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>
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</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.
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

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<th>Location Types</th>
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<th>US</th>
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<td>CBD/NBD</td>
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<td>Power centers</td>
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<td>Lifestyle centers</td>
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<td>Fashion/specialty</td>
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<td>Factory outlet</td>
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<td>Theme festival centers</td>
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<tr>
<td>Open air market</td>
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<td>Very Few</td>
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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.
<table>
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<tr>
<th>Locations</th>
<th>Retail Types (example)</th>
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<td>SBD</td>
<td>Department stores, convenient stores, grocery stores, and restaurants</td>
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<td>NBD</td>
<td>Supermarkets, pharmacies, barber shops and restaurants</td>
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<tr>
<td>Factory Outlets</td>
<td>Branded goods</td>
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</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.
Segment 2
Site Evaluation & Selections
Segment 2: Site Evaluation & Selections

Learning Objectives:
- Know different site characteristics and the definition of trade area
- Learn how to evaluate a site for a specific retail store
- Know the general idea of forecasting revenues and costs for a retail store on a selected site

Learning Contents:
- Site evaluation
- Trade area definition
- How to define a trade area in China
- Evaluate the trade area for different retail stores
Selection of Store Location

- Size and characteristics of the surrounding population
- Level of competition
- Access to transportation
- Availability of parking
- Attributes of nearby stores
- Property costs
- Length of property agreement
- Population trends
- Legal restrictions
Choosing a Store Location

- Step 1: Evaluate alternate geographic (trading) areas in terms of residents and existing retailers
- Step 2: Determine whether to locate as an isolated store or in a planned shopping center
- Step 3: Select the location type
- Step 4: Analyze alternate sites contained in the specific retail location type
Trade-Area Analysis

- A trading area is a geographic area containing the customers of a particular firm or group of firms for specific goods or services.
Benefits of Trading Area Analysis

- Discovery of consumer demographics and socioeconomic characteristics
- Opportunity to determine focus of promotional activities
- Opportunity to view media coverage patterns
- Assessment of effects of trading area overlap
- Ascertain whether chain’s competitors will open nearby
- Discovery of ideal number of outlets, geographic weaknesses
- Review of other issues, such as transportation
The Segments of a Trading Area

- Primary Trading Area
- Secondary Trading Area
- Fringe Trading Area
- Customers
- Store
The Size and Shape of Trading Areas

- **Primary trading area**
  - 50-80% of a store’s customers

- **Secondary trading area**
  - 15-25% of a store’s customers

- **Fringe trading area**
  - All remaining customers
Trading Areas and Store Type

Largest
- Department stores
- Supermarkets

TRADING AREAS
- Apparel stores
- Gift stores

Smallest
- Convenience stores
Trade Area of a New Store

- Different tools must be used when an area must be evaluated in terms of opportunities rather than current patronage and traffic patterns
  - Trend analysis
  - Consumer analysis
  - Computerized trading area analysis
Factors to Consider in Evaluating Retail Trading Areas

- Population Size and Characteristics
- Availability of Labor
- Closeness to Source of Supply
- Economic Base
- Competitive Situation
- Availability of Store Locations
- Regulations
Trade Area in China

- Retailers use “marketing area” or “target area” in China
- Retailers identifies a geographic area in which they plan on drawing their customers from
- It is broken down in the following order:
  1. Regions
  2. Province Area
  3. Metro Area
Comparison of Trade Area in U.S. and China

- **U.S.**
  - Wal-Mart may use an 8 minutes driving time to describe its trade area

- **China**
  - Wal-Mart may use a 20 minutes bus ride time in China to describe its trade area
  - Public transportation is prevalent in China
  - Most retailers will choose to open stores near areas with public transportation
Trade Area Classification in China

Regions:

1. South China
2. North China
3. Middle China
4. West China
5. East China
6. Northeast China
7. Southwest China
8. Northwest China

Large retail chains like Wal-Mart and Carrefour define the regions in China as their trade area.
Trade Area Classification in China

Example: Guangdong area in the Guangzhou Province
Trade Area Classification in China

- Inner-city
- Varies from cities to cities

Beijing
5 rings to divide the districts

Shanghai
3 rings to divide the districts
In China, a tier city system is used to classify the cities into first tier, second tier, or third tier categories. The tier classification is based on the following factors:

- Political status
- Economic power
- Size of city
- Regional influence of the city
Below is a list of the top cities in each tier where retailers choose to locate their stores:

<table>
<thead>
<tr>
<th>Tier</th>
<th>Cities</th>
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<tbody>
<tr>
<td>1</td>
<td>Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin</td>
</tr>
<tr>
<td>2</td>
<td>Nanjing, Wuhan, Shenyang, Xian, Chengdu, Tianjin</td>
</tr>
<tr>
<td>3</td>
<td>Yinchuan, Xining, Haikou, Luoyang, Nantong, Changzhou, Yingkou*</td>
</tr>
</tbody>
</table>

*Yingkou is not a top tier 3 city. Yingkou was taken into account because it is a city that is rising rapidly as an economic development center.
Market Mapping

- Market Mapping
  - A commercial tool that retailers use to evaluate their product assortment compared to their competitors.
  - Helps retailers consolidate competitive differences and identify opportunities in the marketplace.

