Locations in Chinese Retail Industry
Segment 4:
Retail Models & Expansion
Strategies in Site Selection
Segment 4: Retail Models & Expansion Strategies in Site Selection

- **Learning Objectives:**
  - Explore existing retail models and expansion strategies in China
  - Understand why site selections must match retail models and expansion strategies

- **Learning Contents:**
  - Retail Models
    - Commercial real estate, direct operation, Franchising, etc.
  - Expansion Strategies
    - Fast and aggressive expansion, moderate expansion
  - Tailored Site Selection Principle
    - Scattered or concentrated, profit driven or attention driven
Retail Models

- Commercial Real Estate
  - Revenue model: Buy or lease a property and rent it out to suppliers; assets appreciation (buy)
  - Advantage: Low initial store opening cost (lease) and low operation cost
  - Store size: Large (buy) or medium (lease)
  - Applied products: Appliance, furniture, and apparel
  - Example
    - GOME (appliance) (lease)
    - Red Star Macalline (furniture) (buy)
    - Pacific Shopping Mall (buy)
Retail Models

GOME (lease)

Red Star Macalline (buy)
Retail Models

- **Direct Operation**
  - **Revenue Model:** Developing, sourcing, storing and selling
  - **Advantage:** High inventory turnover, high gross profit and economy of scales
  - **Store size:** Large, medium or small
  - **Applied Products:** Groceries, furniture, etc.
  - **Example:**
    - Tesco (supermarket)
    - IKEA (furniture)
    - Best Buy (appliance)
    - Lawson (grocery and convenience store)
Retail Models

- Franchising
  - Revenue model: Franchising free
  - Advantage: Easy for emerging brand to expand
  - Store size: Small
  - Applied Products: Catering, hotel, entertainment etc.
  - Example:
    - KFC

- Display and Customer Experiencing Store
  - Applied Products: Innovative or upscale products
  - Example:
    - Apple Store
    - Microsoft
Expansion Strategies

- **Chain Store Expansion Strategies**
  - Fast and Aggressive Expansion
    - Adopted by retail giants that are expanding globally
    - New and successful format
    - Models: Commercial real estate leasing, M&A by direct operation, franchising
    - Example: Carrefour

- **Moderate Expansion**
  - Retailers that are new entrant
  - Focus on geographic or demographic expansion
  - Models: Keep the same pace with internal strength growth or external market growth
  - Example: Wal-Mart
Site Selection: IKEA in Shanghai

- Retail model: direct operation
- Expansion strategy: moderate expansion
- Location: Inner area of major cities
- Focus: revenue per square feet improvement instead of store expansion

Selection principles:
- Enough distance between existing store
- Convenient to target consumers with great purchasing intention and power
- No direct competitors nearby
Site Selection: GOME in Shanghai

- Retail model: Commercial real estate (lease)
- Expansion strategy: Fast expansion
  - Open more than 10 stores in Shanghai annually
- Location: Populated areas expect CBD
- May open stores near their competitors
- Low set up and exist costs make it possible to open multiple stores and let the best stores survive through the competitor
Site Selection: Apple Store in Shanghai

- Retail model: Display and customer experiencing
- Location: Stores in CBDs with high tourist flow
- Apple sells their merchandise mainly through the China Unicom Outlet
- Stores sites are usually located in phenomenal and elaborate buildings where most attention can be drawn