Best Buy - China

This case was prepared by Lin Fang under the supervision of Dr. Hyunjoo Oh and Dr. Bart Weitz. This was prepared to support the IRET Program at the David F. Miller Center for Retailing Education and Research at the University of Florida. Support for the IRET Program was provided by a BIE Grant from the U.S. Department of Education.
Best Buy - China

11 AM on Saturday morning.

After a late breakfast, Min Sun, a young professional in Shanghai, went to Best Buy located on the Xujiahui business district by Subway. He took a new camera in the demonstration area and played for a while. That’s the latest type he really liked. After touching and testing, he noticed the price tag was “RMB 2399”...

2 hours later, Min sat in his home, surfing the internet. He searched all the prices for that same type of camera, and at last he ordered one from Taobao.com for “RMB 1850”

Best Buy entered the Chinese market as early as 2003, by setting a global sourcing office in Shanghai. This 25 person sourcing office’s main responsibility was to support its expansion in North America by lowering the cost of goods sold, and driving gross profit rates. In 2006, Best Buy began its Chinese market expansion by acquiring a majority stake in the fourth largest consumer electronics retailer in China, Jiangsu Five Star. At the end of 2006, Best Buy opened the first “Best Buy” brand store in Shanghai. After 3 years, Best Buy had only seven “Best Buy” brand stores in China. Compared with Best Buy’s cautious expansion, the main domestic competitors’ expansion was more aggressive. By the end of 2009, Gome had 1300 outlets, and Suning had 1012 outlets (Appendix 1).

Kal Patel, the executive vice-president of emerging business said that the main reason that Best Buy used a slow expansion strategy, is that before fully expanding, Best Buy had to know the Chinese market as well as customers comprehensively, and it also had to find the best model to do business in China.

He also mentioned that “…this Shanghai venture is an experiment using all of our latest technologies…to find how to do the best, even though it is not economical now…”

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1 Taobao.com is an online destination for shopping, socializing and information sharing in China. Founded by Alibaba Group, it facilitates business-to-consumer and consumer-to-consumer retail by providing a platform for businesses and individual entrepreneurs to open online retail stores that cater to consumers across Greater China and beyond.

2 At the end of 2009, Five star owned about 170 outlets in China

3 Combined with Yongle, Dazhong brand stores
Best Buy

Best Buy Co., Inc. is a multinational retailer of technology and entertainment products and services, accounting for 19% of the US CE (consumer electronics) market (Appendix 2). It also operates in Mexico, Canada, China, Turkey and the United Kingdom. The company's subsidiaries include Geek Squad, Magnolia Audio Video, Pacific Sales, and in Canada, operates under both the Best Buy and Future Shop label. In China, it operates under both the Best Buy and Five Star label. Best Buy has more than 1,150 stores in the United States, Puerto Rico, Canada, China, Mexico, and Turkey. The company's corporate headquarters are located in Richfield, Minnesota.

In the fiscal year of 2009, net earnings were $1.0 billion (Appendix 3), or $2.39 per diluted share, compared with $1.4 billion, or $3.12 per diluted share, in fiscal year 2008. The decrease in net earnings was driven by a comparable store sales decline of 1.3%, the deterioration in our SG&A rate, and an increase in restructuring and impairment charges, but were partially offset by an improvement in our gross profit rate.

The 12.5% revenue increase resulted primarily from the acquisition of Best Buy Europe, which contributed $3.2 billion of revenue in the fiscal year, a net addition of 214 new stores during fiscal 2009, and a full year of revenue from the new stores added in fiscal year 2008. The increase was partially offset by a 1.3% comparable store sales decline, and the unfavorable effect of fluctuations in foreign currency exchange rates.

Best Buy sells consumer electronics as well as a wide variety of related merchandise, such as computers, computer software, video games, music, DVDs, Blu-ray discs, mobile phones, digital cameras, car stereos, video cameras, as well as home appliances (washing machines, dryers, and refrigerators). Best Buy employees do not earn commissions on sales, causing employees to be less aggressive in trying to sell products. Each store also includes a department for audio/visual equipment for automobiles with on-site installation services, as well as a Geek Squad "precinct" for computer repair, warranty service, and accidental service plans.

