

STRATEGIES OF CHINESE RETAILERS TO  
SURVIVE FOREIGN COMPETITION

DAN YU

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# Strategies of Chinese retailers to survive foreign competition

BY

DAN YU

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**SUPERVISOR: PIETER DE WAAL  
CO-SUPERVISORS: PETRUS VENTER  
LIANO GREYBE**

*CPT ARC 658.87 YU  
CBWCJ*

**CAPE TOWN**

**2005**

*NOT FOR LOAN*

## **DECLARATION**

I, Dan Yu, hereby declare that the contents of this thesis represent my own unaided work, and that the thesis has not previously been submitted for academic examination towards any qualification, furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Dan Yu

September, 2005

## DEDICATION

This thesis is dedicated to my parents, who believed in my dreams and love me unconditionally, always encouraging me throughout life, proud of my achievements, no matter how small and bear to miss me while I was abroad studying. Everything that I have achieved is special to them, I will love them always.

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## **ABSTRACT**

With the largest growing population and “the world’s fastest growing economy” (Jacob, 2004:20), China has an enormous pool of potential consumers who want to improve their lifestyles. China’s opening of its retail market has encouraged the entrance of foreign retailers and has increased retailing. Many international companies and Chinese retailers are eager for a share of the Chinese market.

China has made many reforms to its policies and regulations in order to join the World Trade Organization, and has evolved into a major investment destination for foreign investors. As a member of the World Trade Organization, China will benefit from increased access to the foreign market, but in return, it will have to expose itself to competition from foreign companies.

The retail environment in China is evolving as markets mature. These markets are ripe for cultivation by foreign retailers whose advanced systems, operations, management and marketing skills can bring added levels of efficiency and enhanced performance to the Chinese markets. Many multinational retailers have operations in China and may more plan aggressive expansions to roots themselves.

The foreign retailers have superior merchandising expertise, advanced management techniques, strong capital, reputable foreign brands, excellent service and flexible strategies. In addition, they have the wisdom to hire capable local managers to help them bridge cultural gaps to attract customers into their stores and build effective customers relationships. Foreign retails have set about changing the shopping behaviour of their Chinese customers.

They import well-known foreign brands, create comfortable shopping environments, set prices applicable nationwide and create marketing campaigns that are extremely attractive to Chinese customers. According to a customer research survey, Chinese customers are becoming more discerning and sophisticated. They are moving from finding the best price to seeking the best quality, showing increasing brand awareness and loyalty to foreign brand-name goods. The Chinese retail market environment is becoming more complicated and competition is becoming intense.

Most Chinese retailers operate on a small to medium scale, and for historical economic and socio-political reasons, their management techniques are not adapted to a competitive

marketplace. Chinese retailers have limited capital, operate mostly locally, within a narrow geographical area, and are generally discouraged from lowering prices in response to the entry of much bigger, foreign competitors. Chinese retailers do not compete on an equal footing with their foreign counterparts. Competition between foreign and Chinese retailers is driving down retail profit margins, resulting in some Chinese retailers being squeezed out of the market.

According to the literature reviews, few studies have been done to help small-scale retailers in developing countries, to thrive. This thesis attempts to assist Chinese retailers to select and implement strategies to combat the onslaught from foreign retailers and survive foreign competition. The research problem focuses on decisions related to developing strategies to counter those of foreign retailers. The research methodology chosen by the researcher, has been to derive relevant information and data for analysis through observation and interviews of three large multinational companies in China, to establish their retail strategy. The questionnaire method was applied both to Chinese customers and to retailers; the results were subjected to a SWOT analysis. The thesis seeks to explore a range of strategies that could be implemented by Chinese retailers to counter foreign competition and develop and secure an immediate future for their businesses.

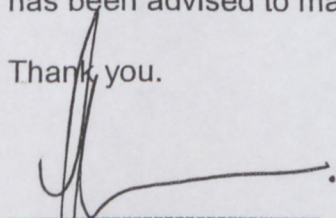
## ABBREVIATIONS AND ACRONYMS

ABBREVIATIONS	
ACFTU	All China Confederation of Free Trade Unions
APEC	Asia Pacific Economic Cooperation
CBBE	Customer-Based Brand Equity
DCs	Distribution Centres
DIN	German Industry Standard
ECR	Efficient Consumer Response System
EDI	Electronic Data Interchange
FDI	Foreign Direct Investment
FIEs	Foreign Invested Enterprises
GDP	Gross Domestic Product
IMF	International Monetary Fund
MNCs	Multinational Companies
MOFTEC	Foreign Trade and Economic Cooperation
NBs	National Brands
NBS	National Bureau Of Statistics
PLBs	Private-Label Brands
RMB	RenMinBi (Chinese current money)
ROE	Return on Equity
SKU	Store Keep Unit
SRC	Supplier-Retailer Collaboration
WTO	World Trade Organization

## EDITING AND PROOFREADING

The thesis, entitled “**Strategies of Chinese Retailers to Survive Foreign Competition**”, was edited and proofread by the undersigned and the candidate has been advised to make the recommended changes.

Thank you.

A handwritten signature in black ink, consisting of a large, stylized initial 'S' followed by a horizontal line that ends in a small dot. The signature is positioned above a dashed horizontal line.

Ms SHAMILA SULAYMAN  
LECTURER: COMMUNICATION  
DEPARTMENT OF ACADEMIC DEVELOPMENT AND SUPPORT  
CAPE PENINSULA UNIVERSITY OF TECHNOLOGY

3 October 2005

<b>TABLE OF CONTENTS</b>	
<b>DECLARATION</b>	ii
<b>DEDICATION</b>	iii
<b>ACKNOWLEDGEMENTS</b>	v
<b>ABSTRACT</b>	vi
<b>ABBREVIATIONS AND ACRONYMS</b>	vii
<b>EDITING AND PROOFREADING</b>	viii
<b>CHAPTER 1: GENERAL ORIENTATION AND IDENTIFICATION OF THE RETAIL PROBLEM IN CHINA</b>	1
1.1 Background and Introduction	1
1.1.1 Population Growth	2
1.1.2 Shopping Culture	4
1.1.2.1 Chinese lifestyle Trends	5
1.1.2.2 Food Culture Changing	6
1.1.2.3 Chinese Customers Payment Options	7
1.1.3 Economic Realities	8
1.1.3.1 Chinese economic Growth	9
1.1.3.2 Foreign Investment Increase	12
1.1.4 Retail as a Future Area of Foreign Investment in China	14
1.1.5 Labour Environment	18
1.1.6 Policy Changes	20
1.1.7 Technological Factors	24
1.1.8 Introduction of Foreign Retailers	26
1.1.8.1 Mass Merchants	27
1.1.8.2 Overview of Different Foreign Investments	35
1.1.9 Impact of Foreign Consumer Products into China	38
1.2 Statement of the Research Problem	40
1.3 Aims of the Research	43
1.4 Objectives of the Research	43
1.5 Outcomes and Contribution of the Research	44
1.6 Methodology and Design	44
1.6.1 Source of Information	44
1.6.2 Collecting the Information	45
1.7 Delimitation of the Research Study	48
1.8 Synopsis of the Study	49
<b>CHAPTER 2: LITERATURE REVIEW</b>	51
2.1 Introduction	51
2.2 Overview of Retailing	51
2.2.1 Retailing Definitions	51
2.2.2 Retailing Developments	54
2.3 Nature of Retailing	56
2.3.1 The Retail Environment	56
2.3.2 Major Classifications of Retailers	58
2.4 Retailing Trends	61
2.5 Competitive Business Strategies by Retail Businesses	62
2.5.1 Retail Marketing Strategies	63
2.5.2 Retail Brand Strategies	70
2.5.3 Human Resource Strategy	76
2.5.4 Format Strategy	83
2.5.5 Logistics Strategy	86
2.6 Summary and Conclusions: Literature Review	91

<b>CHAPTER 3: RESEARCH DESIGN AND RESEARCH METHODOLOGY</b>	<b>95</b>
3.1 Introduction	95
3.1.1 Descriptive Research	95
3.1.2 Exploratory Research	95
3.1.3 Explanatory Research	96
3.2 Clarification of the Research Problem	96
3.3 Objectives of the Research Study	97
3.4 Research Methodology: Foreign Retailers Research Design	98
3.4.1 Introduction	98
3.4.2 Sample Frame	99
3.4.3 Sampling Methodology	100
3.4.4 Sample Size	101
3.4.5 Data Collection Methods	101
3.4.6 Data Collection Instruments	102
3.4.6.1 Quantitative Data	102
3.4.6.2 Pilot Test	102
3.4.6.3 Qualitative Data	103
3.4.7 The Quantitative Questionnaire Design	103
3.4.8 Data Processing	105
3.5 Research Methodology-Chinese Retailers Analyses	105
3.5.1 Introduction	105
3.5.2 Sample Frame	105
3.5.3 Sampling Methodology	106
3.5.4 Sample Size	106
3.5.5 Data Collection Methods	106
3.5.6 Data Collection Instruments	107
3.5.7 Data Processing	108
3.6 Summary Research Design and Research Methodology	108
<b>CHAPTER 4: ANALYSIS AND INTERPRETATION OF DATA ON STRATEGIES OF FOREIGN RETAILERS</b>	<b>110</b>
4.1 Introduction	110
4.2 Analysis of Customer Survey Questionnaire in foreign stores	110
4.3 Analysis of Foreign Retailers in Terms of Interviews	122
4.3.1 Findings from Wal-Mart Interview	122
4.3.2 Findings from Carrefour Interview	124
4.3.3 Findings from Metro Interviews	125
4.3.4 Comparative Analysis of Foreign Retailers' Strategies	126
4.3.4.1 Marketing and Service Strategies	127
4.3.4.2 Brand Strategy	131
4.3.4.3 Human Resources Strategy	134
4.3.4.4 Format Strategy	135
4.3.4.5 Logistic Strategy	137
4.4 Summary of Foreign Strategies	140
<b>CHAPTER 5: ANALYSIS AND INTERPRETATION OF DATA ON CHINESE RETAILERS</b>	<b>142</b>
5.1 Introduction	142
5.2 Analysis of Customer Survey Questionnaire	142
5.2.1 Chinese Retailers Strengths	142
5.2.1.1 Sound Local Knowledge and Regional Cultures	143
5.2.1.2 Good Relationship with Regional Government and Government-Related Organisations	143
5.2.1.3 Good Supplier Relationship	144
5.2.2 Chinese Retailer Weaknesses	145