- Steps to Market Mapping
  - Identify retailers that are successful in the China market (domestic and foreign retailers). Look at:
    - Product assortment
    - Price architecture
    - Location
  - Use the location of direct and indirect competitors as reference for retail site location
    - Example: Retailers like Nike and Adidas have a good reputation for finding good retail locations
## Locations of Chinese Clothing Retailers

<table>
<thead>
<tr>
<th>Population</th>
<th>Euromoda</th>
<th>Goelia</th>
<th>Semir</th>
<th>Teenie</th>
<th>Weenie</th>
<th>Westlink</th>
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| Total Stores in China | 440 | 375 | 263 | 493 | 14 |

Location Module

David F. Miller Center for Retailing Education and Research

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## Locations of Asian Clothing Retailers

<table>
<thead>
<tr>
<th>Population</th>
<th>A02/AZ</th>
<th>ONA</th>
<th>Bossini</th>
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## Locations of European Clothing Retailers

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### Locations of American Clothing Retailers

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Chinese Government Role in Site Selection

- Environmental regulations
- Future site plan
- Impact on lifestyle
- Permission notes for store openings

* More details will be discussed in Segment 3
Site Selection Considerations

- Parking
- Size
- Traffic Volume
- Accessibility
- Visibility
Parking

- **U.S.**
  - Standard parking for retail space is around 1 parking spot per 250 square feet
  - Structure parking and a few garages

- **China**
  - Standard parking varies among cities
  - Average ratio is 1 parking spot per 1000 square feet
  - Mostly underground parking garages
  - Limited structure parking
Floor Area Ratio

- A ratio of the total floor area of buildings at a specific location to the size of the land in that location
- In some central districts in China, the floor area ratio can be 5 or higher as there are multi-story shopping centers
Traffic Volume

- Also known as traffic count
- * Very important consideration for retail space in China!

U.S.
- Traffic volume refers to the number of cars passing by an area

China
- Traffic volume refers to the number of people and cars (since driving is not the major mode of transportation in China) passing by an area
- For example, a supermarket store requires a traffic volume of 4,000 to 8,000 (people and cars) / day
Accessibility

- **Entrance**
  - Nearby bus stops
  - Easy access to subways
  - On the way to work or on the way home
  - Nearby major roads

- **Exit**
  - Similar to the criteria for entrance
  - Easy to get back on the street where consumers initially came from
Accessibility Example

Entrances and exits are conveniently connected to major roads.

The dotted line represents the subway.

Friendly pedestrian sidewalks are necessary for shopping centers.
Visibility

- Easy for consumers to find the location
- The retail environment should also give consumers a pleasant shopping experience
Visibility (in China)

- Free standings are not very common in China. Therefore it is very difficult for retail stores to get visibility directly from consumers.
- Most retail store shows good visibility by putting their logos on banners to attract the attention of the consumers.
Site Selection Comparison- Wal-Mart vs. Carrefour

- Wal-Mart v. Carrefour- Who wins in site selection?
  - Wal-Mart:
    - Started in southern China
    - Second-tier suburban area
  - Carrefour:
    - Started in Shanghai and eastern China
    - First-tier cities, CBD and SBD
    - More aggressive than Wal-Mart
    - One of the major reason why Carrefour became so successful in China is because of their site selection strategies
## Wal-Mart v. Carrefour Comparison

<table>
<thead>
<tr>
<th></th>
<th>Parking</th>
<th>Size</th>
<th>Traffic Volume</th>
<th>Visibility</th>
<th>Accessibility</th>
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<tr>
<td><strong>Wal-Mart</strong></td>
<td>Free parking</td>
<td>Varies</td>
<td>Suburban area, traffic volume fair</td>
<td>Varies but always good visibility</td>
<td>Good design</td>
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<tr>
<td><strong>Carrefour</strong></td>
<td>Free parking</td>
<td>Varies</td>
<td>Urban area, crossroads, good traffic volume</td>
<td>First element: crossroads</td>
<td>Good design</td>
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</table>
Wal-Mart v. Carrefour Locations
Wal-Mart v. Carrefour

Walmart Carrefour store opening comparison

Year: 2007

Business district (trade area comparison)