Recently, Best Buy has reorganized its structure. It divided its business into three regions: America, Europe and Asia. The new business structure makes it easier for Best Buy to share capabilities across the regions easily. This new model can be shared across countries.

Best Buy China

Given the existence of the two powerful competitors Gome and Suning, it was difficult for Best Buy to enter the Chinese market by opening new stores. Therefore, Best Buy chose to enter the market through acquisitions. In 2006, the Best Buy Group established a joint venture with Jiangsu Five Star Appliance Co., Ltd., with a total investment amount of $180 million, of which $122 million was used to purchase a 51% share of Five Star Appliance’s stock. Right now, Best Buy

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4 Form 10-K for BEST BUY CO INC, 2010
Best Buy opened its first “Best Buy” store in December 2006, in Shanghai (Appendix 4). The store was Best Buy's largest, and contained four floors. According to many independent analysts, the “Best Buy” store was a new model of electronics stores in China, and stood in stark contrast to other stores in China. The store was brightly lit and carpeted, the products were assorted by categories, not by brands. The sales assistants at the stores were non-commissioned, and did not hard sell the products, and customers were provided with ample freedom to test and try the products. Though analysts were initially skeptical about Best Buy's prospects in the country, the store received a good response, and eventually became one of the top ten revenue generators for the company. As the only foreign CE retailer, in late 2008, Best Buy is the first electronics and appliance specialist retailer in China to introduce private label (Appendix 5), Rocketfish, Dynex, Init, Geek Squad and Insignia. Currently, Best Buy only has seven stores in China, six of which are located in Shanghai, while one is in Suzhou, a city near Shanghai.

Unlike Gome and Suning’s strategy, Best Buy primarily opened stores by acquiring the real estate, not renting and leasing. By doing so, the expansion is steady and totally under control, a great advantage for Best Buy to have, but it definitely would slow down the expansion rate and took a great amount of cash flow.

Facing the China CE market, Best Buy was trying figure out the accurate operation assumption. According to David Sisson, the country manager in China, Best Buy’s local practices experienced many changes.

He said “The initial assumption was that China was so different from US (20% same, 80% different) because it’s too far from US and has the different language and culture and completely different business model. However, when Best Buy came in China, we realized that it went too far local and needed to get back to basic operating basic principles around what it works in any retail environments (80% same, 20% different). Finally, Best Buy found it moved too far to the other side. Today, the proportion is close to 50% (understand the market and customers) -50% (take Best Buy principles)”

In the first few years, Best Buy made a few mistakes based on some initial assumptions. One assumption was that Chinese people like high service. It began to focus on this, and used it to differentiate itself from other domestic competitors. However, it was proved wrong. It worked only in few stores in Shanghai. Chinese consumers are used to free services. Any value-added service is free in China, and the relevant market research reinforced this point of view. China’s recent CE market is comparable to the early markets of the US, mainly focusing on products and prices.

After acquiring Jiangsu Five Star, Best Buy brought many ideas and concepts to its new acquisition, and also learned a lot from it. For example, networks are very local in China. Best Buy’s two main competitors, Gome and Suning, both have the many strong local suppliers within provinces to support their businesses. However, as a new comer, Best Buy did not have many local networks. When it opened the Best Buy store in Suzhou, Jiangsu Province, Five Star offered
the great help to network with local vendors.

Also, Five Star learned a lot from Best Buy. One example is that the new model makes Best Buy share capacities across countries. Future shop, a commission-based business model in Best Buy Canada, helped Five Star a lot. At the same time, Best Buy taught Five Star how to navigate the enterprise. Best Buy’s advanced inventory/supply chain management benefited Five Star heavily. For example, with the help of Best Buy, Five Star’s salespeople can forecast the inventory more accurately. Another benefit that Best Buy brought to Five Star is how to manage holiday weeks efficiently. Best Buy is actually very good at managing drive times promotions, and Five Star emulated it and changed it to fit in the Chinese market.