5.2.2.1 Insufficient Capital and Weak Cash Flow	145
5.2.2.2 Weak Buying Power and New Product Developing	145
5.2.2.3 High Prices	146
5.2.2.4 The Lack of Management Expertise and Technical Skill	146
5.2.2.5 Inefficient Human Resource Management	147
5.2.3 Chinese Retailer Threats	147
5.2.3.1 Deflationary Economic Environment	147
5.2.3.2 Foreign Retailers Competition	148
5.2.3.3 Chinese Customers Behaviour and Preference Changes	148
5.2.4 Chinese Retailer Opportunities	149
5.3 The Chinese Retailers Interested Strategy	150
5.4 Summary of Chinese Retailers	153
<b>CHAPTER 6: POSSIBLE COUNTER STRATEGIES FOR CHINESE RETAILERS</b>	<b>155</b>
6.1 Introduction	158
6.2 Mergers and Acquisitions Strategies	156
6.3 Reformed Format Strategy	158
6.3.1 Large Retail Format Strategy	159
6.3.2 Reformed Department Stores Format Strategy	159
6.3.3 Small Retail Format Strategy	161
6.4 Chain Strategy	162
6.5 Co-operative strategy	163
6.6 Human Resource Strategy	165
6.6.1 Staff Training Strategy	165
6.6.2 Staff Recruitment Strategy	165
6.6.3 Low Staff Turnover Strategy	166
6.7 Brand Strategy	167
6.7.1 Store Equity Strategy	169
6.7.2 Private Label Brand Strategy	169
6.8 Marketing Strategy	171
6.8.1 Public Relations Strategy	171
6.8.2 Develop Town and Rural Markets Strategy	171
6.9 Summary Possible Counter Strategies of Chinese Retailers	172
<b>CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS</b>	<b>174</b>
7.1 Introduction	174
7.2 Summary of the Foreign Strategies	175
7.3 Summary of the Chinese Strategies	177
7.4 Summary of Recommendations	178
7.5 Future Research	181
<b>REFERENCES</b>	<b>184</b>
<b>APPENDICES</b>	<b>202</b>
Appendix A	202
Appendix B	205
Appendix C	213
Appendix D	214
Appendix E	217
Appendix F	218
Appendix G	219
Appendix H	220
Appendix I	221
Appendix J	222
Appendix K	224

<b>LIST OF TABLES</b>	
Table 1.1 Population projections by region and countries, 1990 to 2025	3
Table 1.2 Comparison of China and other major emerging economies: GDP and growth	9
Table 1.3 Comparisons of China and other countries: GDP	11
Table 1.4 Increase in Gross National Income (GNI) from 1998-2002	12
Table 1.5 Development of Chinese retailing sector during last decade	17
Table 1.6 Chinese market-opening through WTO	22
Table 1.7 Tariff reductions since China's WTO entry	23
Table 1.8 Selected foreign R & D centres in China	25
Table 1.9 Top 200 global retailers	28
Table 1.10 Stores counts of Wal-Mart	29
Table 1.11 Selected foreign retail investment in China	38
Table 2.1 Selected definitions of retailing	52
Table 2.2 The world's most valuable brands by brand value	71
Table 2.3 Selected HR strategies that fit two major types of business strategies	81
Table 2.4 Six basic types of store-based formats	84
Table 4.1 Demographic profile of Chinese customers in foreign shop	112
Table 4.2 Chinese customer survey questionnaire used in three multinational retail stores	119
Table 5.1 Chinese retailers research data from a questionnaire	151
Table 6.1 The Possible counter strategies for Chinese retailers	155
Table 6.2 Classifying retail changed formats for Chinese retailers	158

<b>LIST OF FIGURES</b>	
Figure1.1 Chinese map	2
Figure1.2 Composition of average household consumption, China, 1995 Vs 2002	4
Figure1.3 Fast foods in China	7
Figure1.4 FDI in China (\$bn)	13
Figure 1.5 Wal-Mart around the world	30
Figure 1.6 Wal-Mart in China	31
Figure 1.7 Carrefour in China	34
Figure 1.8 Metro in China	35
Figure 1.9 KFC in China	36
Figure 1.10 Lipton tea bags draw customers to supermarkets	40
Figure 1.11 An idle sales assistant awaiting customers at a tea shop	40
Figure 1.12 Diagrammatic representation of research methodologies approach utilised	47
Figure 2.1 Environment, retail organisation, and strategy in co-adjustment	58
Figure 2.2 Independent retailer and multiple retailer development trends	62
Figure 2.3 Relative changes of won-label and manufacturer's brands	76
Figure 4.1 Metro employee wearing a uniform, which shows some traditional Chinese designs	131
Figure 4.2 Carrefour and KFC restaurant co-branding strategy: A KFC restaurant set up in a Carrefour store in China.	133
Figure 4.3 Metro own brands through DIN standards	133
Figure 4.4 Expansion path of three multinational retailers	137
Figure 4.5 The reasons for Wal-Mart establishing a procurement centre	139
Figure 6.1 Design for a Chinese department store using a multi – storied store format to capture different segments of consumers	160

# CHAPTER 1: GENERAL ORIENTATION AND IDENTIFICATION OF THE RETAIL PROBLEM IN CHINA

## 1.1 Background and Introduction

China is one of the four oldest civilizations in the world. Its people are the inventors of papermaking, the compass, gunpowder and printing. It is the fourth largest country in the world, after Canada, Russia and the United States (National Geographic Atlas of the World, 2004). It has 31 provinces and is situated in eastern Asia, bound by the Pacific to the east.

China is a vast, varied country with centuries-old history, complex geographical features, natural resources, rich culture and social customs, as well as political, economic and cultural developments of a society that has been evolving for 4,000 years. China remains a developing country. It offers huge growth opportunities for foreign investors in terms of its economic development and changing consumer environment, and the gradual modernization of its retailing industry.

The aim of this chapter is to highlight developments and changing opportunities within China's economic sectors, and to point out threats to the local retail industry from foreign retailers. In particular, it focuses on two areas: the entry of global retailers (mass merchants) into the rapidly growing Chinese market and the various retailing trends in China. Most Chinese retailers remain dependent on traditional retail systems. However, the Chinese market is ready for cultivation by international retailers, whose advanced technological systems, logistic processes, retail skills and management, can bring added levels of efficiency and enhanced performance. Chinese retailers face significant socio-economic reform, policies and regulation adjustments, as well as consumer changes. Chinese retailers need to learn how to implement new strategies to adapt themselves in order to survive competition from global business.

Figure 1.1 Chinese Map



### 1.1.1 Population Growth

Throughout Chinese history, periods of turmoil have been associated with population declines. Most people died as a result of war, hunger and disease, but the population has grown gradually with the advent of peace. According to Ebrey (2002), China's population grew from about 630 to 880 million in the period from 1957 to 1970.

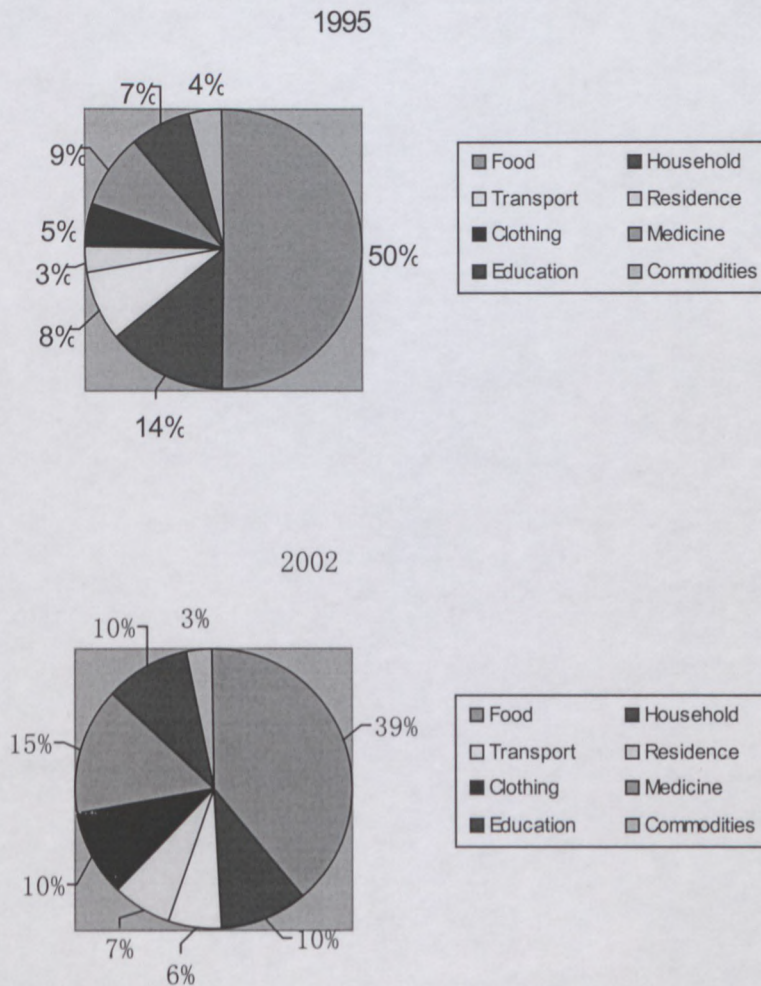
A long, peaceful period combined with economic stabilization over the past two decades, has afforded relative improvement in Chinese people's lives. There has been a rapid increase in population. In 2002, China's population of over 1.28 billion people (thirty-six per cent being urban residents), made it the most populated country in the world. This single country is responsible for over twenty per cent of the world's six billion people, it grows by an estimated fourteen million babies each year (Hwa, 2003); this number equals the combined total populations of Norway and Sweden. At the current rate, the population is expected to grow to 1.46 billion people by 2025, a figure much higher than any other country (Czinkota & Ronkainen, 1993:62). Table 1.1 will show the trend in population growth rate.

