Locations in Chinese Retail Industry
Segment 1 Types of Locations
Segment 1: Types of Locations

- **Learning Objectives:**
  - Know about major location segmentations and how to match different location characteristics with retail types

- **Learning Contents:**
  - Location definition and major location segmentations
  - Central Place Theory
  - Matching location segmentations with retail types
  - Lifestyle segmentation in China
3 Types of Locations

- Isolated Store
- Planned Shopping Center
- Unplanned Business District
Isolated Store

- Freestanding retail outlet located on either a highway or a street.
- There are no adjacent retailers with which this type of store shares traffic.

Examples:
- Large-store formats
  - Wal-Mart
  - Carrefour
- Convenience stores
  - 7-Eleven
Isolated Stores

- Free Standing:
  - No adjacent retailers with which this type of store shares traffic.
Isolated Stores

**Advantages**

* No competition
* Low rental costs
* Flexibility
* Good for convenience stores
* Better visibility
* Adaptable facilities
* Easy parking

**Disadvantages**

* Difficulty attracting customers
* Travel distance
* Lack of variety for customers
* High advertising expenses
* No cost sharing
* Restrictive zoning laws
Unplanned Business Districts

- Type of retail location where two or more stores situate together (or nearby) in such a way that the total arrangement or mix of stores is not due to prior long-range planning.

<table>
<thead>
<tr>
<th>Central Business District</th>
<th>Secondary Business District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighborhood Business District</td>
<td>String District</td>
</tr>
</tbody>
</table>
Unplanned Business Districts

- Central business district (CBD):
  - Hub of retailing in a city. The CBD has the greatest density of office buildings and stores.

- Secondary business district (SBD):
  - Usually bounded by the intersection of two major streets. It has at least a junior department store and/or some larger specialty stores - in addition to many smaller stores.
Unplanned Business Districts

- Neighborhood business district (NBD):
  - Appeals to the convenience shopping and service needs of a single residential area. The leading retailer is typically a supermarket, a large drugstore, or a variety store and it is situated on the major street(s) of its residential area.
Unplanned Business Districts

String:

- A group of retail stores, often with similar or compatible product lines, located along a street or highway.
Unplanned Business Districts

Advantages

* Excellent goods/service assortment
* Access to public transportation
* Variety of store types and positioning strategies within one area
* Wide range of prices
* Variety of customer services
* High level of pedestrian traffic
* Near commercial and social facilities

Disadvantages

* Inadequate parking
* Traffic and delivery congestion
* Travel time for those living in the suburbs
* Many aging retail facilities
* Declining condition of some central cities
* Poor image of central cities to some consumers
* High rents and taxes for popular sites
* Movement of popular stores to suburban shopping centers
* Discontinuity of offerings
Planned Shopping Centers

- Group of architecturally unified commercial facilities on a site that is centrally owned or managed, designed and operated as a unit, based on balanced tenancy, and accompanied by parking.

Regional Shopping Center

Community Shopping Center

Neighborhood Shopping Center
Planned Shopping Centers

- **Community shopping center:**
  - Moderate-sized shopping facility with a branch department store and/or a category killer store, in addition to several smaller stores.

- **Regional shopping center:**
  - Large shopping facility appealing to a geographically dispersed market. It has at least one or two full-sized department stores and 50 to 150 or more smaller retailers.

- **Factory outlets center:**
  - Sells high-end discounted foreign-branded apparel, furniture, electronics and other specialty items, most consumers tend to go to traditional department store or a wholesale market.
Planned Shopping Centers

Advantages

* Well-rounded assortments
* Strong suburban population
* One-stop, family shopping
* Cost sharing
* Transportation access
* Pedestrian traffic

Disadvantages

* Limited flexibility
* Higher rent
* Restrictions on offerings
* Competitive environment
* Requirements for association memberships
* Too many malls
* Domination by anchor stores
Large Mega Mall in China

- South China Mall in Dongguan, China
- One of the world’s largest shopping mall, arrayed in size separate themed areas.
- 9.6 million total square area
- 1,500 stores
## Retail Locations Comparison U.S. versus China