Because of cultural differences, Best Buy encountered many challenges in China. One is employee relationships. In the U.S., employees rarely work in a hierarchy. However, it is not necessarily the case in China. Understanding the importance of cross culture differences is essential for conducting international business. For Best Buy, low hierarchy facilitates innovation among employees in U.S., enabling innovation that could earn the company sustainable competitive advantages. How to motivate innovation in a hierarchical society is what Best Buy still needs to figure out. At the same time, Best Buy realized that it is important to know the difference between “form” and “substance”. Forms may change in different cultures, but substance stays the same. For example, substance is the fact that people want to be recognized, and form is that the way those people get recognized. In the U.S., people like to “high five” when they celebrate. However, in China, it may not work because that is not the usual way that they express happiness. If you ask employees to give Chinese customers a “high five” in the store, both of them may feel awkward and uncomfortable.

In 2008, the company experienced executive turnover. The former CEO of Best Buy China left the company. New management formed and new strategies followed immediately. However, the increased coordination and control costs did impair Best Buy China’s operation. Also, the geographic expansion, made Best Buy lose its flexibility and responsiveness to shifting consumer tastes. Big market issues had to be reported to the headquarters in the U.S. and then it took time for high level management to make decisions. However, during this time, the market could be changed dramatically.

**China Consumer Electronics Industry**

In 2009, most CE retailers slowed their expansion rate because of the relatively weak domestic demand, and uncertain economic prospects (Appendix 6). For example, Gome closed several outlets with poor sales performance in the first half of 2009, and was expected to maintain its current number of around 1,300 outlets by the end of 2009. However, this strategy was not followed by all players in the market. Suning, Gome’s biggest rival in the domestic market, chose to accelerate its expansion plans in 2009, and is expected to challenge the leading position of Gome in the coming years. (Appendix 7)

The competitive environment for CE retailers in China continues to be fierce in both cities and
rural areas. Although the recovery in China’s property market in 2009 and the government’s rural home appliance program\(^5\) will greatly relieve current pressures on many local retailers, the potential risk from market saturation is likely to result in further fierce competition between different retailers. Increasing price competition will also continue to squeeze the profit margins of most companies. In mid 2009, Gome cancelled the entry fee for manufacturers, which is bound to result in intensified competition in the future.

Gome continued to lead electronics and appliance specialist retailers in 2009, benefiting from its 1,300 outlets nationwide, closely followed by Suning. The two companies jointly accounted for nearly 11% of the channel’s total value sales, up by almost one percentage point from 2008. In some first tier cities (Appendix 8), such as Beijing and Shanghai, the two companies claimed almost 90%, and sometimes more, of the total market size. On the other hand, leading regional players, such as Jiangsu Five Star, Chongqing Department Store, and the Wuhan Zhongbai Group, maintained their market share in 2009.

The leading retailers Gome and Suning are very strong at the national level, but they are also facing tough challenges as profit margins shrink, due to rising rent and increasing competition. Although there are a number of negative factors impacting the channel, sales through electronics and appliance specialist retailers are expected to post a CAGR (compound annual growth rate) of 10% in constant value terms over the forecast period\(^6\). The channel is expected to return to fast growth in the coming years, as the macro economy is expected to show healthy recovery over this period.

Generally, entry barriers to China’s CE industry are low. Investment in fixed assets is low, allowing retailers to rent or lease real estate rather than purchase it. Also, after China joined the WTO in 2002, this market was fully opened to foreign companies in 2004, with few restrictions to entry. However, there are factors mainly stemming from existing large industry players that prohibit new entrants from entering this market;

1. Regional Oligopoly and Brand Awareness: many large players, such as Gome and Suning, have well-developed brands and formed oligopolies in certain regions, particularly in large cities. A renowned brand usually means reliability for customers, making it more difficult for a new entrant to establish a new brand.

2. Absolute Cost Advantage: Many large chain operators have strong bargaining power with suppliers and efficient management of the supply chain. Therefore, they have absolute cost advantages and can retain profit margins, even during price wars. A new entrant usually does not have such an advantage and is vulnerable to price competition.

