional competitiveness theories (Zhang 2001, 39). This approach emphasizes the significance of supply-side reforms in systemic competence improvement and the ways of implementing reforms around the processes within the organizations, such as supplying, producing and selling. To be more specific, for time-honored brands whose core competences are already established, we tend to emphasize how to establish a value chain to improve the business process and organization structure itself, and how to coordinate with the external changes of the economic environment.

## **ANALYTICAL FRAMEWORK**

Instead of the prevalently acknowledged “internet plus” approach, we develop an alternative approach of “plus internet”. This approach is generated through probing into the theory of neoclassical structural functionalism and the combing efforts of our survey on time-honored brands in 2011.

The classical theory of structural functionalism studies the society through culture, which pays more attention to the structure form itself. However, the neoclassical structural functionalism views culture as one of the engines of social changes. Traditional structural functionalism portrays the culture status as social structure reflection. Yet the neoclassical structural functionalism proposed by Jijiao Zhang takes a different view on culture and he tends to view culture in a dynamic way, rather than a mere social reflection. He also believes that at the time of “tradition-modernity” transition in China, traditional cultures are undergoing structural adjustments and obtain new generative power in China today. Through the studies of time-honored brands in China, he develops an analytical framework in neoclassical structural functionalism and suggests three dimensions in analysis of time-honored brands: the macro level, the medial level and the micro level (Zhang 2015, 59-65). He assumes that time-honored brands are traditional entities with new dynamic structures in the modern society. Their newness or modernization could be deconstructed and portrayed from three dimensions to understand the tradition-modernity transition phenomena. Studies on the macroscopic level tend to relate the enterprises to the economic and political environment; they are intended to make clear the role of these enterprises in city planning and city development and how these traditional enterprises are defined and positioned by government policies. Studies on the medium level focus on the relations between the enterprises and their economic or social communities; they are interested in the leading role of time-honored brands in forming an old commercial street. And studies on the microscopic level are intended to reveal the ways how traditional elements of time-honored brands are maintained, which is the traditional approach anthropologists take in studies.

This new perspective contributes to a possibility of discovering the generative power of culture. In studying cultural heritages of China, Jijiao Zhang utilizes this conceptual framework and explains the “tradition-modernity” transformation of cultural heritages in China. He finds that cultural heritages display the property of physical structure, external structure and authentic structure in the process of “tradition-modernity” transformation, where some structural changes would take place to be the generative power of allocating local resources and boosting transformation. These three structures constitute analytical dimensions of the neoclassical structural functionalism. The first dimension is physical structure which refers to studies on cultural heritages or cultural capital themselves. The second dimension is the external structure or the field where studies focus on how cultural heritages are influenced by economic and social structural changes. The third dimension is the authentic structure where new organizations or industrial clusters come into being because of the cultural heritages, and these organizations exert influence on the external structure or the field. The time-honored brands are of the precious cultural heritages in China. They experienced ups and downs in history and the ways they survived in this transitional China are worthy of appreciation.

Combining these ideas enables us to portray the structure of the time-honored brands in ways that specify the role of internet in supply-side reform. Is it feasible for time-honored brands to set up an e-commerce department and sell on their own (to reform in authentic structure by involving internet in organizational structures) or to take advantage of internet by outsourcing online selling to e-commerce platforms (to be interactive with external structures)? We understand the way of doing e-commerce by themselves as authentic structural reform since they are making domestic organizational adaptation to fit the environmental changes and the way of establishing relations with e-commerce platforms as reforms of external structure since changes take place to be interactive with the environment.

Our research involves two primary data sources: the field survey of time-honored brands conducted in 2011 and the follow-up close observation through website research. The survey in 2011 was conducted by the academic program of “Time-honored Brands” supported by Chinese Academy of Social Science, and it covered more than 370 time-honored enterprises in 12 provinces. There are more than 30 academic researchers in this program, including local researchers. Data were collected via diversified channels, such as questionnaires, in-depth interviews, and observations of meetings, activities and manufacturing processes, and talks with government officers as well. In follow-up observations, we concentrate our efforts on network sale by gathering information from government data, official business websites, official business account on social apps and popular e-commerce platforms in China.

