Walmart and Carrefour in China

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“Global scope [in 2015] will be a necessity, not an option to grow the top line and bolster the bottom line. Global expansion will be a key avenue for retailers in developed markets to generate new sources of revenue to offset slower sales growth at home....They [American firms] will be late to the game, especially compared with large European retailers..”

-Retail Forward 2006

In Brazil, Mexico and China we were picked as one of those countries "Most Admired" companies (for 2004)

-Walmart's Annual Report, 2005

“Carrefour has gotten it right in China - and, in fact, they're doing mass retailing globally much more successfully than the iconic Walmart, earning twice Walmart's revenue. What Carrefour is doing right (in addition to grabbing and building as many retail outlets as it can in the big cities) is simple: They're selling in a Chinese way to Chinese consumers. You can pull your own seafood from tanks. You can select from bins of fresh produce. It's more like a Shanghai outdoor market than a Paris indoor one. That's the customer experience the Chinese consumer wants.”

- Paul K. Ward, CRM Consultant, in 2005

Photographs of Wal-Mart in Shanghai: [flickr]

Photographs of Carrefour in Shanghai: [flickr]

American based Walmart and the French based Carrefour are the two largest retailers in the world and two pioneers in the globalization of the retail industry. China, with one-fifth of the world’s population and an economy growing consistently at over 10% per year, attracted the attention of the two retailing giants. In 1995, Carrefour first opened a hypermarket (a large store that combines a traditional discount store and supermarket) in mainland China, and Walmart followed in 1996. Both of these retailers have expanded their China operations in China. In addition to opening its own stores, in 1976, Walmart acquired Taiwan-based Trust-mart’s stores in mainland China. By 2010, Carrefour was operating 157 stores and was Walmart operating 178 stores (not including its Trust-mart).

China’s Economic History

Prior to 1979, China’s economy was centrally planned. The central government established what and how much of all consumer and industrial goods should be
produced; set production goals for state owned and operated factories; and determined the prices for consumer goods sold in state owned and operated retail stores. Private enterprises and foreign-invested firms were nonexistent before 1979. Beginning in 1979, China launched several economic reforms. The government established four special economic zones along the coast for the purpose of attracting foreign investment, boosting exports, and importing high technology products. Economic control of various enterprises was given to provincial and local governments, which were generally allowed to operate and compete based on free market principles. Later, more cities participated in these free market experiments.

The first cities participating in these free market economic experiments were Beijing in the north, Shanghai in the middle of the country, and Guangzhou in the south. These cities, with the most advanced economies, are referred to as first tier cities. As a result of improved transportation and communication infrastructure, economic development proliferated in cities near these first tier cities, and then gradually moving westward. The Chinese government also focused economic development in some provincial capitals in order to introduce economic growth in different regions of the country. Thus, Chinese cities began their economic reform at different times.

Cities in China are classified into one of five tiers based on their population, economic development, and historical significance of the city although there are a lot of ambiguities in the definitions of city tiers. The income level gap between urban residents in first and second tier cities and rural residents is substantial and the economic development gap among different tier cities is significant.

While there are large differences between urban and rural Chinese, there are cultural aspects that all Chinese people have in common. China was centrally controlled for thousands of years and officials have always held high social status. Government and its officials have a very big impact on individuals as well as businesses. Other cultural concepts, like the lunar calendar, the Chinese zodiac, have subtle but deep impact in everyday life. Ties within families are very strong with multiple generations living together.

The first tier cities – Shanghai (population 14 million in 2007), Beijing (12 million), Guangzhou (12 million) – are fueled by their own domestic demand and consumption. They provided the platform for improved living standards, better business and job opportunities, and an international showcase of China’s economic development to the rest of the world. However, these cities now face a population ceiling challenge with stiff business competition which may reduce the high exponential growth rates they have experienced in the past.

The definition of first tier cities is agreed upon by most Chinese and foreigners alike but there is some confusion about second tier cities. There are roughly 20 cities in this category. China is planning to develop these cities as the backbone of China’s future economy. Already armed with a medium to high disposable income and an average GDP per capita of RMB 30,000 (approximately $4,500), these 2nd tiered cities provide an opportunity for vigorous retail market.
China’s Consumers and Cuisines

China has 22% of the world’s population, while it only has 7% of the land mass. Approximately 43% of the total population lives in urban areas, and this urban growth will continue. Furthermore, it is estimated that there are approximately 65 million young urban consumers, aged from 20 to 39, who are attracted to Western brands and are influenced by Western advertising and entertainment. Most urban Chinese families own and live in high rise apartments. Retail stores typically have multiple floors. Residential areas are located close to business and shopping areas and these areas overlap. Urban dwellers either walk or use bicycles or public transportation to get to work and shop.

The shopping experience in China has evolved dramatically over the past decades. Chinese consumers continue to place great importance on the freshness and quality of ingredients. When refrigerators were generally unavailable, consumers shopped for food several times each day and bought just enough for one meal at a time. Even though refrigerators are common now, kitchens and refrigerators are small. Most meals are prepared with fresh food purchased on the same day it is consumed.

The primary retail establishments for fresh food items in China are open markets, also called wet markets. With over 80 open markets in Shanghai, they are conveniently located for most of the city residents. The markets consist of a series of vendors stalls that offer fresh fruit and vegetables, meat, eggs, tofu, grains, pickled radishes, live fish and fowl, and spices. The food usually comes straight from the farm or butcher. Freshness remains an important consideration for most Chinese consumers, and ‘live’ is often the equivalent of ‘fresh’. In addition to freshness, consumers are also attracted to the open markets by the wide variety of fresh fruit and vegetables available. Finally open markets offer a social experience where local residents meet to exchange gossip and local news.