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5 Chinese government is looking to boost domestic consumption, particularly in rural regions. From December 2007 through May 2008, the rural home appliance subsidy programme was trialled in three provinces and one city. Under the scheme, farmers buying electrical appliances could receive a 13% subsidy from the government.

6 “Electronics and appliance specialist retailers-China”, Euromonitor, 2010
3. Location Advantage: the location of stores is closely related to visitor sources, who are potential buyers. With the rapid expansion of large players, the most valuable locations have been dominated by current players, presenting major barriers to new entrants.

4. Good Supplier Relationships: after years of operation, existing players have established long term relationships with suppliers. This gives them certain competitive advantages over new entrants.\(^7\)

**Chinese Customer Behavior**

After experiencing the financial downturn, Chinese consumers’ confidence declined recently (Appendix 9). However, in the long run, they are still proud of their financial future. As a result, most families plan to continue pursuing their dreams as they see them become increasingly achievable.

Over the past 15 years, disposable income in China has risen three to five times faster than income in the developed world, bringing better living conditions, and more sophisticated tastes. One BCG survey\(^8\) indicates that most Chinese families plan to increase their spending in the near future. Much of this wealth will go toward furnishings for bigger and new homes, upgraded consumer electronics, better personal care products, and goods and service to educate children and improve their prospects of obtaining a better life for themselves.

However, marketers should be aware of taking a too simplistic view of consumers’ attitudes toward spending, which are, in fact, quite complex. Decades of rapid change have brought stress and insecurity, and a greater percentage of Chinese people report such feelings than do consumers in other countries. Consumers’ optimism about the future is also tempered by questions about how a more affluent society will affect their children’s future. Although many Chinese people will increase their spending as their income grows, how they spend could change dramatically.

Chinese consumers differ considerably from Western consumers in the products they would like to upgrade. In the BCG survey, when an interviewer asked consumers to choose from a list of ten categories those in which they were most likely to upgrade, our respondents ranked consumer electronics highest, whereas this same category comes in fourth for US consumers and sixth for Europeans.

BCG analysts also found interesting similarities and differences between the affluent and low-income segments in the categories selected for upgrading. For instance, in basic necessities such as apparel and food, the affluent segment spends only about 3 times the amount the low-income segment does. But in luxury categories such as home decorating and appliances, the affluent

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\(^7\) "Household electrical appliance retailers in China", IBISWorld, 2009

\(^8\) "Winning the hearts and minds of china's consumers", BCG Focus report, 2007
spend as much as 10 to 20 times what low-income consumers spend. Such differences can sometimes be attributed to the “wealth effect”; to impress their friends, people who are newly wealthy tend to spend the bulk of their money on “prestige” products with highly visible logos.

The Chinese put more faith in brand names than do consumers in the U.S. and Western Europe. Half of the Chinese consumers in BCG survey who upgrade would purchase a product because of its brand name, whereas only 33 percent in the US and 20 percent in the Western Europe would do so. The Chinese also deliberate long and hard over their brand options. For high-end products, they typically spend a few months browsing in stores and online to gather as much information as possible about product features and brand differences, especially in categories involving technology, such as consumer electronics.

Chinese consumers are eager to experiment with other brands, and they even switch in and out of price segments in search of more value. Given this propensity to shop around, the challenge for suppliers will be to differentiate their products sufficiently to encourage loyalty and upgrading within the brand. For retailers whose stores are well respected, consumers’ willingness to try a new brand is likely, especially if it promises good value. This could be an opportunity to create a profitable private label line, which may even command a premium.

Chinese consumers like bargaining. Bargaining is in every aspect of their lives. Whether it be in a fancy high end department store or a traditional market, they are used to negotiating with the salesperson to get a discount. In many domestic retailers, such as Gome and Suning, customers actually can bargain over the price. However, in many foreign retailers such as Best Buy, bargaining is not an option.