## **SUPPLY-SIDE REFORM FROM THE PERSPECTIVE OF DISTRIBUTION**

We present our analysis with a description of the overall development, some case studies and explication of how developmental changes in time-honored brands illustrate our new structural functionalism analytical framework. We identified the structural changes in terms of supply-side reform from the perspective of physical distribution and virtual distribution.

### **Changes in Channels of Physical Distribution**

Time-honored enterprises have seen fierce market competitions in decades or even hundreds of years. They still keep the leading roles today. However, many of them, for some historical reasons or system transformations, still face a poor organization level and backward management system. They exhibit poor competitiveness in market. In our survey of time-honored enterprises in 2011, many respondents (14.00%) from management levels rank “poor management” as the second reason for the inefficiency of time-honored enterprises (Zhang, Ding, & Huang 2011,16).

To most time-honored enterprises, an inefficient distribution channel is one of the main reasons for the failure of reducing inventory and cost. In 2001, I studied the issue of distribution channel in my book (Zhang & Lv 2001, 301-320) and developed the ideas that high-quality products are not necessarily selling well though, they deserve an efficient distribution channel; and that manufacturers now place considerable value on establishing a competitive distribution channel and they seek opportunities to

cooperate with the middlemen across the channel levels (Zhang, Ge & Shuai 2002, 3-9). To the Westerners, this is a common business practice for hundreds of years. But in China, it is not until the reform and opening up in the 1970s that the concept of “distribution channels” was first mentioned and very soon it gained increasing popularity in business. In the 1990s, terms like “general agent in China”, “general agent in eastern China” and “general agent in Guangdong” were popular sayings in newspapers and TV ads. The well-known street Zhongguancun in Beijing used to be a big hub for agents of computers and electronic products. It is evident that agents are playing an essential part in China.

The time-honored enterprises used to take cash, house-ware, technology and equipment as assets, failing to see the market need as resource. To them, however, the role of distribution channels also cannot be neglected in the sense that a poor distribution channel to a large extent means the ignorance of consumers’ needs. Some time-honored enterprises already establish their own distribution channels by opening chain stores or establishing agents. But a large proportion of time-honored enterprises missed the opportunities to open chain stores and failed to build up distribution channels. According to the *Time-honored Enterprise Development Report in Xiamen*,<sup>2</sup> over 70% of time-honored enterprises in Xiamen run with rental stores, which is a huge financial burden to them and many of them have to close down in these years. For instance, the Xiangyang department store in Bashi stopped business in early 2014 and Xiamen Jiancheng Department Store went bankrupt in February 2013 (Yang, Liao & Bai 2015).

It is clear that in the process of reforming physical distribution, the time-honored brands mainly face two approaches: to establish cooperation with agents outside the organization or to set up chain stores on their own. These can be theoretically viewed as structural changes these organizations made to achieve new function in new situations. The first way (to cooperate with agents) is of the external structural reform, where they were aware of environmental changes and sought to establish cooperation relations with the environment or field. The second way is of the adjustments in organizational structures to respond to external structural changes, where they paid efforts to do domestic transformations, setting up new offices or chain stores. This way involves risks and financial burdens. According to our survey in 2011, most time-honored brands with chain stores successfully weave a distribution net while many chain stores couldn’t afford the rental fees and failed.

### **Channels of Virtual Distribution**

However, at the time of internet and 5G, physical distribution network is not as significant as it was before. It is the virtual distribution, instead, that can bring prospects to time-honored enterprises. How to set up virtual distribution and include efficient online sales agents is regarded as the most competitive strategy today since online sales agents could make full use of the convenience and efficiency brought by internet and 5G. Sales could be boosted much faster than those in traditional ways. It is generally recognized that sound sales network is more powerful than good productivity in strengthening risk resistance capacity.