**Table 1.1 Population Projections by Region and Countries, 1990 To 2025 (Czinkota & Ronkainen, 1993:62)**

REGION AND COUNTRY	1990MIL	1995 MIL	2000 MIL	2025 MIL
World, total	5,248.5	5,679.3	6,127.1	8,177.1
More developed	1,208.8	1,242.8	1,275.7	1,396.7
Africa	645.3	753.2	877.4	1,642.9
South Africa	36.8	41.6	46.9	76.3
Zimbabwe	10.5	12.6	16.1	32.7
East Asia	1,317.2	1,390.4	1,470.0	1,696.1
China: Mainland	1,119.6	1,184.2	1,255.7	1,460.1
Hong Kong	6.1	6.6	6.9	7.9
Japan	122.7	125.1	127.7	127.6
Latin America	453.2	501.3	550.0	786.6
Mexico	89.0	99.2	109.2	154.1
North America	275.2	286.8	297.7	347.3
Canada	27.1	28.3	29.4	34.4
Unite States	248.0	258.3	268.1	312.7
Europe	499.5	506.5	513.1	526.9
United kingdom	55.8	56.0	56.2	56.4

In fact, it is predicted that the population may rise to about 1.6 billion by 2050 before slowing down (Huus, 1999). This fact brings an increase in the number of young people entering the job market every year, and coupled with the increasing number of older people, is changing the nature of household compositions. According to Figure 1.2, it shows that as Chinese consumers become wealthier, a smaller percentage of their disposable income is allocated to food and more to personal goods. The market for household appliances, clothing, medicine, medical services and education is growing significantly. These growth figures reflect demographic trends and the structure of the country's population and its rate of increase over time, which will impact upon the growth of the economy and the nature of consumers' saving and consumption. "Consumption is one of the ways of encouraging economic growth" (Tai, 2005). "China is developing into an emphatic growth opportunity for retailers and consumer products companies" (McIntosh & Kunkel, 2004).

**Figure 1.2 Composition of Average Household Consumption, China, 1995 Vs 2002 (De T'serclaes, 2005)**



China's large and growing consumer population practically guarantees large profits for foreign investors. It has attracted the world's attention because of the potential of its enormous consumer market (Wong & Yu, 2003:61). In general, the people enjoy a fairly comfortable life, with many opportunities for education, employment, social security and medical services (He, 2001). They also spend more on private cars, laptops, a huge variety of general goods and resources (Hwa, 2003).

### 1.1.2 Shopping Culture

Shopping appears to be a cultural pastime in Asia. It is a completely different way of life from Western countries (Hwa, 2003). Shopping as a social habit is more popular in China. Chinese

stores seek to set the trends in fashion and take great care with retail design to attract consumers. Anything and everything is sold and the desire to shop is strong for Chinese people. For example, high school students will go to one of the many stores and view the clothing after school. This browsing will be their activity for the entire afternoon. More and more young Chinese people see Western people as role models. In Beijing, Shanghai, Nanjing and Shenyang (see Figure 1.1 to see where these cities are situated in China,), product prices have been relatively high for decades. These cities have a huge consumption capacity in terms of the average monthly household income, and are considered first-tier (most prosperous and populous) cities in China (Iyengar, 2004).

All the shops are open on weekends and public holidays. Weekend shopping trips have become the norm. Stores provide a more spacious shopping environment and make the shopping experience more comfortable for customers.

#### **1.1.2.1 Chinese Lifestyle Trends**

There is a striking cultural difference between China and Western countries. China has a family-centered culture (Stover, 2000). It has practiced a one-child-per-family birth control policy since 1978 (Kraemer & Dedrick, 2001). With increasing per capita income and lower fertility rates, Chinese parents' love and money have focused on a single child, resulting in unique social and economic implications (Laroche, Kalamas & Huang, 2005: 675).

It is typical for children to live with their parents until they get married. Even once a student graduates and begins working, earning their own money, they continue to live at home with their parents. The parents are satisfied with this kind of lifestyle, as it keeps the family together. Young people have a responsibility to take care of their parents in physical as well as emotional ways.

One advantage of the young working person living at home is that a considerable amount of disposable income is freed up. This younger generation has money to spend on their favourite items. They have a strong purchasing power and are aspiring leaders in fashion. China is

transitioning into a fashion-conscious country (Zborowski, 2004). Fashion has become associated with specific lifestyles.

### **1.1.2.2 Food Culture Changing**

As the consumer market emerges, an increasing number of new products is appearing. The lifestyle is changing, and a large number of people finds it difficult to shop for food each day. Unlike earlier times, Chinese people work under tight schedules, and have no time for home preparation of Chinese rice, steamed bread or noodles (Tang, 2005). This has led to an increased acceptance of frozen, baked, semi-prepared and instant food. Chinese people are increasingly engaging in this mode of shopping.

Chinese culture has a long history and is deeply entrenched in people's minds and manifests as traditional living customs. However, Chinese customers are affected by western-styled fast food cultures and tastes and they are changing their buying habits because of this. The success of western fast food chains can be traced to their mass appeal across different consumer segments. These could be hurried adults who want a quick bite to eat and the elderly, who see their neighborhood restaurants as safe, clean and accessible places to spend time chatting with friends (Anderson & He, 1999:77). People have come to equate fast food with convenience and efficiency.

Owing to busier lifestyles and dual-working families with children, emphasis is increasingly being placed on quick meal solutions (Schroder & McEachern, 2005:212). Fast food chains find themselves at the foreground of this new wave of consumption, with KFC and McDonald's leading the way by offering kinds meals and must-have birthday parties complete with cake, entertainment, and mascots (Yan, 1997). Chinese children find the foreign fast food culture extremely attractive (see Figure 1.3). When these children grow up, eating foreign fast food will be a part of their lifestyle. This change in Chinese food culture and tastes is reflected in the fact that foreign food service retailers (KFC, McDonald's and Pizza Hut), have become household names. The success of KFC and McDonald's in China is the result of a transformation of China's lifestyles (Cheng, 2003:773). Their burgers and fried chicken are no

longer “foreign” to many Chinese. These foods have penetrated deeply into the market and have been integrated into peoples' daily lives.

**Figure 1.3 Fast Foods in China**



### **1.1.2.3 Chinese Customers Payment Options**

Traditionally, in terms of payment, Chinese people have favoured cash, with only 10% of Chinese customers being credit card holders in 2003 (Mclaughlin, 2005). Most of them obtain credit cards when they live abroad and pay for purchases through foreign bank accounts. “International credit card companies like Visa and Mastercard are still banned from normal operations in China, China lacks a nationwide bank clearance system” (Sternquist, 2001). Most Chinese people like to use cash for payment, as cash gives the user a feeling of more direct control and a sense of immediacy. Most Chinese people engage in conservative payment options, avoiding credit at all costs, and not spending money in advance. Chinese customers usually withdraw their salaries using a bankbook, while withdrawals are recorded manually at the bank.

Few Chinese consumers have experience in handling credit options (Mclaughlin, 2005). This is a structural factor that influences the development of China’s electronic retailing, which is potentially powerful. The reform of Chinese customers’ payment options will be a slow and gradual movement away from the old cash norm of the past; this continued progress will likely show further improvement.

### 1.1.3 Economic Realities

“Since 1979, China has reformed its economy and allowed competition” (National Geographic Atlas of the World, 2004), and the Chinese economy has been trying to reach the same economic level as the rest of the First World countries. China has the capacity and determination to change its underdeveloped state. “It may be more useful to compare China’s economic growth with other major emerging economies rather than the most developed countries” (Allen, Qian & Qian, 2005: 64). Table 1.2 compares China with the seven largest emerging economies in the world. The government is dedicated to economic development, using economic forecasting and adopting policies, regulations and economic strategies to orchestrate a complete change in the operations of the country’s economic system. Chinese economist, Li (2004), summarises China’s economic development in three stages:

- The strategy of preferential development of heavy industry under the planned economic systems in 1949-1979;
- The strategy of balanced development under the policy of reform and opening-up in 1980-2000; and
- The strategy of new-style industrialization in the context of innovations in institution-building, as well as science and technology in 2001-2020.

In this third stage, the Chinese government is making great progress in implementing a sustainable development strategy and modernizing the market system, factors which have influenced a drop in the population growth rate and increased foreign investment.

**Table 1.2 Comparison of China and Other Major Emerging Economies: GDP and Growth**  
 (Allen, Qian & Qian, 2005: 62)

GDP IN 2002			ANNUAL GROWTH RATE OF GDP 1990-2002	
Rank	Country	GDP(US\$)Billion	Country	Growth rate (%)
1	China	1,237	China	11.3
2	Mexico	637	India	7.1
3	India	515	Pakistan	5.7
4	Brazil	452	Mexico	4.3
5	Russia	346	Argentina	4.0
6	South Africa	104	Brazil	4.0
7	Argentina	102	South Africa	3.5
8	Pakistan	60	Russia	-2.2

GDP figures are from the World Bank

### 1.1.3.1 Chinese Economic Growth

As the leader of the fastest growing region in the world, China is rapidly rising to join the major players of the global economy (Szu, 2004). "China has already established itself as the world's factory" (Wong, 2004). Products that are "Made in China", are easily found throughout the world. China is a major trading nation and occupies a leading market position for products such as textiles, clothing, children's toys, porcelain, electronic components and general merchandise. Its prosperous economy is an investment destination and retail powerhouse. Economic growth and available market share are further reasons for foreign companies' surge of investment into China.