Year: 2007
### Differences Between U.S. and China

<table>
<thead>
<tr>
<th>US</th>
<th>China</th>
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<tbody>
<tr>
<td>• Households within 15 minutes drive time</td>
<td>• Households within 20 minutes bus driving time</td>
</tr>
<tr>
<td>• Percentage of households with kids</td>
<td>• Distance from subways stations</td>
</tr>
<tr>
<td>• Percentage of household in specific demographic segment</td>
<td>• Distance from CBD or SBD</td>
</tr>
<tr>
<td>• Size of the shopping center</td>
<td>• Size of the shopping center</td>
</tr>
<tr>
<td>• Visibility from the street</td>
<td>• Visibility from street</td>
</tr>
<tr>
<td>• Any anchor tenant in shopping center such as Wal-Mart, Target</td>
<td>• Any anchor tenant in shopping center such as Carrefour</td>
</tr>
</tbody>
</table>
Differences Between U.S. and China

- **Example: Shopping centers in the U.S.**
  - Within 15 minutes of driving time
  - Good visibility
  - Percentage of households with children in the area is 40%
  - Neither CBD area or close to a CBD area
  - Several anchor tenants in this shopping center

- **Why would this type of shopping center not be successful in China?**
  - 15 minutes driving time is more than 20 minutes bus riding time of other public transportations
  - Limited parking spaces
  - Far from CBD or SBD
Segment 3: Regulations & Leasing Clauses
Segment 3: Regulations & Leasing Clauses

- **Learning Objectives:**
  - Understand the influences of building codes and government on site selections
  - Know about the specific clauses in Chinese retail leases

- **Learning Contents:**
  - Zoning and building codes - nationally and locally
  - Government regulations
  - Environmental concerns and sustainability
  - Prohibit Use and Exclusive Use
  - Leasing negotiation
Different Retail Site Selections

- Purchase land for new constructions and developments
- Purchase a project which is under construction
- Purchase an existing project
Foreign Retailers

- Foreign retailers have received special treatment from local government
  - Reduced taxes
  - Prime retail locations
Land Purchasing and Development

- The Chinese government owns the land and real estate developers need to purchase the right to them within a certain period of time.

<table>
<thead>
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<th>Classification</th>
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<td>Commercial</td>
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<td>Residential</td>
<td>70 years</td>
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<td>Mixed use</td>
<td>50 years</td>
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<tr>
<td>Other</td>
<td>50 years</td>
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</table>

- For retail developers, they can choose either commercial or mixed use.
Land Purchasing and Development

- Zoning is used in the U.S. China uses a similar land use classification method.
- Developers need to get permission notes for a location in which they want to develop in.
- Developers need to pay land-transferring fees to the Chinese government.
- Local Finance Bureau is the governmental agency that collects the land-transferring fees.
Building codes have influences commercial development in many different ways. Influences includes the following:

- Floor area ratio
- Sun exposure
- Parking ratios
- Internal circulation
Under-construction Projects

- Must follow restrictions of the land use classification
- The design of buildings must follow the “building codes”

An under-construction project in Shenzhen, China for commercial land use
Existing stores

- Follow the previous land use classification
- Follow the “building codes” if there is a need to do external decoration, maintenance or improvements.
The Chinese government have been very welcoming towards foreign retailers by removing most restrictions for foreign retailers.

The Foreign Investment Administration Department issued a serious of regulations to decentralize its power of granting store opening approvals.

Commercial zoning

Foreign retailers must obtain a commercial planning certificate.
Exclusive Use

- Most commercial leases for multi-tenant properties contain clauses that regulate their use of the leased premises.
- Many tenants will require landlords to grant them the exclusive right to operate a certain type of business or sell certain products to avoid competing with other tenants. These provisions are often referred as the exclusive use clauses.
Environmental Regulations

- An environmental impact assessment must be completed before construction or upon request.
Prohibit Use

- A landlord may also include a prohibit use clause to prevent a tenant from using the leased premises in a manner of which the landlord believes is a nuisance to other tenants.
  - For example, a landlord may consider a bowling alley or a night club as a nuisance to other tenants.
Leasing Negotiation

Tenant mix

When a business owner is conducting a site selection, he/she must consider the exiting tenant mix and prospecting co-tenants in a shopping center or a multi-tenants property.

Good co-tenants: complement

Bad co-tenants: substitute

For example:
These two Chinese clothing retailers, Giordano and G2000 substitute each other.
Leasing Negotiation

- Anchor tenant and business brands
  - Anchor tenants are the main tenants in a shopping center
  - Usually it is essential to have a lease commitment from an anchor tenant like Wal-Mart, Carrefour or Best Buy before a shopping center will be financed.
  - Anchor tenants usually have more power to negotiate leasing clauses with landlords regarding prohibit use and exclusive use
Property Leases

- Property leases also have an impact on the profitability picture.
- New store leases are often 20% more expensive than existing store leases; however, when an existing store needs to renew their lease it might double.
  - This makes it very difficult to anticipate profits.
Property Leases

- Property leases also have an impact on the profitability picture.
- New store leases are often 20% more expensive than existing store leases; however, when an existing store needs to renew their lease it might double.
  - This makes it very difficult to anticipate profits.
Property Leases

- Department stores who received a long-term lease, like Parkson, have actually turned the rental increase to their advantage by renting concessions in their store at high rates.