A growing number of time-honored enterprises are aware of this new technology application and are using internet in a variety of ways. Some time-honored enterprises build up their own electronic business management system; some join their efforts to open an online mall; some develop their own apps to retain interactions with customers. All of the above practices are part of the supply-side reform policies implemented by time-honored enterprises, and they share the same goal to strengthen weak links, reduce inventory and cut cost. The data collected in 2011 reveals that time-honored enterprises are actively involved in network sales in spite of the fact that most of them are poorly informatized.

The development of 5G and internet not only facilitates the selling of goods on the sellers’ side, but also provides access to a broader range of products on the consumers’ side. People today are used to buying products and services by moving their fingers on the smart phone. This also boosts the online retailing. According to the data released by National Bureau of Statics and Beijing Bureau Statics, the retailers’ sales volume through internet in the first six months of 2015 totaled up to 79.2 billion yuan, with a year-over-year increase of 38.9%. The virtual stores took up 80% of the sales, with a year-over-year increase of 27.5% and the physical stores 20%, with an increase of 130%. In traditional industries, more than 251 physical stores in Beijing are using internet. Time-honored brand retailer’s sales volume

came up to 120 million yuan, almost 260% of last years'; time-honored brand catering business sold 7,880 thousand-yuan products through internet, about 4 times of last year's (Chen 2015). Such data reveals that time-honored enterprises are actively involved in network sales.

The ways time-honored enterprises use internet in selling fall into the following four categories.

The first way is to set up an online shopping mall, financially supported by the governments, where the local time-honored brands gather to sell their products or services, for example, the "laozihao" e-shop in Beijing ([www.lzheshop.cn](http://www.lzheshop.cn)), "the Shanghai e-shop" ([www.sh.com.cn](http://www.sh.com.cn)) in Shanghai and "the Liulichang cultural mall" ([www.llc2010.com](http://www.llc2010.com)) in Beijing. The e-shopping mall "laozihao" was started on May 31st in 2009, the first time-honored online shopping mall in China. Nearly 100 time-honored brands in Beijing launched their business there, such as Quanjude Peking Roast Duck-Since 1864, Tongrentang Chinese Medicine-Since 1669 and Daoxiangcun Pastry-Since 1773. There were over 3,000 kinds of products across nine industries on sale, ranging from daily necessities like foodstuff and clothing to artware and health products. Consumers not only can choose from these well-known groceries online but also can enjoy fast delivery service. An order placed in the morning in Beijing could be expected to arrive in the afternoon. For buyers not in Beijing, they could receive the goods in three to six days, depending on delivery conditions of the residential area. On July 22nd in 2010, another e-shopping mall was launched in Beijing-the online cultural mall "Liulichang". More than 20 time-honored brands joined in this program, such as Daiyuexuan, Yidege and Chinese Bookstore.<sup>3</sup> On September 22nd in 2011, "the Shanghai e-shop" was launched in Shanghai and more than 180 local time-honored brands joined, selling local specialties, such as Shanghai watch, Zhengguanhe malted milk, Guangmao preserved duck gizzard, Warrior shoes and Zhengzhang sanitary solution.

The second way is that many time-honored enterprises open virtual stores on public e-commerce platforms like [tmall.com](http://tmall.com), [jd.com](http://jd.com), and [amazon.com](http://amazon.com), etc. This has broadened the distribution channels and boosted the sales volume. Take the handicrafts products for example. Zhang Xiao Quan since 1628, the maker of scissors and knives in China, sells its products through flagship stores in [tmall.com](http://tmall.com), [jd.com](http://jd.com), [amazon.com](http://amazon.com), and Dangdang, and earns high ROI for the company. In 2014, the sales of flagship store in [tmall.com](http://tmall.com) merely totaled up to 50 million yuan. The well-known Tianzhukuai chopsticks<sup>4</sup> also sell well on internet and almost 1/4 of the total sales are achieved through the stores on e-commerce platforms. In July of 2015, twelve time-honored brands such as Hongbin building, Shaguoju, Emei restaurant and Huguo temple snack launched online delivery platform "ele.me" and launched online delivery service in Beijing. Some time-honored retailers also use platforms to make changes in selling. In 2015, there were 16 time-honored brands that set up long-term cooperation relations with [jd.com](http://jd.com) and started "time-honored brands column".