Several authors have given figures to illustrate the increasing Chinese market consumption capacity. Gore (1997) realized that China had the potential to become the 'market of all markets', owing to a population of 1.2 billion people, boosting the world's fast growing economy. According to Tong (2003), China continues to be the world's fastest growing economy with an 11% annual growth. It has the largest mobile phone market with over 235 million clients and the second largest Internet population with over 68 million users online. This market potential

has helped to attract investments from a large number of foreign investors globally. Domestic consumption will remain the main stimulus for China's economic growth.

The Earth Policy Institute of the United States released a report entitled "China Replacing the United States as World's Leading Consumer", which has engaged the attention of some Chinese economists (Tai, 2005). The report pointed out that among the five basic food, energy and industrial commodities, grain, meat, coal, steel and oil, consumption in China of the first four commodities has already exceeded that of the United States. Meanwhile, China outstrips the rest of the world in the consumption of television sets, refrigerators and cellular phones. The report concluded that China has overtaken the United States to become the world's leading consumer.

The 280-page annual report issued by the Economic Committee of the Asia-Pacific Economic Cooperation (APEC) correctly predicted that China's economic condition should remain healthy, with a strong performance in both GDP growth and exports. These factors encourage foreign investment (Xinhua News Agency, 2002b). According to Zhang and Shi (2001), the Asia-Pacific region is an important area for China's foreign trade and economic development. In 2000, China's trade with APEC members reached US\$344.5 billion, amounting to some 72.6 per cent of its total trade volume.

Economic reform in China has reaped significant benefits from globalization and there has been a remarkable growth in the Gross Domestic Product (GDP). GDP is the most important long range economic indicator. The following facts and figures, illustrating this trend, are based on information provided by the National Bureau of Statistics. "The country's GDP jumped from about \$140 billion in 1979" (Wu, 2005) to \$1,237 billion in 2002. China ranked sixth in the world in terms of GDP in 2002 (see Table 1. 3), compared with 10th in 1990, becoming one of the world's major economic powers" (Embassy of the People's Republic of China in the United States of America, 2002b). Moreover, using PPP (purchasing power parity) to recalculate GDPs, China's economy is the second largest behind only the U.S. (right column in Table 1.3). "Its GDP is expected to grow by 8.5 per cent in 2005, 8.7 per cent in 2006 and 8.9

per cent in 2007" (Zhang, 2005). This healthy GDP has brought about significant changes within the Chinese economy and its improvement stem from the Chinese government's striving to redefine the roles of industries and directing initiatives to help enterprise development. Retail and service organisations play a critical part in the development of the economy.

**Table 1.3 Comparisons of China and Other Countries: GDP (Allen, Qian & Qian, 2005:63)**

RANK	GDP IN 2002		GDP IN 2002 USING PURCHASING POWER PARITY(PPP)	
	Country	GDP (US\$) Billion	Country	GDP (US\$) Billion
1	U.S.	10,416	U.S.	10,138
2	Japan	3,978	China	5,732
3	Germany	1,978	Japan	3,261
4	UK	1,552	India	2,694
5	France	1,409	Germany	2,171
6	China	1,237	France	1,554
7	Italy	1,180	UK	1,510
8	Canada	715	Italy	1,481
9	Spain	649	Brazil	1,311
10	Mexico	637	Russia	1,141

From 1998-2002, China's Gross National Income (GNI) (see Table1.4) rose by 27%, a growth much faster than that of the United States. This increase represents a significant influence on world economic development. The GNI of the Russian Federation, Australia, France and Germany has gradually declined in recent years. China has a rapidly growing middle class, whose incomes have contributed to establishing households. The growth of household income and consumption, has supported local market and industrial development. Aggregate incomes are rising and this is one of the reasons why foreign investors are entering the Chinese retail industry.

**Table 1.4 Increase in Gross National Income (GNI) from 1998-2002 (Wong, 2004)**

Country	GNI %
China	27%
United States	14%
Canada	12%
United Kingdom	11%
Russian Federation	- 6%
Australia	-7%
France	-11%
Germany	-15%

Source: World Development Indicators, World Bank Group

China's economic growth has been the main reason for the surge of foreign investment into China. Foreign investors foresee endless possibilities in this untapped market. Furthermore, as Hwa (2003) states that all economic reports suggest that in the next few years, China will be able to maintain its growth levels to attract foreign investment.

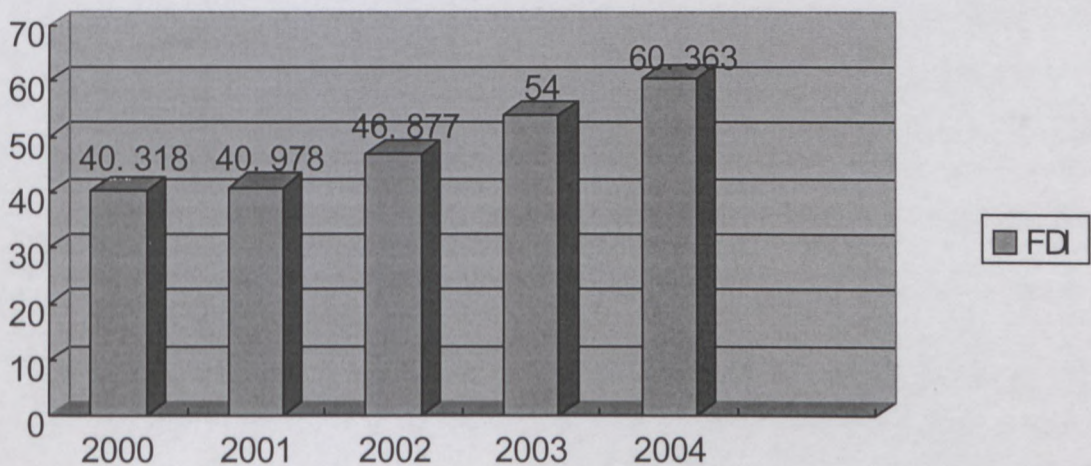
### **1.1.3.2 Foreign Investment Increase**

Foreign trade and foreign direct investment are expanding. China has not only developed into a major investment market, but is also a large recipient of foreign capital (second only to the United States). "China's foreign exchange reserves exceed US\$250 billion at present, ranking second in the world. China used US\$510.8 billion of foreign funding during 1990-2001, including US\$378 billion of foreign direct investment (FDI)" (Embassy of the People's Republic of China in the United States of America, 2002b). Duce and De Espana (2003) note that the fifth edition of the IMF's (International Monetary Fund) Balance of Payment Manual, defines the owner of 10% or more of a company's capital, as a direct investor. Direct investment reflects the aim of obtaining a lasting interest by a direct investor, which implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and

a significant degree of influence on the management of the latter. Foreign Direct Investment (FDI) plays a vital role within the developing economy.

China has attracted the most FDI of any country in the world. Multinational retailers see China as a place to invest for the future. Foreign Direct Investment Figure 1.4 shows that from 2000 to 2004, FDI has gradually increased, although it is still in its early stages. Increasing FDI will promote a healthy economic climate and make China the biggest investment market for foreign Invested Enterprises (FIEs).

**Figure 1.4 FDI in China (\$bn) (Tan, 2005a)**



Source: China Ministry of Commerce

In foreign trade, China is currently in the fortunate position of receiving dollars from foreign investors. China keeps its foreign exchange controls making its currency stable. According to a Xinhua News Agency (2002b) report, the Chinese currency is pegged to the US dollar (\$1= ¥ 8.2 at current exchange rates). The United States continues to run massive monthly trade deficits and the weakness of the dollar has become a positive factor for Chinese exports, causing a large flow of foreign capital into China.

In 2003, the actual influx of foreign capital surpassed that of the United States, indicating that China had become the priority of multinational companies' investment strategy. To prove this

fact, Tan (2005) highlights research from American Dow Jones & Co., Inc. concerning the future development trend of the top 50 multinationals. This research indicates that of all the factors that influence the development of those big companies in the coming five years, the economic growth of China ranks first, as China can provide quality products at reasonable prices, excellent human resources and a huge market. About 20 per cent of the companies involved, believe that their future profits in the international market will come mainly from China, and will equal that of the United States. This research shows that the investment of foreign companies, especially big multinationals, is focused on China. This means that China has become a huge market that should be carefully managed.

#### **1.1.4 Retail as a Future Area of Foreign Investment in China**

The retailing system of a country is closely related to the society's economic development. The postwar Chinese economy struggled to find its footing after both an internal and a world war during the mid-20<sup>th</sup> century. The Chinese government restricted foreign access to its service sectors of retail, wholesale, distribution and trading. "The retail industry is a local industry. As such, it is often the object of government regulations. Governments use regulations to limit imported merchandise, reduce excessive price competition and protect domestic businesses" (Sternquist, 2001).

China's Ministry of Commerce, presently known as the Ministry of Internal Trade, has controlled retail sales in China since the early 1950s. The distribution system was modelled on that of the Soviet Union. The State Planning Commission determined the general production goal for Chinese factories. The factories were then allocated raw materials and told to produce the necessary products, which were shipped to the Ministry of Commerce Central Distribution Centres. This simple system used a three-tier structure of production, distribution and retailing (Dijkslag, 2003). "Under the planned economy, retail and consumer goods in China are distributed by the state, which has the monopoly control" (Wong & Yu, 2003:61). Production and distribution were based on allocation from the central government.

The traditional retail system was based on government administrative convenience and control. After Japanese invasion War (1937-1945) and the Chinese Civil War (1945-1949) (National Geographic Atlas of the World, 2004), China's resources were largely destroyed and very limited, and economic development was slow. The Chinese Communist Party came into power in 1949 (Berton, 2004: 362), and placed the economy and all industries under government control. Industry was developed to produce high quality technology products needed for national defence and which could be western used against western countries. The Chinese government focused on producing conventional, as well as, nuclear weapons. The Chinese government gave little attention to commodities that would satisfy people's daily needs. People were encouraged to live highly frugal lives, with the bare minimum of resources.