<table>
<thead>
<tr>
<th>Location Types</th>
<th>China</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free standing</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Merchandise kiosks</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>CBD/NBD</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Main street/strings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Inner city</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Power centers</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Shopping malls</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Lifestyle centers</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Fashion/specialty</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Factory outlet</td>
<td>Very Few</td>
<td></td>
</tr>
<tr>
<td>Theme festival centers</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Open air market</td>
<td>X</td>
<td>Very Few</td>
</tr>
</tbody>
</table>
Retail Locations Comparison U.S. versus China

- Open air market in China
- Free standing in China
- Free standing in the U.S.
- Lifestyle center in the U.S.
## Location Segmentation in China

<table>
<thead>
<tr>
<th>Locations</th>
<th>Retail Types (example)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Standing</td>
<td>Any retail type</td>
</tr>
<tr>
<td>CBD</td>
<td>Department stores, convenient stores and restaurants</td>
</tr>
<tr>
<td>SBD</td>
<td>Department stores, convenient stores, grocery stores, and restaurants</td>
</tr>
<tr>
<td>NBD</td>
<td>Supermarkets, pharmacies, barber shops and restaurants</td>
</tr>
<tr>
<td>String</td>
<td>Department stores and restaurants</td>
</tr>
<tr>
<td>Community Shopping Center</td>
<td>Supermarkets, pharmacies and home goods</td>
</tr>
<tr>
<td>Regional Shopping Center</td>
<td>Supermarkets, pharmacies, home goods and clothing stores</td>
</tr>
<tr>
<td>Factory Outlets</td>
<td>Branded goods</td>
</tr>
</tbody>
</table>
Other Retail Formats in China

- Wet Market
  - informal commercial sections that sell fresh fruits and vegetables.
  - Vendors gather together to create a central place.
  - Prices here are lower than in supermarkets of department stores.
  - Products are not refrigerated.
Other Retail Formats in China

- Open Air Market
  - Sells a variety of merchandise.
  - The area is usually covered with a roof but with only a small metal cage around the vendors.
  - Bargaining is common in open air markets.
Other Retail Formats in China

- Exotic Market
  - Also major shopping centers and shopping districts with full-scale department stores.
  - Carry designer brands, regular national brands, and private label merchandise, all of which are sold at a fixed price.
Other Retail Formats in China

- **Hypermarkets**
  - In 1999, the number of hypermarkets was less than 100 in China, however, since that time there has been an explosion of this format.
  - Many domestic firms opened hypermarkets only to find that they could not match the competitive muscle of the foreign companies like Wal-Mart and Carrefour. As a result most of the domestic hypermarket businesses have closed, leaving the foreign competitors alone to fight it out.
  - Foreign retailers in China have focused on hypermarkets formats because they can forego the initial investment in distribution centers.
Below is the list of retail type classification from the Chinese Retail Industry website:

- Agriculture & Food
- Apparel & Accessories
- Arts & Crafts
- Auto Parts & Accessories
- Bags, Cases & Boxes
- Chemicals
- Computer Products
- Construction & Decoration
- Consumer Electronics
- Electrical & Electronics
- Furniture & Furnishing
- Health & Medicine
- Industrial Equipment & Components
- Instruments & Meters
- Light Industry & Daily Use
- Lights & Lighting
- Manufacturing & Processing Machinery
- Metallurgy, Mineral & Energy
- Office Supplies
- Security & Protection
- Service
- Sporting Goods & Recreation
- Textile
- Tools & Hardware
- Toys
- Transportation
Central Place Theory

- Central Place Theory:
  - A spatial theory that explains the reasoning behind the distribution patterns, size and number of central places around the world
  - Assumes the bigger size of central place is the more distant consumers will be attracted to the central place, as well as the broader range of goods and services it provides.
Central Place Theory

KEY

- City
- Town
- Market Town
- Village
- Boundaries

Central Place Theory
Central Place Theory- China

- Settlement system in Zhejiang, China

The hexagon represents a town in the Zhejiang Province of China.
Central Place Theory Example

Example: A string in Guangzhou, China
This is an example of the “group effect” in the central place theory where similar stores are clustered together.
Central Place Theory Example

Example: A string in Hong Kong. Similar stores are located near one another so consumers can easily compare prices and quality.