Chinese consumers use a number of strategies when shopping. Like consumers in other countries, they try to know market prices and compare them across stores. One strategy that isn’t common elsewhere, is to go shopping with a group of friends and try to negotiate a high group discount. Another is to shop at parallel sourcing stores. Such retailers purchase brand name products from alternative distributors at lower prices. They are lower because the distributor has eliminated some costs or because the product is near the end of its shelf life.

**Gome**

In 1993, Gome opened its first store in Beijing, and soon expanded into other major cities in China, gaining widespread consumer acceptance.

The company has successfully established a national network of outlets in China. After several years of rapid expansion and frequent M&A activities, the company had about 1,300 outlets nationwide by 2009, ranking it as number one among all the electronics and appliance specialist retailers in China.

In some major cities, such as Shanghai and Beijing, Gome adopts a dual brand strategy. Both Yongle and Gome are present in Shanghai simultaneously, which is similar to the situation with
Dazhong and Gome in Beijing. This is because Yongle dominated in Shanghai before being acquired by Gome, similar to Dazhong in Beijing. In the short term, this situation is unlikely to change and Gome will continue to be the dominant player in electronics and appliance specialist retailing in most first tier cities.

Gome was the first domestic electronics and appliance specialist retailer to set up a modern logistics system in China. The company optimizes its resources and has greatly enhanced the efficiency of its existing logistics function. The company’s logistics center has three departments: project management; operation management; and inspection and training. Project management is responsible for the integration of all the warehouses in China, and the introduction of new technology for warehouse management. Operation management allocates and distributes products, as well as undertaking stock management.

Gome has also established strategic partnerships with leading manufacturers to combat the economic downturn, and to promote the development of electronics and electrical appliances in China. For example, the capital behind the cooperation deal between Gome and Haier, a leading household appliance manufacturer in the country, exceeded RMB10 billion in 2008.

Gome experienced a particularly unsettled period in 2008. The company’s founder and former president, Mr. Huang Guangyu, was seized by the authorities in November 2008 because of his alleged illegal activities in previous years. This turn of events had a seriously negative impact on the development of the company. As a result, Mr. Chen Xiao, a former CEO of the company, was selected as the new president in early 2009, and will be mainly in change of the strategic direction of the company for the future.

Due to the dramatic upheaval in the company’s management, and relatively weak domestic economic environment, Gome altered its previous aggressive expansion strategy and started to pay more attention to improving same store profitability instead of sales growth through opening new outlets all over the country, as it did in the past. The company chose to close some of its existing outlets with unsatisfactory sales performance, and maintained its outlet numbers at around 1,300 in 2009. Meanwhile, the company will continue to consolidate and reorganize its newly acquired company, Dazhong, and try to maintain its leading position in durable goods retailing in the coming years.

Currently, Gome Electrical Appliances Holding Ltd has no plans to launch private label durable goods. The current major task facing the company is to improve its relationships with many of its domestic suppliers.

Suning

Suning is a public holding company engaged in durable goods retailing, and was listed on the Shenzhen Stock Exchange in 2004. Currently, Suning is the company’s only brand for its outlets. Most of Suning’s outlets are strong in 3C products, including Communication, Computer and Consumer Electronics.
Suning had more than 850 outlets and 120,000 employees as of May 2009, according to the company’s official website. All these outlets are widely located in over 200 cities across 29 provinces as well as China’s four municipalities. By the end of 2010, the total number of its outlets is expected to surpass 1,000, which is close to the number of its biggest competitor, Gome.

In order to provide a comprehensive service to consumers, Suning has established sophisticated logistics and distribution centers, after-sales service centers and customer service centers. Meanwhile, the company has also established good relationships with most of the local and/or international manufacturers, such as Samsung, Sharp, Siemens, AO Smith, Meidi, etc.

Suning and Gome are the two leading companies in durable goods retailing in China, although the two companies expand their businesses using different methods. Gome has enlarged its distribution network mainly through M&A activities in recent years, acquiring several regional key players, such as Yongle in Shanghai and Dazhong in Beijing. However, Suning preferred to open new outlets by itself, which it considered a more secure and stable strategy during the difficult economic period.