Competition is important to encourage economic growth within a country. It should be free, vigorous, and innovative. However, in the period after the wars, there was no retail competition and, under communism, it was completely rejected. "Retailing in China is relatively unknown compared to other industrial areas" (Qiang & Harris, 1990: 31); it developed very slowly in comparison to the textile, agricultural and engineering industries. "Retail sales and distribution were strictly controlled by the Ministry of Commerce. Merchandise was manufactured by state-owned factories, food was grown on state-owned communes, a system of state-owned middlemen distributed all good, and prices were set by the State Price Bureau" (Davies, 1994:57).

Postwar retailing did not need competition, in that it had simple retailing outlets, such as the department store and the specialty shop. "Department stores form a very important part of the retailing system and this sector's development parallels the growth of retailing in China" (Qiang & Harris, 1990: 33). Chinese department stores had many traditional features, such as counter service where customers had no access to self service. Specialty shops offered a narrow range of products, usually selling single categories of goods, such as watches or women's clothing. There were very few variations in terms of shops and Chinese consumers had traditionally enjoyed very "little protection of consumer rights from the government" (Ouyang, Zhou & Zhou, 2002:337).

Consumer prices were fixed for nearly all products by the provincial governments. In traditional stores, products were displayed behind glass counters. The salesperson's duty was to show the products to the customers, accept payment and hand in cash at the main office before leaving for home. In the audio-visual goods department, most stores did not offer a delivery service. Products had to be carried away by the customers themselves. The stores' design, layout and physical environment presented a negative image. Business hours were operated from 08:00 to 17:00.

In the traditional business model, "the business communities are composed of small and medium-size business and industrial enterprises which were initially started as family-run businesses like hawker stalls, sundry shops, restaurants, or department stores" (Wing, 1995:392). Large wholesalers and retailers operated from facilities owned by the government and did not compete against each other. Chinese retailers were not able to select their business locations; they were allocated by the provincial government. This is diametrically opposite to the way businesses are set up in the west. Foreign companies were prevented from setting up retail businesses in China.

By the last decade of the 20<sup>th</sup> century, China had realized that the highly limited range and variety of products and services were not satisfying the social, cultural and economic demands of its vast population. Chinese consumer demands had increased and created problems for retailing and the government. After the decline of the Soviet Union, China paid more attention to the complaints of Chinese businesses and consumers. China advocated "economic reform, which started ... in 1978" (Chow, 2000). The aim was to allow the non-state sectors to develop in the setting of a market economy. "The net output of the Chinese economy since 1978 has on average increased by nearly 10% per year and the standard of living has greatly improved, as reflected in the World Bank's recent re-classification of the country from 'low income' to the 'lower middle income category' " (Shevchenko, 2004:163). This economic reform led to increasing competition in retailing.

The number of retail outlets had increased sharply as a result of government encouragement of non-state enterprise, as reflected by the figures in Table 1.5, "by 1992 this number had

topped 10 million (Davies, 1994:57)", and large department stores were permitted to purchase directly from manufacturers.

**Table 1.5 Development of Chinese Retailing Sector during Last Decade (Qiang & Harris, 1990: 31)**

	1978	1980	1985	1987
Number of retail outlets (1000s)	1,048	1,463	7,783	8,814
Retail employment (Millions)	4.8	6.4	18.0	20.1
Total sales (RMB billion)	136	177	327	434

Source: Statistical Yearbook of China 1988

"In March 1997, China's trade negotiators committed to granting trading rights to all domestic enterprises within three years of China's entry into the World Trade Organisation" (Sternquist, 2001). Major stores possessed special privileges to directly import merchandise and prices could be negotiated based on the quality and quantity of goods ordered. Chinese retailing embarked on a developing era, which would involve competition within the sector.

In 2002, China's domestic retail sales rose by 8.7 per cent year-on-year, National Bureau of Statistics (NBS) (Hwa, 2003). According to the central government's plan, the total sales volume of domestic retail businesses, is expected to reach US\$84.6 billion by the end of 2005, posting a 35 per cent annual growth and involving more than 100,000 outlets nationwide (China Daily, 2002). The Chinese retail industry is on a steady growth path and this trend is expected to continue.

In more detailed statistics, NBS figures show that retail sales in urban areas increased by 9.8 per cent, while retail sales in rural areas grew by 6.8 per cent. Many rural areas still lack modernized stores. The wholesale and retail industry registered an annual growth of 8.8 per cent in the same period. The restaurant and catering industry expanded with sales climbing by 16.1 per cent. In the categories of daily items, such as food, clothing and other necessities, there was a growth of 14.1 per cent, 11.1 per cent and 17.7 per cent respectively. Sales of

communication equipment rose by 62.4 per cent and those of automobiles and building materials grew by 58 per cent and 28.8 per cent respectively (People's Daily, 2002). The developing Chinese economy and salaries for middle and low-income urban customers have both contributed to an increase in purchasing power, while group purchasing has also become more popular.

"In 1992, China's central government decides to open its retail market in six large cities and five special economic zones of foreign retailers and investors" (Grace, Wong & Yu, 2003: 62). During this period, multinational retailers from mature and highly developed domestic retail markets, moved to develop interests outside of their domestic markets and expand internationally. Some of these retailers included Wal-Mart, Carrefour, Metro, and the fast food chains Kentucky Fried Chicken and McDonalds (see 1.1.8). A growing number of foreign retail enterprises have increased their investment in China's commercial sector.

China remains a vast and diverse developing country. Retail market reforms occur primarily in major economic cities and zones in China, then gradually spreads to other areas. The most economically developed cities have rapid retail modernization. One of the important factors sought by foreign retail companies is steady market growth over the past several years. At present, foreign retailers are flocking to the larger economic cities. As yet, it would seem that the retail industry is readily adopting the challenge of becoming a destination for an ever-increasing number of foreign retailers (De T'serclaes, 2005).

Chinese retailing in the 21<sup>st</sup> century will no doubt be very different from that of the 20<sup>th</sup> century. The retail industry has been one of the largest, most dynamic and innovative industries in China in recent years. It is central to communities and plays a vital role in the Chinese economy.

### **1.1.5 Labour Environment**

In 2005, urban unemployment was estimated at 4.2%, the same as the end of 2004 (Sun, 2005). "The Chinese People's Congress ratified the amended Trade Union Law in 2001. It is

an amendment to the Union Law of 1992" (Heuer, 2005). It stipulates that wages be paid according to the principle of 'equal pay for work of equal value'. New labour rules stipulate that foreigners may be hired only where there is a demonstrated need to do so; approval is required from local labour authorities. In general, foreign employees enjoy a relatively high salary and pay which also corresponds to high personal income tax, thus contributing to China's tax revenue.

The size of the population affects people's employment conditions and the labour market environment. Labour market competition is strong. To protect Chinese employees within foreign companies, Chinese foreign investment laws require "all foreign investment enterprises in China to create unions in their workplace" (Stephen, 2004). If they do not, they face consequences, such as fines.

People generally accept extremely low wages if they are not well educated in China. Chinese people are inventive and, in recent years, education has become highly rated, especially in business. Education is important for parents of a child. Families invest huge amounts of money in their children's education. It is generally believed that Chinese parents instill a sense of competitiveness in their children to study and work hard so that they may secure good jobs. Private education is growing very fast in China. There were about 54,000 private schools by the end of 2001 (Kaiser & Bueren, 2002), consisting of primary and high schools, colleges of education, and others that offered short term training programmes, English training, job training and study-abroad programmes, all of which are on the increase. China is importing training and knowledge, with Chinese colleges and universities expanding everywhere. The competition for higher paying jobs is an active reality and more Chinese people stay in school in order to achieve higher education.

Faced with an influx of foreign companies armed with advanced management techniques, China needs a lot of skilled labour, workers with high education, executive talent and sufficient experience in advanced business fields to defend their businesses against foreign competition. China also recruits foreign experts in special fields. However, education levels vary by region. English-speaking college graduates and engineers are common in large cities, personnel with specialised technical skills or training in accounting, finance, marketing, law and personnel management, are gradually increasing in numbers.

### **1.1.6 Policy Changes**

The retail industry is a local industry. It is often the focus of government policies and regulations. China's large population and fast growing economy has given its government more reason to guard its market. "The Chinese government is well aware of the economic and social-political costs and benefits of joining the WTO (World Trade Organisation)" (Chow, 2000). It restricted shareholding, locations and store numbers to limit entry of foreign-funded companies, reduce excessive price competition and protect domestic businesses pre-WTO. Prior to the WTO agreement, the Chinese government assumed ownership of all commercial ventures and it maintained commercial control. The process for foreign retailers to obtain government approval was a long one. Issues of foreign firms entering the Chinese market and China joining the WTO have been contentious negotiations for over a decade. Gore (1997) commented that "in 1996, for example, only 15 joint ventures in retailing were approved".

The issue of policy change has had a direct bearing on the entry of foreign retailers into China and directly affects the success of their businesses within the Chinese market.

Joining the WTO was a significant policy decision that the Chinese government took. After 15 years of negotiations, "China joined the World Trade Organisation (WTO) in December 2001" (Wong, 2004). This is expected to boost economic reforms that have been made in China as well as open China's 1.3 billion person market to the global trading system (Lin, 2002).

“The WTO is the new legal and institutional foundation for a multilateral trading system. It provides the contractual obligations determining how governments frame and implement domestic trade legislation and regulations. Moreover, it is the platform on which trade relations among countries evolve through collective debate, negotiation and adjudication” (Kotabe & Helsen, 2001: 41). In the WTO negotiations, China agreed to open more of its domestic economy to foreign investors, reducing restrictions on foreign-owned businesses. China has abolished some laws related to foreign trade and enacted new laws to meet the WTO standards. The Chinese market and industrial development has become more transparent and standardized, and it would seem that the WTO has begun a new era of opening China to the outside world. It will further relax retail planning policies and related trade restrictions, which will benefit foreign retailers.