These two ways are common occurrences of using internet in e-commerce nowadays. We would portray these two ways as a result of organizational reforms on the external structural level. However, according to our follow-up observation in recent years, we find the time-honored brands end up with different business destinations on these two types of platforms. Many of the online shopping malls they built at the first beginning cease to stop business now, such as the "laozihao" e-shop in Beijing ([www.lzheshop.cn](http://www.lzheshop.cn)) and "the Shanghai e-shop"([www.sh.com.cn](http://www.sh.com.cn)) in Shanghai. While the business stores opened one-commerce platforms like [tmall.com](http://tmall.com) and [jd.com](http://jd.com) gained increasing numbers of customers and sales volumes. We intend to explore such difference from the dimension of external structure which these time-honored brands have faced. The shopping malls supported by the government are not powerful enough to be widely known by consumers and to make difference to the domestic informatization. But opening stores on giant e-commerce platforms requires them to accept business rules and supervision from the platforms, and they have to be informatized and they have access to the warehousing and delivery system provided by the platforms. This not only helps to reduce costs, but also frees up the time-honored brands from warehousing and delivering work. It is evident that this practice happens as a result of the internet prevalence or external structural changes, where the time-honored brands understand internet as a business tool that facilitates the goods flow to end users.

The third way is that some time-honored brands choose to build up an online sales platform on their own. For instance, Guangzhou Restaurant<sup>5</sup> in recent years has tried different ways to integrate internet in

its business. It first started with a simple online order service on its company website. In late 2013, a branch office was established to run an online mall independently. In 2014, it further expanded the online sales and sold Pencai<sup>6</sup> through Benlai.com.<sup>7</sup> Such multiple network sales channels dramatically boosted its sales, with an increase of 80 million yuan from 2013 to 2014. Many other time-honored enterprises also devote their special efforts to run their own online mall. For example, the Wangxingji Fan Industry Co., Ltd. in Hangzhou formed a team in e-commerce office to be responsible for online sales in 2014.

The fourth way is that some time-honored enterprises take advantage of the convenience and popularity of Wechat, a widely used social app in China. Different from the e-commerce platforms like jd.com and tmall.com, Wechat is open to individuals and organizations, and keeps inventing new functions. The openness and technical support of Wechat allow the time-honored brands to develop their own mini-programs and open organizational official account, which make it possible to face consumers directly and strengthen interactions. In 2015 some time-honored brands in Hangzhou built their own official Wechat account, such as Wuweihe Food Co., Ltd.,<sup>8</sup> Yixiangzhai,<sup>9</sup> Zhangxiaoquan, Wangxingji and Tianzhukai. They regularly update brand stories and product subscriptions and provide online reservations through Wechat store. In 2017, To ToKui Restaurant<sup>10</sup> and many other time-honored restaurants encourage the use of “mini program” in Wechat to place orders. This frees them from the rules of other e-commerce platforms and gives them more direct access to consumers. In 2020, Wuweihe and Tianzhukai, following the fashion of live stream e-commerce in China, re-launched the video service of “channels” and “live streams” and gathered new fans through regular customer’s video sharing in “moments” of Wechat.

For the sake of the new technology, the time-honored brands’ marketing means are getting diversified and many of them choose to run online business on their own. We identify these two ways as reforms on the authentic structural level. These organizations are not only influenced by external structural changes but also involve themselves in the great changes. Apart from implementing organizational structural changes, they also devote efforts to improve staff competence structure. The e-commerce staff is required to be technically professional or even expert in making videos. These changes are apparently caused by close social interactions with external structural changes. Like many businesses in China, the time-honored brands resort to organizational structure reform to expand business online. The adjustments within enterprises are caused by external structural changes or the national structural changes as a whole. This way not only brings opportunities but also involves more costs and greater risks. Only big companies can afford to do so.