Foreign retail chains such as Tesco (U.K.), Walmart (U.S.), Carrefour (France) and Metro (Germany) and domestic chain have open hypermarkets in major Chinese cities. The attractions of hypermarkets for Chinese consumers are low prices and one stop shopping for food and general merchandise. China’s middle class consumers visit hypermarkets once every 10 days, on average. While hypermarkets are gaining market share among food retailers, the majority of consumers still buy food at supermarket stores and traditional open markets, especially in rural areas where supermarkets do not exist.

Food preferences vary greatly across China. Chinese cooking strives to achieve a balance between yin and yang, light and dark, and hot and cold. For example, since Cantonese food is prepared in warmer areas of China it is not overly warm. It tends to be lighter in flavor and substance in the summer and autumn when the weather is warmest, and of slightly more substance in the winter and spring when temperatures are cooler. Hot and spicy foods, on the other hand, are commonly consumed in the northern region of China, as well as in the west, where the cold, humid weather and high altitude dictate more warmth in the cuisine.
The local availability of agricultural products also affects food preferences. Rice is widely grown in southern regions. Thus rice, congee (rice porridge) and rice noodles are main staple foods of southern and eastern China. While rice is popular in the south, wheat is more commonly available and eaten in the north, in the form of noodles, man tao (steamed buns) and dumplings.

**Carrefour vs. Walmart**

**Entry Strategy.** Figures 1 and 2 indicate the stores open by these two competitors each year. Before Carrefour entered the mainland market, it had been operating in Taiwan for seven years. In 1995, according to the government’s central plan, the retail industry was only partially opened and foreign investors couldn’t directly operate retail outlets. However, Carrefour took a risk in developing an indirect approach that circumvented the central government’s plan. It entered the China market with the Shanghai Hualian Company as its local partner, a company that had a very close relationship with the Shanghai government. This partnership facilitated Carrefour’s expansion in Shanghai. Carrefour expanded rapidly primarily targeting 1st tier cities. At that time, there were few domestic supermarket or hypermarket chain and Carrefour realized a significant presence in China’s 1st tier cities.

On the other hand, Walmart abided by the central government’s plan and thus its initial growth was slow. When it tried to enter Shanghai, it had a dispute with the local government over taxes. So Walmart focused on Shenzhen, a 2nd tier city. Figure 3 shows the location of Walmart stores. The acquisition of Trust-mart strengthened Walmart’s coverage in first tier cities (see Figure 4).

**Locations.** Carrefour locates its stores at crossroads, which is the meaning of the word “carrefour” in French. When it selects a store location at a crossroad, one of the two roads must be a major thoroughfare. Exhibit 5 shows the location of Carrefour stores in Shanghai. In Shanghai, most of Carrefour’s stores are located at crossroads in the intercity business centers or urban residential areas where the average disposable income is higher than average.

In comparison, Walmart locates its stores in suburban areas. The few stores in Shanghai are mostly located in rural areas with lower disposable incomes or near high speed roads – locations that can only be reached by consumers with cars. Exhibit 6 shows the locations of Walmart stores in Shanghai.

**Shopping environment.** The Chinese characters Carrefour selected to represent its name are “家乐福” (Jia le fu), which means “family, happiness and luck” in Chinese. These three characters are all very important culturally, the 福 (fu) is always used in traditional Chinese New Year decorations. Walmart’s Chinese name “沃尔玛” characters that simply sounds like the Walmart with no meaning in Chinese.

Chinese consumers like broad assortments of merchandise so they can compare and contrast different products in a category. Carrefour made special shelving, longer
than its normal shelving, so that more brands can be displayed. Carrefour also tailors the merchandise in each store to the local market. For example, in the Shanghai Hongqiao Carrefour store, 40% of their customers are foreigners, so the store has a substantial assortment of imported products, especially imported wines and cheeses which are not popular with Chinese customers.

**Pricing.** Carrefour uses a high low pricing strategy while Walmart use its “Everyday Low Price” strategy,

**Supply chain.** Walmart has a 40,000 square meter, central distribution center in Kengzian (China). Carrefour uses a different approach. It relies more on local distributors to deliver direct to the stores because it believes that flexibility matters more, especially when the market is evolving. While it faces the challenges providing uniformity in service and quality control, the cost of developing its supplier network and supply chain is lower.

**Discussion Question:**

1. Compare and contrast Walmart’s and Carrefour’s entry strategy going into China. What are the strengths and weaknesses of each strategy?
2. Which retailer is in the best position for future growth in China? Why?
3. What are the advantages and disadvantages of the different pricing and supply chain management systems the two retailers use?
Figure 1: Number of stores opened by Carrefour stores each year

Figure 2: Number of stores opened by Walmart every year
Figure 3: Comparison of Carrefour and Walmart (Trust-mart not included) store locations by regions

Figure 4: Comparison of Carrefour and Walmart (Trust-mart included) store locations by regions

Figure 5: Comparison of Carrefour and Walmart (Trust-mart included) store locations by regions
Figure 5: Locations of Carrefour stores in Shanghai

Figure 6: Locations of Walmart stores in Shanghai
Walmart’s store operations in China, 2008
Carrefour’s store operations in China, 2008
Walmart and Carrefour in China

Teaching Note
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This case describes the retail strategies in China of Walmart and Carrefour, the two largest retailers in the world. It compares these retail giants in terms of their entry strategies, pricing, assortments, and locations. The case also provides some information about the unique nature of the Chinese shopping behavior.

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