In line with China's commitments to the World Trade Organisation, China will liberalize its retail market to foreign investors. Foreign retail enterprises were only allowed to extend their businesses to the municipalities, capital cities of provinces (first-tier cities) and autonomous regions and special economic zones in 2001. The WTO will expand China's economic trading policies even more, as most restrictions on Chinese ownership and geography will be eliminated by 2005 (see Table 1.6). This means that foreign companies should be allowed to set up a 100%-owned retailing company in China from January 1, 2005 (Kaiser & Bueren, 2002). As part of the WTO negotiations, the Chinese State Council has agreed to allow future foreign participation within the retail industry, extending access from first-tier cities to second-tier cities. China is becoming a more hospitable place for foreign retailers to engage in economic activities. A relaxation of territorial limitations may also further stimulate current competition within retail markets. Foreign retailers will compete in a fair arena, hence results will reflect the retailers' actual strength.

**Table 1.6 Chinese Market-Opening through WTO (Kaiser & Bueren, 2002)**

SECTOR	2001	2002 Y1	2003 Y2	2004 Y3	2005 Y4	2006 Y5	2007 Y6	2008 Y7
Manufacture and advanced production							Quotas and non-tariff restrictions eliminated within 5 years	
Textile						By end 2005, import quotas eliminated		
Non-Life insurer	Joint venture with 51% ownership			Wholly Foreign Owned Enterprise (WFOE) is possible				
Foreign Life Insurer	Max. 50% ownership	Max. 51%				WFOE possible		
Geographic restrictions	Permitted in Shanghai, Guangzhou, Dalian, Shenzhen, Foshan	Permitted in Shanghai, Guangzhou, Shenzhen, Foshan, Beijing, Chengdu, Chongqing, Fuzhou, Suzhou, Xiamen, Ningbo, Shenyang, Wuhan, Tianjin			No geographical restrictions			
Business Scope	Permitted to provide "Master Policy" insurance of large-scale commercial risks. Foreign non-life insurers are permitted to provide insurance of enterprises abroad, as well as property insurance, related liability insurance and credit insurance of FIE upon accession.			Permitted to provide full range of non-life insurance services to both foreign and domestic clients.				
Banks				Conduct RMB business with Chinese enterprises		Conduct local currency business with private individuals all over China		
Mobile		35% equity in JV, operating in and between 17 cities.	49% in JV, with no geographic restrictions					
Tourism					100% ownership stake in hotels in China possible.			

In consideration of tariffs, the harmful effects of foreign competition are monitored by putting into practice the gradual reduction of import tariffs. The WTO has also carried out a mandate to reduce tariffs by phasing out of non-tariff barriers on imports (see Table1.7). With tariff reduction, foreign companies will increase Chinese market share. This kind of competition has forced domestic enterprises to become more intense. Even though Chinese companies will lose their market share from a long-term strategic standpoint, "China's entry into the WTO is also necessary for the nation's participation in economic globalization" (Zhang & Shi, 2001). It helps China to safeguard its own rights, interests and to enjoy equal benefits with other

members. The entry into the WTO continues to have a positive effect on China's economic development.

**Table 1.7 Tariff Reductions since China's WTO Entry (Kaiser & Bueren, 2002)**

SECTOR	2001	2002	2003	2004	2005	2006	2007	2008
		Y1	Y2	Y3	Y4	Y5	Y6	Y7
Agriculture	An average of 31% to 14%			Cut to 10 %				
Manufacturing Industry	An average of 24.6 in 1997 to 9.4 %							
Chemical Products	An average of 6.9% to 8.8 %							
Car	Tariff cut from 100-80% to 25%							
IT-Technology	An average of 13.3% to 0%							

With regard to taxes, as a member of the WTO, China provides consumer product companies with tax incentives, such as a reduced tax rate, tax holiday or duty exemption on imported fixed assets. WTO membership will also help China to increase FDI, productivity, imports and exports.

Ni (2004) states, "for foreign retailers, the 33% standard income tax rate applies, with 30% going to the State and 3% to the localities." Although there is a high income tax rate for foreign retailers, the high income tax does not decrease the number of foreign retailers entering China. These tax rate figures mean that the Chinese government realizes that the retail industry was insufficiently prepared upon joining the WTO, and seeks to protect the retail industry from foreign threats. The Chinese government is also keen to keep key sectors in domestic hands so that Chinese retailers will not suffer as competition increases. As a result of this kind of government intervention, new foreign investors will need to consider this growth before deciding to invest this industry.

The China Daily (2002) reported on the Chinese Retailing Plan that China's retailing sector is expected to continue its role as a strong booster of the country's overall economy in the coming

years. While chain operations are expected to lead the future development of the domestic retailing sector, more retailing varieties, such as large supermarkets, convenience stores, shopping malls and fresh food supermarkets have also sprung up. The State Council will soon issue a policy package, which aims to boost the development of chain operations through a string of preferential rules, in terms of tax payments with an approved commodity range.

China is also quickening its pace in opening up the commercial market. As President Jiang Zemin declared during the 14<sup>th</sup> Chinese Communist Party (CCP) Congress in 1992, "to open wider to the outside world... we should encourage enterprises to expand their investments abroad and their transnational operations" (Wu, 2005). The Chinese government expects that private enterprises, joint ventures and foreign owned enterprises, under a better legal system and in an improved economic environment, will contribute positively to growth. There are 480,000 foreign enterprises registered in China (Fu, 2005). The Chinese government is eager to deliver the economic goods to consumers, believing that a satisfied consumer is a positive, stabilising force for economic development (Wong, 2004). The economy of China has embarked on a successful developmental strategy. The Chinese government has adopted institutions and policies, which enable the resourceful Chinese people and foreign investors to unleash their energy in an effort to develop the Chinese economy.

### **1.1.7 Technological Factors**

"According to the Beijing Consultech's report (1999), the current period of China's transition from a centrally planned economy to a more market oriented economy, the Chinese government has regarded improvements in technology as the most effective way to achieve rapid development of the nation-wide macro-economy. A large amount of capital has been injected into the upgrading of national infrastructure and acquiring sophisticated technology from the western world" (Kwan, Yeung & AU, 2003:93). Technological factors will significantly influence Chinese economic development. The Chinese government has already realized this important factor, and has encouraged Multinational companies (MNCs) to invest their technologies in China.

The MNCs investment trend in China will involve maintaining their advanced technology, transferring their basic industries to China at a greater speed, and continuing to expand investment in China. Some foreign companies will invest more in sales and after-sales services. Dolven (2003) provided an example of Whirlpool, link retail chains, whose after-sales service network, has established their brands as an investment in China. Some foreign manufacturing companies have already completed moving assembly plants to China and are transferring technology and training labour. For example, “foreign investors have established more than 600 research and development (R&D) centres in China (see Table 1.8), with a total investment of \$4 billion” (The US-China Business Council, 2004).

**Table 1.8 Selected Foreign R & D Centres in China (ATIP, 1997)**

1. IBM	IBM R&D centres have some of the best advanced technology and are among the best equipped in the world. IBM announced the establishment of an R&D centre in China in Beijing, September 21, 1996.
2. HP	HP in China not only established factories and client service organisations, but also set up professional knowledge/understanding and specific technology focused on the Chinese market.
3. NEC	Recently, NEC announced the establishment of NECSI China Ltd.
4. SECOM	SECOM (China) Co. was established in 1993.
5. NORDX/CDT	NORDX/CDT will establish a factory in China, to produce network-distribution products.
6. AT&T	AT&T (China) was formally established as AT&T Solutions in China. The company provides consulting for international large groups and enterprises. AT&T has carried out several cooperative projects with the Chinese government.
7. NOKIA	Nokia established an investment company in Beijing.
8. ERICSSON	Beijing Ericsson Ltd., with help from the Swedish Ericsson Group provides telecommunications support to The Post and Telecommunications Industries of China.
9. SIEMENS	SIEMENS has established more than 40 joint ventures in China, with 9000 employees. Siemens provides functions from design development to production and application.
10. MICROSOFT	Microsoft Corp. began to take serious action in China with their introduction of Windows series software in China.

China did not develop labour saving technologies due to an oversupply of the labour force in the past. Since China began opening up, especially since joining the WTO, the Chinese government has emphasized the recruitment of foreign experts, and has encouraged Chinese enterprises to learn foreign skills. According to sources from the Ministry of Labour and Social Security states, "at the end of 2003, more than 90,000 foreigners worked in China. They mainly came from Japan, the Republic of Korea, Singapore, the United States and European countries" (Tan, 2005b). Some overseas specialists and professors who had been directly employed by the Chinese government, were called "foreign experts". Increasingly foreign specialists have come to visit China, and many of them have chosen to live and work there.

The Chinese government provides favourable living conditions and preferential treatment for Chinese students who study technology in a variety of different academic fields abroad and bring their knowledge home (Barabantseva, 2005). The Chinese government and its corporate policies attract overseas Chinese talent in all aspects: compensation, tax exemption, profit-sharing, healthcare, pension and vacations.

### **1.1.8 Introduction of Foreign Retailers**

Many business opportunities in China provide potential for the globalization of the retailing industry. "Statistics show that large retail businesses from overseas had set up more than 300 large retail outlets in China by the end of 2001" (Xinhua New Agency, 2002a). Companies such as Wal-Mart, Carrefour, Metro, Makro, 7-Eleven, KFC, McDonald's and others, have entered the Chinese emerging market. They recognize and understand the unique features of the Chinese economic structure, reform market regulation, consumer behavior and social customs. They could, therefore, penetrate China by combining well-renowned brands and appropriate localized practices to create maximum benefits.