## **DISCUSSION: EXPLAINING INTERNET APPLICATION THROUGH NSF FRAMEWORK**

In this section, we apply the NSF (Neoclassical Structural Functionalism) framework to explain the role of internet in time-honored brands in terms of strengthening the competitive advantage. First of all, what contributes to the competitiveness of time-honored brands and how does internet application influence the competitiveness?

### **The Role of Internet: Core Competence and Systemic Competence**

We identified core competence and systemic competence as the top two competitive advantages of time-honored brands. According to G. Hamel and C. K. Prahalad, core competence refers to the know-how, management, credit and culture of an enterprise, which tends to be un-transferable and exclusive to competitors (Zhang 2001, 38-78). Systemic competence is a value chain established to focus on how to improve core competence, especially the ability of business process design in terms of goods flow. We assume that the time-honored core competence lies in their product quality and long-established credit; their systemic competence is exhibited by the ability of connecting modern market with traditional products through improving domestic management and distribution channels.

The following discussion about core competence and systemic competence is presented from the perspective of internet application by a description of our findings in 2011 field survey and some specific case studies to support our views. In 2011, we conducted a national survey on time-honored brands in

China. In internet application, we found that most time-honored enterprises were still partly informatized and information within organization lacked the chance of free flowing and being shared; and that most time-honored brands were not competent enough to run e-business on their own for the shortage of technical support from specialty talents. In market competitiveness, according to the data we collected, “brand” was ranked as the top (23.8%), “traditional technique” (20.1%), and “long history” (16.1%) as the second, then followed “product quality” (15.4%), and “regular customer” (9%). This reveals that people buy their products out of preference for “brand” rather than “quality” (Zhang, Ding, & Huang 2011, 16). Low “regular customer” and “product quality” indicate high disappointment of customers after their purchasing trial.

Time-honored brands are not necessarily in a rush to run e-commerce on their own. According to Qiangdong Liu, the CEO of jd.com, traditional brand entrepreneurs should forget about e-commerce and eliminate e-commerce office from the company; it would be risky for them to sell most products through e-commerce on their own. Indeed, setting up an e-commerce office is not an easy thing. It not only demands cash and talents, but also abundant time and efforts. And it is very likely that the product quality would be sacrificed. From the perspective of economic theories, the poor possibility for time-honored brands to run independent e-commerce could be well explained by the law of labor division and scale production. In practice, some successful time-honored brands are also found to support this view. Take Lee Kum Kee<sup>11</sup> and the Godmother<sup>12</sup> as examples. In the last decades, these two brands never had a plan to be listed in securities market and to be traded online. It was not until the year of 2019 that they became more tolerant traders and opened the door to online retailers on Tencent and Tmall in China for the first time. In spite of their ignorance of online selling in the past years, Lee Kum Kee and the Godmother remain widely known for a popular saying, “Where there are Chinese, there are Lee Kum Kee and the Godmother.” Such popularity is attributed to the constantly refined flavorings and their efficient physical distribution channels. They always keep their eyes on improving product quality, rather than the techniques of opening virtual stores themselves.

Then raises the question: should all time-honored brands keep network sales at arm’s length? Is it a pity for them not to integrate internet in their business to implement supply-side reform? Many other time-honored brands’ success provides a negative response to this question. Take WuFangZhai<sup>13</sup> as an example. Its first attempt in e-commerce started in 2009 and it has set a classical O2Obusiness model (online to offline) for other time-honored brands to follow. Through the application of internet into business, it achieves a successful and comprehensive transformation from food production to end-user consumption. For example, to satisfy the taste of consumers born in the 1970s and the 1980s, it launched the program of “Muslim canteen of Version 4.0” and opened more than 400 chain stores in China. These canteens are located in transportation hubs like airports and train stations. The foods served here are featured by “memory and nostalgia” in food and canteen decoration. Such practices are taken with the anticipation of strengthening the emotional bond between the canteen and its customers. Through selling on e-commerce platforms like jd.com and tmall.com, it integrates its powerful physical distribution into network sales and has successfully created a new business model called “O2O” and paved the way for other time-honored brands’ reformation.