- In the past, retailers typically leased properties, minimizing their investment requirements and allowing them to expand rapidly.

- However, with the shortage of good locations and the sharp rise in rental prices, retailers are seeking to buy the properties.
Wal-Mart in China

- Wal-Mart Exclusive Use in China
  - No similar business in the same building or shopping center
  - No similar business within 1.5 kilometers (0.93 mile)
KFC and McDonalds in China

- KFC and McDonalds complement effects
  - No exclusive use for each other
  - Complement effect not substitute
  - Always choose to open stores next to each other or in the same business district
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
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
Segment 5: Consumer Behavior in Retail Site Selections
Segment 5: Consumer Behavior in Retail Site Selections

- Learning Objectives:
  - Understand the different types of consumers
  - Know the relationship between consumer behavior and retail store locations

- Learning Contents:
  - Shopping styles
    - Group buying shopping
    - Convenient shopping
    - Comparison shopping
    - Destination shopping
    - One stop mall shopping
  - Lifestyle Segmentations
Chinese Retailing Characteristics

- Lifestyle and consumer behavior characteristics in China
  - Example 1: Group Effect Shopping
  - Example 2: Convenient Shopping
  - Example 3: Comparison Shopping (Price War)
  - Example 4: Destination Shopping
  - Example 5: One Stop Mall Shopping
Group Buying Shopping

Phenomenon:
- “Tuangou” which translates to “group buying” is when consumers approach retailers collectively as a big group to get big discounts
- Consumers offers to buy in bulk in exchange for lower prices
- Usually organized via website or weibo (Chinese personal blog)
- This concept is also known as group bargaining

Products
- Applicable to all products (electronic, appliance, furniture, cars, cosmetics etc.)

Implications
- Retailers will have to offer more discounts but they will have more sales
Convenient Shopping

Phenomenon

- Many stores (ie: convenience stores) are likely to choose locations where consumers have easy access or high traffic areas such as CBDs, residential communities and subway stations
- Specialty stores will open in a specific area where other retailers are selling similar products
  - Examples:
    - Wedding Store Street
    - Clothing Street
    - Furniture Street

Products:

- Food and consumer goods

Implications:

- Chinese customers are likely to pay more at these retail stores because there is less commuting expense
Comparison Shopping (Price War)

- **Phenomenon:**
  - Stores with the same product offerings usually compete against each other in price if they are located closely to each other.

- **Products:**
  - Food and consumer goods

- **Implications:**
  - It is very easy for supermarkets to be dragged into the price war if they are located close to each other.
  - Consumers have greater bargaining power to drive down prices.
Destination Shopping

- **Phenomenon:**
  - Some retailers are likely to open stores at a specific location without any competitors or similar product offerings nearby
  - Example:
    - IKEA

- **Products:**
  - Products with unique characteristics and special features

- **Implications:**
  - Loyal customers will more likely shop at these destination stores even if commuting expenses are high
One Stop Mall Shopping

- **Phenomenon:**
  - In CBD districts, consumers, especially white collars and elite groups, are likely to shop at up-scale malls.
  - This is a growing trend in China.

- **Products:**
  - All kinds of commodity.

- **Implications:**
  - Increasingly, consumers who want the luxury lifestyle prefers to shop at up-scale malls for all their products and services.
Example: Jusco (Failed in Site Selection)

- Jusco is a middle-to-upscale department store/mass merchandiser in Japan
- Failed in China because Jusco opened their stores in Shanghai near railway stations which is populated mostly by the working class
- Implications: Sufficient market research must be conducted prior to opening a new store

Jusco offering major discount on their last week of store opening from July 17 to July 23
Lifestyle Segmentation in China

- **Subject Segmentation**
  - Social
  - Group
  - Individual

- **Value Segmentation (most relevant to this module)**
  - Blue-collar lifestyle
  - Consuming lifestyle
  - Leisure lifestyle
  - Social lifestyle
  - Political lifestyle

- **Community Segmentation**
  - City lifestyle
  - Rural district lifestyle
Lifestyle Segmentation in China

Blue-collar lifestyle: Basic consuming potential

Consuming lifestyle: Fashionable and luxury goods

Picture above: First Gucci store in China
Lifestyle Segmentation in China

Leisure lifestyle: Enjoys the shopping experience

Social lifestyle: Networking and socializing
Lifestyle Segmentation in China

Political lifestyle: A very important class in China. They usually shop at CBD or SBD because they care more about their public image.
### Lifestyle Relative to Site Selection

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