Foreign retailers have well-established and long-lasting relationship with their suppliers. A retailer such as Wal-Mart, has more than 3,000 main suppliers (Govindarajan & Lang, 2002) and is therefore able to offer customers a wide range of local and imported products.

The following section details an explanation of foreign companies that are expanding within China. These enterprises range from mass merchants to food service retailers.

### **1.1.8.1 Mass Merchants**

#### **□ Wal-Mart**

Wal-Mart, from the United States, is the leading retailer in the world (see Table 1.9). Founded by Sam Walton, the first Wal-Mart store opened in Rogers, Arkansas, in 1962. The first international store opened in Mexico City in 1991 (Govindarajan & Lang, 2002). After fourteen years, it currently possesses 5,311 stores (see Table 1.10). It has begun to make itself a worldwide brand. Wal-Mart's innovations, both large and small, are now retail-industry standards. Their successful public statement insists on "every day low prices". They carry out total solution services, provide quality merchandise, effectively control the cost of global logistics and distribution, utilise information technology and powerfully motivate employees to work and share knowledge. Wal-Mart had no comparable Chinese retailers in terms of their strong capital, resources and technology. According to Table 1.9, no Mainland Chinese retailer has been able to expand into other countries or make it on to the top 200 global retailers list.

**Table 1.9 Top 200 Global Retailers (Kutyla, 2004)**

NAME OF COMPANY	RANK	NAME OF COMPANY	RANK	NAME OF COMPANY	RANK
Advance Auto Parts (US)	152	Foot Locker (US)	118	Otto (Germany)	45
Aeon (Japan)	26	Galleries Lafayette (France)	101	Pao de Acucar (Brazil)	145
Ahold (Netherlands)	7	Gap (US)	40	Pathmark (US)	133
Albertsons (US)	11	Giant Eagle (US)	121	Payless ShoeSource (US)	173
Aldi Einkauf (Germany)	12	Globus (Germany)	141	PETs MART (US)	185
Alticor/Amway (US)	122	Great Universal Stores (UK)	61	Pick 'n Pay Stores (S.Africa)	167
Amazon.com (US)	134	Group 1 Automotive (US)	144	Pinault-Printemps-Redoute(F	50
Arcadia Group (UK)	172	Grupo Gigante (Mexico)	156	Price Chopper (US)	195
Army & Air Force Exchange	77	H.E. Butt (US)	60	Publix (US)	33
Asbury Automotive (US)	137	Hankyu (Japan)	160	Radio Shack (US)	115
Auchan (France)	23	Heiwado (Japan)	182	Raley's (US)	157
AutoNation (US)	43	Hennes & Mauritz (Sweden)	95	Reitan (Norway)	155
AutoZone (US)	97	Home Depot (Japan)	3	Rewe (Germany)	16
Avon (US)	86	Hudson's Bay (Canada)	113	Rite Aid (US)	34
Barnes & Noble (US)	98	Hutchison Whampos (HK)	170	Ross Stores (US)	142
Bed Bath and Beyond(US)	138	Hy-Vee (US)	128	S Group (Finland)	100
Bertelsmann (Germany)	171	IKEA (Sweden)	54	Safeway (UK)	44
Best Buy (US)	30	Inditex (Spain)	140	Safeway, Inc. (US)	13
Best Denki (Japan)	198	Intermarché (France)	15	Saks, Inc. (US)	90
Big Lots (US)	135	Isetan (Japan)	109	Schlecker (Germany)	102
BJ's Wholesale Club (US)	92	Ito-Yokado (Japan)	22	Sears (US)	10
Boots (UK)	79	Izumi (Japan)	162	Seibu Department (Japan)	123
Borders (US)	143	Izumiya (Japan)	181	Seiyu (Japan)	63
Burlington Coat (US)	184	J Sainsbury (UK)	21	Sherwin-Williams	151
C&A (Belgium)	112	JCPenney (US)	14	Shinsegae (S.Kora)	105
Canadian Tire (Canada)	164	Jean Coutu (Canada)	189	Shopko (US)	154
<b>Carrefour (France)</b>	<b>2</b>	John Lewis (UK)	84	Shoppers Drug Mart	191
Casino (France)	29	KarstadtQuelle(Germany)	39	Shoprite Holdings(S.Africa)	177
Charming Shoppes (US)	199	Kesko (Finland)	108	SHV Makro(Netherlands)	176
Circuit City (US)	55	Kingfisher (UK)	32	Skylark (Japan)	161
Coles Myer (Australia)	41	Kintetsu (Japan)	187	Somerfield (UK)	75
Colruyt (Belgium)	169	Kmart (US)	17	Sonae/Modelo C(Portugal)	148
Comcast/QVC (US)	124	Kohl's (US)	62	Sonic Automotive(US)	93
Compass (UK)	88	Kojima (Japan)	131	Soriana (Mexico)	149
CompUSA (US)	103	Kroger (US)	4	SPAR Austria (Austria)	107
Conad (Italy)	116	LeRoy Merlin (France)	136	Spiegel (US)	190
C C M (Mexko)	150	Lidl & Schwarz (Germany)	28	Staples (US)	67
COOP Italia (Italy)	65	Life (Japan)	165	Starbucks (US)	179
Coop Norden (Sweden)	72	Limited Brands (US)	66	Stater Bros. (US)	188
CoopSwitzerland (Switzerland)	68	Littlewoods (UK)	180	SuperValu (US)	56
Cooperative Group (UK)	110	Loblaw (Canada)	53	Systeme U (France)	85
Costco (US)	9	Longs Drugs (US)	120	Takashimaya (Japan)	70
CVS (US)	24	Lotte Shopping(S,Korea)	81	Target (US)	6
Daiei (Japan)	38	Louis Delhaize	59	Tengelmann(Germany)	25
Daimaru (Japan)	94	Lowe's (US)	20	Tesco (UK)	8
Dairy Farm (HK)	146	LVMH (France)	158	The Big Food Group (UK)	80
Dansk (Denmark)	125	Marks & Spencer (UK)	48	The Pantry (US)	192
Darden Restaurants (US)	114	Maruetsu (Japan)	166	TJX Cos. (US)	49
Debenhams (UK)	194	Marui (Japan)	139	Tokyu (Japan)	178
DeCA (US)	106	Matsuzakaya (Japan)	163	Toys 'R'Us (US)	51
Delhaize Group (Belgium)	31	May Department Stores (US)	42	United Auto Group (US)	91
Dell (US)	69	<b>McDonald's (US)</b>	<b>36</b>	Uny (France)	58
Dillard's (US)	71	Meijer (US)	47	V.T. Inc. (US)	127
Dixons (UK)	64	Menard (US)	99	Value City (US)	196
dm (Germany)	200	Mercadona (S,Korea)	104	VendexKBB (Netherlands)	119
Dohle (Germany)	193	Metcash (S. Africa)	96	Walgreens (US)	18
Dollar General (US)	87	<b>Metro (Germany)</b>	<b>5</b>	<b>Wal-Mart (US)</b>	<b>1</b>
E Leclerc (France)	27	Metro (Metro-Richelieu)	153	Wegman's (US)	159
Edeka/AVA (Germany)	19	Michaels Stores, Inc. (US)	175	Whole Foods Markets (US)	186

El Corte Ingles (Spain)	52	Migros (Switzerland)	57	Winn-Dixie (US)	46
Empire/Sobeys (Canada)	78	Mitsukoshi (Japan)	74	Wm.Morrison (UK)	83
Eroski (Spain)	126	Neiman Marcus (US)	174	Woolworths (Australia)	37
Esselunga (Italy)	168	Next (UK)	147	Woolworths (UK)	132
Family Dollar (US)	13	Nordstrom(US)	89	Yamada Denki (Japan)	82
Fast Retailing (Japan)	183	NorgesGruppen (Belgium)	111	Yodobashi Camera (Japan)	129
Federated (US)	35	Office Depot (US)	73	<b>Yum! Brands (US)</b>	<b>76</b>
Foodland (Australia)	197	Officemax (US)	117		

**Table 1.10 Stores Counts of Wal-Mart (Wal-Mart China, 2005)**

UNITED STATES	NUMBER OF STORES
Wal-Mart stores	1,353
Wal-Mart Supercentres	1,713
SAM'S Clubs	552
Wal-Mart Neighborhood Markets	85
Total	3,703
Wal-Mart International (All Types)	Number of Stores
Mexico	697
Puerto Rico	54
Canada	262
Argentina	11
Brazil	149
China	45
Korea	16
UK	283
Germany	91
Total	1,608

Wal-Mart's winning strategy in the United States was based on selling branded products at low costs. Wal-Mart's drive to international growth is a late 1990's phenomenon (Ferne *et al.*, 2003: 5). Each week, about 100 million customers visited a Wal-Mart store somewhere in the world. The company employed more than 1.3 million people worldwide in Mexico, Puerto Rico, Canada, Argentina, Brazil, China, South Korea, Germany and the United Kingdom (Govindarajan & Lang, 2002). When Wal-Mart executives look at the globe, they see expansion. Quinn (2000: 115) refers to Wal-Mart's competitive strategy as a means to dominate every sector where it does business. It measures success in terms of sales and

dominance over competitors. Generally, Wal-Mart does everything it can to dominate its competitors.

Figure 1.5 Wal-Mart Around the World (Wal-Mart China, 2005)



The world's largest retailing giant, Wal-Mart, plans to carve out places in the developing Chinese market. Wal-Mart opened its first store in Shenzhen in 1996 (People's Daily, 2001), and has already opened 45 stores by 2005 (see Table 1.10). These 45 stores are merely a testing and beginning for Wal-Mart in China. It plans to open more stores in this potential market.

With the full opening-up of China's retail sector approaching, "opening 300 of China's largest cities" (Sternquist, 2001), Wal-Mart has started to fight for market share from Chinese first-tier cities to the country's second-tier cities (Hove, 2005). Wal-Mart should fit into Chinese second-tier cities comfortably because of its history, which began in small towns in the U.S. and has grown step-by-step to be a global retail giant.