In 2008, due to the upheaval in Gome’s management, Suning seized this opportunity and expanded its network rapidly. Indeed, by the end of 2009, the sales gap between Suning and GOME was much narrower, according to China Chained & Franchised Association data. Meanwhile, since all of Suning’s outlets are opened by the company itself, it is easier for Suning to control risks associated with such an expansion strategy, compared with Gome.

In July 2009, Suning signed a contract with HP, the world-leading electronic products manufacturer, to make Suning HP’s first and only direct distributor in the Chinese market. This was expected to result in sales of approximately RMB1.5 billion for the company in 2009 and RMB5 billion in the following three years.

Currently, Suning has no plans to offer private label electronics and/or appliance products.
Questions after case reading:

1. What are the advantages for Best Buy doing business in China?

2. What are the barriers for Best Buy entering China’s CE market? Which assumptions did Best Buy revise to adapt to China market? And what do you think are the main reasons that Best Buy just opened seven stores in China?

3. Why do you think Best Buy picked Shanghai as the test market in China? If Best Buy would like to learn about Chinese consumers more accurately, would you recommend them to choose Beijing or other cities due to the culture differences in different regions in China?

4. What do you think would be the competitive advantages in CE market in China? Does Best Buy have them?

5. What do you recommend for Best Buy’s business in future in China?
Appendix

Appendix 1

Electronics and appliance specialist retailers brand shares by outlets 2006-2009

<table>
<thead>
<tr>
<th>sites/outlets</th>
<th>Company</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gome</td>
<td>GOME Electrical Appliances Holding Ltd</td>
<td>618.0</td>
<td>813.0</td>
<td>1,070.0</td>
<td>1,050.0</td>
</tr>
<tr>
<td>Suning</td>
<td>Suning Appliance Chain Store (Group) Co Ltd</td>
<td>520.0</td>
<td>632.0</td>
<td>812.0</td>
<td>1,012.0</td>
</tr>
<tr>
<td>Yongle</td>
<td>China Paradise Electronics Retail Ltd</td>
<td>202.0</td>
<td>177.0</td>
<td>178.0</td>
<td>178.0</td>
</tr>
<tr>
<td>Five Star</td>
<td>Jiangsu Five Star</td>
<td>133.0</td>
<td>160.0</td>
<td>164.0</td>
<td>171.0</td>
</tr>
<tr>
<td>New Sanliian</td>
<td>Sanliian Group Appliance Co Ltd</td>
<td>-</td>
<td>-</td>
<td>150.0</td>
<td>120.0</td>
</tr>
<tr>
<td>Dashang</td>
<td>Dashang Electric Appliance Co Ltd</td>
<td>80.0</td>
<td>95.0</td>
<td>99.0</td>
<td>105.0</td>
</tr>
<tr>
<td>Dazhong</td>
<td>Dazhong Electrical Appliance Co Ltd</td>
<td>64.0</td>
<td>64.0</td>
<td>81.0</td>
<td>103.0</td>
</tr>
<tr>
<td>Wuhan Zhongbai</td>
<td>Wuhan Zhongbai Group Co Ltd</td>
<td>20.0</td>
<td>26.0</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>CBEST</td>
<td>Chongqing Department Store Co Ltd</td>
<td>19.0</td>
<td>19.0</td>
<td>19.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Rind Ray</td>
<td>Rind Ray Co Ltd</td>
<td>-</td>
<td>1.0</td>
<td>5.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Sanliian</td>
<td>Sanliian Commercial Co Ltd</td>
<td>287.0</td>
<td>220.0</td>
<td>7.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Tsann Kuen 3C</td>
<td>Tsann Kuen Enterprise Co Ltd</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>Others</td>
<td>26,947.0</td>
<td>32,173.0</td>
<td>35,203.0</td>
<td>36,338.0</td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td>28,890.0</td>
<td>34,380.0</td>
<td>37,818.0</td>
<td>39,141.0</td>
</tr>
</tbody>
</table>

