4. Foreign Retail Entry into China
Foreign Retail Entry Decisions

- Entry Mode
- Location
- Time
- Format
Foreign Retail Entry Decisions

- Entry Mode

- Export
- Contract Management
- Licensing Franchising
- Join Venture
- Wholly owned

Risk, Control, and Resource
Foreign Retail Entry in China

- **Entry Mode**
  - Franchising
    - MacDonald and Sogo
  - Contract Management
    - Parkson
  - Joint Venture
    - Carrefour
  - Solely Owned
    - Tesco (Merger and Acquisition)
    - Best Buy (Green field)
    - Increased after 2004
  - Foreign Manufacturer’s Specialty Store
    - Pierre Cardin and Play Boy
Foreign Retail Entry in China

- **Entry Format**
  - Department Store
    - Ito Yokada
  - Hypermarket/supercenter
    - Carrefour, Wal-mart, Tesco, Auchan
    - Foreign retailers have 70% market share
  - Warehouse
    - Metro
  - Specialty/ specialist Store
    - Ikea, B&Q, Best Buy
  - Convenience Store
    - 7-11
Foreign Retail Entry in China

- **Locations**
  - Their first entries are in Beijing, Shanghai, Guangzhou and Shenzhen, and their headquarters are mainly in these four cities.
  - Eastern China has a much higher density than Western China.
  - Yangzi river delta, Pearl river delta and Bohai Circle have the greatest density.
  - Sichuan and Chongqing are emerging areas.
  - Foreign retailers have entered most of the provinces and all the major economic cities.
  - Foreign retailers are conducting large-scale expansion into lower tier cities.
## Foreign Retail Entries in China
(Li and Wang, 2006)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Country</th>
<th>City</th>
<th>Format</th>
<th>Retailer</th>
<th>Country</th>
<th>City</th>
<th>Format</th>
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</thead>
</table>
# Leading Retailers in China (CCFA, 2010)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Retailer</th>
<th>2009 Sales (10,000 ¥)</th>
<th>Growth (%)</th>
<th># of stores</th>
<th>Growth (%)</th>
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<tbody>
<tr>
<td>1</td>
<td>Suning</td>
<td>11,700,267</td>
<td>14.3</td>
<td>941</td>
<td>15.9</td>
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<td>2</td>
<td>Gome</td>
<td>10,680,165</td>
<td>2.1</td>
<td>1,170</td>
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<td>3</td>
<td>Bailian</td>
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<td>3.8</td>
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<td>4</td>
<td>Dashang</td>
<td>7,053,590</td>
<td>12.8</td>
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<td>China Resources Vanguard</td>
<td>6,800,000</td>
<td>6.6</td>
<td>2,926</td>
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<td>6</td>
<td>RT-Mart</td>
<td>4,043,169</td>
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<td>121</td>
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<tr>
<td>7</td>
<td>Carrefour</td>
<td>3,660,000</td>
<td>8.2</td>
<td>156</td>
<td>16.4</td>
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<tr>
<td>8</td>
<td>Anhui Huishang</td>
<td>3,437,883</td>
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<td>2,884</td>
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<tr>
<td>9</td>
<td>Wal-Mart</td>
<td>3,400,000</td>
<td>22.2</td>
<td>175</td>
<td>45.8</td>
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<tr>
<td>10</td>
<td>Wu-mart</td>
<td>3,270,000</td>
<td>6.7</td>
<td>2,333</td>
<td>16.1</td>
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</tbody>
</table>
## Foreign Retailers in China

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Retailer</th>
<th>Sales (10,000 ¥)</th>
<th>Growth (%)</th>
<th># of stores</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Yum!</td>
<td>2,880,000</td>
<td>9.9</td>
<td>3,200</td>
<td>18.5</td>
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<tr>
<td>15</td>
<td>Best Buy</td>
<td>2,570,000</td>
<td></td>
<td>262</td>
<td></td>
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<tr>
<td>20</td>
<td>Trust-mart</td>
<td>1,650,000</td>
<td>0.6</td>
<td>104</td>
<td>0.0</td>
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<tr>
<td>27</td>
<td>Tesco</td>
<td>1,330,000</td>
<td>15.7</td>
<td>79</td>
<td>29.5</td>
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<tr>
<td>29</td>
<td>Locus</td>
<td>1,300,000</td>
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<td>77</td>
<td>1.3</td>
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<tr>
<td>30</td>
<td>Parkson</td>
<td>1,237,000</td>
<td>15.7</td>
<td>44</td>
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<tr>
<td>31</td>
<td>Metro</td>
<td>1,202,277</td>
<td>-4.9</td>
<td>42</td>
<td>10.5</td>
</tr>
<tr>
<td>39</td>
<td>Auchan</td>
<td>986,000</td>
<td>21.0</td>
<td>35</td>
<td>12.9</td>
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<tr>
<td>45</td>
<td>Intime</td>
<td>758,659</td>
<td>34.9</td>
<td>22</td>
<td>46.7</td>
</tr>
<tr>
<td>50</td>
<td>MacDonald</td>
<td>650,000</td>
<td>6.6</td>
<td>1,100</td>
<td>10.0</td>
</tr>
<tr>
<td>62</td>
<td>Ito Yokada</td>
<td>351,380</td>
<td>21.9</td>
<td>3</td>
<td>0.0</td>
</tr>
<tr>
<td>68</td>
<td>IKEA</td>
<td>312,000</td>
<td>15.6</td>
<td>7</td>
<td>16.7</td>
</tr>
<tr>
<td>100</td>
<td>Home Depot</td>
<td>160,000</td>
<td>4.6</td>
<td>12</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Foreign Retail Entry in China