The success of WuFangZhai shows that time-honored brands not only need to enhance the core competence (by updating products and services in new market), but also need to improve the systemic operational competence (by combining online selling with traditional physical distribution). In the survey of 2011, we had interviews with government officials and enterprises’ managers. They all agreed that the competitive advantage of time-honored brands lied in core competence, including time-honored products, techniques or services, high brand value and the cultural connotation. However, it’s a pity that they ignored the importance of systemic operational competence, which in fact plays a more significant role in improving competitive advantage and should be of more concern in future planning.

We also noted that internet provides the convenience for consumers to make comparisons before placing an order and various products are available to them. The time-honored brands today are endowed with long-standing brand and credit and this competitive advantage is on the verge of being ruined by fierce competition. Instead of devoting time and money to running e-commerce by themselves, most time-

honored brands still need to enhance brand image and credit. For companies with high core competence, the improvement of systemic operational competence should be given primary attention to enhance competitiveness in market. This requires reforms to improve supply-side efficiency with the goal of “reducing stock and cost and strengthening weak links” and the application of internet provides a suitable path for reforms.

**The NSF Framework: Internet Plus or Plus Internet**

The discussion about roles of internet in strengthening competitiveness paves the way for a sensible choice in terms of internet application approach in supply-side reform: the approach of internet plus or plus internet. We probe into this question from the three dimensions of our neoclassical structural functionalism framework: physical structure, external structure and authentic structure (Zhang 2020, 178-189.). We understand internet plus approach as a way to integrate internet into organizational management by setting up e-commerce departments and selling on their own products, and plus internet approach as a way to take internet as a tool to facilitate distribution by outsourcing online selling to e-commerce platforms. As it is demonstrated previously, the plus internet approach is a reform on the external structure level and the internet plus approach is a reform on the authentic structure level.

**TABLE 1  
INTERNET APPLICATION OF TIME-HONORED BRANDS IN CHINA**

	Plus internet approach	Internet plus approach
to join local online shopping mall	√	
to open virtual stores on e-commerce platforms	√	
to sell on official website		√
to sell through Wechat		√

We identify core competence to be of the physical structure and the competitiveness of time-honored brands lies in their long-history and brand-established products and services. The success of Laoganma and WufangZhai reveals that a powerful adjustment in physical structure (to upgrade products and improve services) is worth of primary concern at the enterprises’ side because it carries the weight of the credit and the authority within their practices.

We understand systemic competence from the dimension of external structure. The official advocacy of internet application and supply-side reform present the full force of the government and extend impacts to numerous organizations. The time-honored brands organizational structures are modified to play additional roles in online selling. However, the online order numbers and comments reveal great differences in different means. We have noted that the order numbers placed on official websites or Wechat stores apparently pales in comparison to those placed via other e-commerce platforms, such as jd.com. It is also observed in the comment’s column that official Wechat stores are frequently complained for delayed delivery and slow responses from customer services. Such complaints are seldom heard on jd.com for the store owners on jd.com can avail of the delivery system provided by JD Logistics<sup>14</sup> and they are required to follow strict regulations and supervision of the platform, especially in terms of after-sale services. As Table 2 indicates, plus internet approach (to sell on e-commerce platforms) would spare the sellers the trouble of building warehousing and delivery system, and thus costs are reduced.

**TABLE 2**  
**SUPPLY-SIDE REQUIREMENTS FOR ORGANIZATIONAL STRUCTURES**

		Internet plus approach	Plus internet approach
Supply-side requirements for organizational structures	e-commerce office	√	√
	Warehousing system	√	
	Delivery system	√	

Our purpose was to advance thinking about supply-side reform approach (internet plus or plus internet) by explaining their capacity and ability to participate in the accomplishment of gaining competitive advantages. Plus, internet is powerful precisely because it cannot be reduced to the technology itself, but presents the primary concern of the quality of products or services. It is the products and brand credit that secure these organizations' long existence. As an old saying goes, the Roman Empire was not built overnight. It takes time, cash and talents to informatize these traditional enterprises. Also, it is impossible for everyone to build up their own warehousing and delivery system. For most time-honored brands in China, it is more practical to take advantage of the external resources and be dedicated to improving core competence and domestic management.