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates
Appendix 2

**Best Buy Co Inc**

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>Minnesota, USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional involvement</td>
<td>North America, Western</td>
</tr>
<tr>
<td></td>
<td>Europe, Asia Pacific, Latin America</td>
</tr>
<tr>
<td>Sector involvement</td>
<td>Electronics and appliance specialist retailers, internet retailing</td>
</tr>
<tr>
<td>World electronics and appliance specialist retailers share (2007-2008)</td>
<td>5.6% (2008)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>12.2% (2007)</td>
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</table>

Appendix 3

**Net Sales vs Net Profit 2004-2009**

![Bar chart showing net sales and net profit from 2004 to 2009.](image)
First Best Buy brand store in China

Shoppers look at electronic products displayed at a Best Buy store in Shanghai. [China Daily]
Appendix 5

Best Buy exclusive brands

Insignia - Focuses on discount electronic equipment, including HDTVs, blu-ray players, home theater systems, digital imaging, and GPS.

Dynex - Focuses on computer and entertainment accessories such as storage media, data and power cables, webcams, and office supplies. Dynex is also their lower-end house brand for HDTV's and DVD players, while Insignia has been upgraded to compete with more known brand names.

Init - Focuses on storage products such as media storage, equipment bags, totes and furniture for home theaters.

Geek Squad - Focuses on repairing old computers and setting up new computers with various software and hardware upgrades. They also focus on high end computer cables and accessories.

RocketFish - Focuses on high end cables primarily used with home theater installation and setup as well as on computer and gaming accessories.

RocketFish Gaming - Gaming Division of RocketFish

RocketFish Mobile - Focuses on quality cases, gel skins, clips and chargers for cell phones, GPS, and other select products.

Platinum Cases - Focuses on quality cases and belt clips for BlackBerry and Android Cell Phones.

vpr Matrix (discontinued) - Focused on personal computers and accessories including desktops, notebooks and computer monitors.
### Table 1: Electronics and Appliance Specialist Retailers: Value Sales, Outlets and Selling Space (2004-2009)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value sales RMB bn</td>
<td>479.7</td>
<td>552.2</td>
<td>728.8</td>
<td>911.1</td>
<td>1,028.5</td>
<td>1,127.3</td>
</tr>
<tr>
<td>Outlets '000</td>
<td>17.8</td>
<td>23.1</td>
<td>28.9</td>
<td>34.4</td>
<td>37.8</td>
<td>39.1</td>
</tr>
<tr>
<td>Selling Space mn sq m</td>
<td>17.8</td>
<td>22.0</td>
<td>26.4</td>
<td>30.7</td>
<td>33.6</td>
<td>34.9</td>
</tr>
</tbody>
</table>

*Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates.*

### Table 2: Electronics and Appliance Specialist Retailers: Value Sales, Outlets and Selling Space: % Growth 2004-2009

<table>
<thead>
<tr>
<th></th>
<th>2008/09</th>
<th>2004-09 CAGR</th>
<th>2004/09 TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value sales RMB million</td>
<td>9.5</td>
<td>18.6</td>
<td>135.0</td>
</tr>
<tr>
<td>Outlets '000</td>
<td>3.5</td>
<td>17.1</td>
<td>120.2</td>
</tr>
<tr>
<td>Selling Space '000 sq m</td>
<td>4.0</td>
<td>14.5</td>
<td>96.6</td>
</tr>
</tbody>
</table>

*Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates.*
Appendix 7

Gome in Shanghai

Suning in Shanghai
Appendix 8

CHINA'S TIERED CITIES

Tier 1: Big Four
- Beijing
- Shanghai
- Guangzhou
- Shenzhen

Four largest cities with highest income, large population base, and largest GDP scale.

Tier 2a: (11 cities)
- Converging
- Tier 2b: (10 cities)
- Large population, high income, and large GDP
- Tier 3a: (4 cities)
- Growing markets with population larger than 1 million

Tier 2c: Mainstream (16 cities)
- Relatively low income, but large population base

Tier 3b: (23 cities)
- Small cities with urban population smaller than 1 million

Example Cities
- Nanjing
- Hangzhou
- Wuhan
- Nanchang
Appendix 9

Chinese consumer confidence often rebounds quickly after a sharp drop, as seen after the SARS incident.