Expansion of Carrefour in China

- In 1995, they entered China in Shanghai.
- They expanded aggressively.
  - They entered major cities 2-3 years sooner than Wal-mart and Metro.
  - In 1999, they had 28 stores in 17 cities.
- They are currently the No. 1 foreign retailer in China.
  - 169 Hypermarkets in China (as of November, 2010)
Foreign Retail Entry in China

Expansion of Wal-mart in China

- Entered China in 1996
- Headquartered in Shenzhen
- Operates three formats in China: Supercenters, Sam’s Clubs, and neighborhood stores.
- 1996-2004 Slow Growth
  - Wal-mart is not flexible and doesn’t adapt to the China market
  - Underdeveloped Infrastructures and IT Systems in China
  - 2004, Ranking 20, <1/2 Carrefour
Expansion of Wal-mart in China (Cont.)

- After 2004, Fast Growth
  - Adapted to Chinese Markets
    - Worked with Intermediate Agents
    - Decentralized Management
    - Opened Stores in Urban Areas
    - Established Unions and Communist Party Branch
    - Adjusted Pricing Policies
  - Government Policies Became More Open
  - Significantly Improved Infrastructure in China
  - Consumer Market Booming
Expansion of Wal-mart in China (Cont.)

- No. 2 Foreign Retailer in China
  - Three distribution centers in Shenzhen, Tianjin, and Jiaxing. (By 12/2008)
  - 189 units in 101 cities in China (By August, 2010)
Foreign Retail Entry in China

Expansion of Wal-mart in China (Cont.)

- Video: The 100th Wal-Mart store in China
  - http://www.youtube.com/watch?v=x65efvLryqY

- Video: 300 Wal-Mart stores in China
  - http://www.youtube.com/watch?v=gGtQDL6Olil
Divestment

- It is not necessarily true that all international companies succeed or would like to stay in China.

- Divestment is defined as “Company actions resulting in a reduced presence in a foreign market” (Alexander, Quinn, and Cairns, 2005)
Retail Divestment in China

Divestment (Cont.)

- Some Retailers That Have Exited China (Li and Wang, 2006)
  - Yaohan (Japanese Supermarket), 1999
  - Xiyou (Japanese Supermarket), 1999
  - Ahold (Netherland Hypermarket), 1999
  - PCD (Hong Kong Department Store), 2000
  - Jusco (Japanese Department Store), 2000
  - Daiei (Japanese Supermarket), 2004
  - Mykal (Japanese Department), 2003
  - OBI (German Home Improvement Store), 2005
## Retail Divestment in China

### Store Closures in 2008-2009 (Wang, 2009)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Store</th>
<th>Format</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Isetan</td>
<td>Huating store in Shanghai</td>
<td>Department store</td>
<td>Net loss for two years</td>
</tr>
<tr>
<td>Parkson</td>
<td>Changsha store</td>
<td>Department store</td>
<td>Lease expired</td>
</tr>
<tr>
<td>Tesco</td>
<td>Jilin Store</td>
<td>Hypermarket</td>
<td>High operation cost</td>
</tr>
<tr>
<td>Trust-mart</td>
<td>Nanjing Qingliangmen store and Gulou store; Chengdu Daye store, Wuhan Minyi store, and Fuzhou stores</td>
<td>Supermarket</td>
<td>Bad performance</td>
</tr>
<tr>
<td>B &amp; Q</td>
<td>Shekou store in Shenzhen; Fuzhou store</td>
<td>Specialty store</td>
<td>Bad performance</td>
</tr>
<tr>
<td>HomeDepot</td>
<td>Qingdao store</td>
<td>Specialty store</td>
<td>Broke up with the landlord</td>
</tr>
</tbody>
</table>
Case Study

Best Buy in China

Video On the Opening of Best Buy Shanghai Store

http://www.youtube.com/watch?v=zMABUmlOQdE
References