## CONCLUSION

The recent decade in China witnessed great transition and many reforms are officially advocated by the central government to boost this transformation process. In 2015, the central government launched the national programs of “internet plus” and supply-side reform. The internet plus model encourages the application of internet in traditional industries to accelerate the modernization process. Its competitiveness was first exhibited in its efficiency of improving supply-side efficiency. At the end of 2015, the central government launched the supply-side reforms program. The official advocacy of supply-side reform encourages the tradition-modernity transition of traditional enterprises and the time-honored brands are also on the way of seeking the right path to their modernization reforms. But at the same time, they are facing great challenges.

Based on the neoclassical structural functionalism and the exploration of internet application in time-honored brands, we have identified two categories that these enterprises utilize internet in supply-side reforms. Some enterprises are actively involved in this internet society and this involution pushes them to implement reforms in authentic structure level and develop e-commerce business on their own. This has been proved to be a risk. Most other enterprises understand themselves as parts of internet society, and increase interactions with the external structure to enhance systemic competence and maintain their competitive status.

Now we are in position to say that as compared to the officially proposed “internet plus” model, the model of “plus internet” is more advisable. Because this model makes the presence of retaining enterprises' traditional advantages and encourages the interactive work with external environment through internet application.

To the time-honored brands in China, it is the enterprising spirit that guarantee their survival and keeps them thriving from one commercial battle to another. Facing the new challenges brought by internet, they should have the ability of keeping e-commerce well in hand and actively participate in the supply-side reform. Only in this way, can they keep the advantageous position for the traditional brands in a competitive market.

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## ENDNOTES

1. Jd.com is one of the top five internet companies in China. The other four are Baidu, Alibaba, Tencent and Xiaomi.
2. This report was published on February 3<sup>rd</sup> in 2015, and written by Society of Time-honored Enterprises in Xiamen, which was established on December 9<sup>th</sup>, 2014, supported by China National Democratic League and officially granted by Xiamen government. This organization was first initiated by six time-honored enterprises in Xiamen and now has over 60 enterprise members.
3. Daiyuexuan is a stationary commodity store, opened in 1916 and well-known for its Chinese calligraphy brush pen; Yidege is a handicraft store, opened in 1865 and famous for its handmade Chinese ink; Chinese Bookstore was opened in 1952 and widely known for the Chinese old books business.
4. Tianzhukai chopsticks are identified as intangible cultural heritage of Zhejiang province in China for the fine art and long history. They were popular table wares in Hangzhou since Qing dynasty.
5. Guangzhou Restaurant was opened in 1935, specialized in Guangdong cuisine in China.
6. Pencai is a traditional Chinese dish served in Canton and Hong Kong. It is often served at family reunions with vegetables, mushrooms and meat. Guangzhou Restaurant makes it a popular ready-to-cook dish through online delivery.
7. Benlai.com is an e-mall specialized in food delivery in China.
8. Wuweihe was set up in 1903, featured in Chinese pastries, in Hangzhou.
9. Yixiangzhai was set up in 1875, featured in Chinese mooncakes and pastries in Hangzhou).
10. To ToKui Restaurant was established in 1880, well known by its tea, mooncakes and cuisine.
11. Lee Kum Kee is founded in 1888 and over 200 sauces and condiments are offered in over 100 countries worldwide.
12. The Godmother is founded in 1996 by Tao Huabi, who specialized in traditional pepper-made condiments in Guizhou province.
13. WuFangZhai was established in 1921 mainly selling rice dumplings. Its career develops from food producing to restaurants and now it's widely known the most successful time-honored brand in terms of e-commerce.
14. Before 2012, jd.com had its own delivery services and in 2012, jd.com got JD Logistics registered and JD Logistics was affiliated to jd.com. Today JD Logistics has developed into one of the largest logistic platforms in China which offers supply chain solutions including warehousing, transportation, order sorting, loading into truck, order delivery, and after-sale services.

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