Wal-Mart's second-tier expansion shows that when the territorial restrictions were lifted in accordance with the WTO, foreign retailers' decisions to further expand to second-tier cities

were based on their studies of first-tier cities. Chinese second-tier cities involve operation costs, consisting of land and labour. They are comparatively lower than first-tier cities. Foreign retailers will change the face of the sector in China and Chinese retailers will be up against more challenges. Other retail giants such as Carrefour of France, Makro of the Netherlands and Metro of Germany all have clear investment timetables. Many of these foreign retailers are becoming interested in the country's vast second-tier cities. The world's leading chain retailers have begun to fight for market share in the nation's second-tier cities. Chinese retailers in second-tier cities are comparatively weaker than the nation's first-tier cities retailers.

In 2003, Wal-Mart was elected as one of the "Most Respected Companies in China" by the Enterprise Management Case Study Center of Beijing University and the Economic Observer. In 2004 Wal-Mart topped the Chinese Business Competitiveness Index among commercial and trade companies. In August the same year, Wal-Mart ranked top of the "most admired companies in China" and employed more than 20,000 Chinese people (Wal-Mart China, 2005). Wal-Mart is successful and has gained a high reputation in China and will continue to expand investment and co-operation in China.

**Figure 1.6 Wal-Mart in China**



#### □ Carrefour

As for the number two retailer in the world (see Table 1.9), Carrefour, a French retailer, initiated the idea of the hypermarket and refined the concept in the late 1960s and currently operates 324 hypermarkets in 16 countries across Europe. The store sells a broad variety of basic

merchandise which ranges from food to consumer electronics. Daniel Bernard, the chairperson and CEO, emphasizes that Carrefour is a “‘glo-cal’ company...a global group with a local approach to its markets” (Levy & Weitz, 2001: 59).

In France, owing to the restriction of setting-up of mass retailers, Carrefour was forced to go overseas to develop. It moved to Europe and America where it accumulated international experience. This encouraged, Carrefour to expand to foreign markets faster, more flexibly and efficiently.

Carrefour uses a common centralized system across the globe, which allows for local differences. It spends two years learning about a culture and its consumers before opening a store in a new country. However, once it enters a country, it opens 5 to 10 stores in a short time period to obtain distribution efficiencies (Levy & Weitz, 2001: 59).

Carrefour employs more than 430,000 people worldwide at more than 11,000 stores in 31 countries. It is the first retailer in Europe and a leader in 9 countries. It possesses € 90.681 billion of consolidated sales including VAT (Carrefour, 2005).

Accompanied by the increase of purchasing power in Asia, Carrefour expanded into China and Japan, where it began operating in cities exhibiting strong purchasing power. However, the investment results are different for the two countries.

According to DBS (Direct-broadcast satellite) Vickers Securities, China and Japan are two countries that must have retail markets in Asia (China Daily HK edition, 2002). Currently, Carrefour has announced its withdrawal from the Japanese market. It has sold its shares to Japan's largest retail group, the supermarket chain operator Aeon Co, which retains full rights to the Carrefour brand in Japan. Carrefour entered Japan four years ago, hoping to entice Japanese consumers, famous for their love of quality, to their stores by offering a more sophisticated image and more international groceries than traditional Japanese supermarkets.

However, its supermarket sales fell by 3.5 per cent in 2004 (Banville, 2005). Banville commented that Carrefour failed to overcome poor consumer spending and the Japanese recession. This comment is not entirely accurate as the Japanese economy is strong and their technology is advanced. Carrefour did not survive in Japan for other reasons. The Japanese retail market, which is fairly small, tends to saturate and competition is limited.

Carrefour is a global retail power, with all of its hypermarkets based on one-stop shopping, ample free parking, fresh produce, self-service shopping and a discount pricing strategy. Chinese stores were not able to meet the requirements of one-stop shopping and shopping at leisure. Consequently, mass retailer Carrefour, staked its place in China in 1995.

As the world's second largest retailer, Carrefour internationalized earlier than Wal-Mart, and is a successful foreign retailer in China. "Mr. Jean-Luc Chereau, Carrefour China President, calls such expansion speed 'unprecedented' in Carrefour's history. At present, Carrefour has 53 stores in China; last year it posted a sales revenue of US\$1.6 billion in this country" (Chen, 2004). As China holds immense development potential of commercial land, it was a logical choice for Carrefour's development. The company has subsequently withdrawn its investment from Japan and transferred it to China.

Like Wal-Mart, Carrefour was tempted by Chinese second-tier cities, which is a consumption market with robust demand and land rent that requires lower investment than in first-tier cities. Carrefour planned to establish stores and integrate them to gain large scale economies and coverage in these areas.

Carrefour is a wisely managed organisation, which found that local governments had a strong motivation for introducing foreign retailers for the sake of employment and taxation benefits. With the help of local governments, Carrefour quickly established footholds in China's major business cities and developed itself into the number one foreign retailer in China. It's not hard to imagine that the illegal expansion irritated local retailers and the Chinese central government. The central government then issued circulars and regulations one after another to warn foreign retailers and local governments, who turned a deaf ear to the warnings (CEIBS,

2005). Details around this issue were collected and compiled as a case study in the China Europe International Business School. A large number of foreign retailers is approved by local governments in spite of central regulations. Foreign retailers seize the opportunity to open more enterprises in Chinese cities.

**Figure 1.7 Carrefour in China**



□ **Metro**

Metro ranks as the number 5 retailer in the world (see Table 1.9). At present, the group employs around 250,000 employees in 30 countries. In 2004, the Metro Group raised its sales by 5.3% from the previous year's € 53.6 billion to € 56.1 billion. Forty nine per cent of total sales came from abroad (Metro, 2003). The importance of the Metro Group as a strong and international trading group has continued to increase in recent years. With its business expansion, it belongs to one of the most successful enterprises in the world.

Metro came to China in 1995, and was the first foreign retailer to gain permission from the Chinese central government to set up chain stores in all major cities in China. In 2002, Metro established four business units in North, East, South and Central China. Their target is to be as close as possible to Chinese customers, suppliers and employees and to speed up its expansion pace in China (Metro, 2003). Metro, which now has 18 units in China, plans to open 40 more stores in the next five years (Wong, 2004).

**Figure 1.8 Metro in China**



### **1.1.8.2 Overview of Different Foreign Investments**

#### **□ KFC**

Kentucky Fried Chicken (KFC), from the United States, was founded by Harland D. Sanders in 1952 (KFC, 2005), and its parent company, Yum Brands, ranks as the number 76 retailer in the world (see Table 1.9). Colonel Sanders invented the “secret recipe” and the special cooking method of pressure cooking, by which all the natural juices and flavours are sealed in. Colonel Sanders believed that there may be a thousand ways to cook chicken, but only one way to make Kentucky Fried Chicken. This reason led him to travel the country opening franchises where he personally trained people with his special recipe and techniques. KFC presently has 5,450 stores in the United States and 7,676 stores abroad (Sommers, 2005). KFC's international business generates more profit than its United States KFC business does.

KFC has been one of the most recognized international household brands in urban China since it opened its first Western-style quick service restaurant in Beijing in 1987. It has invested 1.3 billion RMB (about 157 million US dollars) in China, more than 50,000 people are employed at KFC outlets across the country and 550 Chinese firms have become KFC's chief suppliers. KFC is now the largest and fastest growing fast food chain business in China (People's Daily, 2003).

Concerning KFC's success in China, the president of Yum Brands' Chinese division (KFC's parent company) commented: "In many parts of China, the local municipal governments actually view the arrival of a KFC as a sign of the city coming of age" (Anon, 2005a). This comment means that to determine whether a Chinese city's economy is mature, one should watch KFC to see whether they open a store in this city, as the president has affirmed that the arrival of a KFC is the standard yardstick for measuring the degree of market development in China. This comment may be disturbing for Chinese people, but, it is a fact: KFC's 700 restaurants are in more than 150 cities nationwide, including 30 provinces and autonomous regions in China (Wei, 2002). According to the A. C. Nielsen Media International survey, KFC is the number one consumer brand in all of China. The study was conducted among 44,000 consumers across 30 Chinese cities (Anon, 2001a); KFC is ahead of the likes of Coca-Cola, Pepsi and Nike, as well as other companies.

**Figure 1.9 KFC in China**



□ **7-Eleven**

7-Eleven, Inc. was founded in Dallas, Texas in 1927. The Southland Corporation initiated the 7-Eleven format in 1946. In 1991, the franchised Southland Corporation was effectively taken

over by its Japanese subsidiary. There are now over 7000 7-Eleven stores in Japan (McGoldrick, 2002:60). It is the world's largest operator, franchisor and licensor of convenience stores (CVS). At present, the 7-Eleven trademark is represented in more than 27,500 stores worldwide.

In 2004, 7-Eleven opened a new licensed operation in Beijing (7-Eleven, 2005). Known for its international standards and professional services, there are now over 7,000 7-Eleven stores in Japan. The world's largest convenience store franchiser, 7-Eleven, is seeking to duplicate its success story in China, by opening more stores in time for the 2008 Olympic Games in China

#### □ **McDonald's**

McDonald's ranks 36<sup>th</sup> among the retailers of the world (Table 1.9). It opened its first outlet in China in 1990 in Shenzhen, across the border from Hong Kong. When it opened an outlet in Beijing in 1992, more than 40,000 customers visited the restaurant on the first day, according to its own website (Lim & Lo, 2004). Its impressive expansion has been largely driven by profits in China.

Throughout the country, McDonald's is considered to be one of the most popular international brands. The foreign fast food industry poses a challenge to restaurants that offer Chinese cuisine. They also represent a significant change in local food culture and lifestyle.

China offers a huge market potential for foreign companies that are prepared to do retail battle. As the competition gains momentum, foreign retailers develop their growth strategies. This is imperative for expansion in China. Foreign retailers entering the Chinese market will face strong competition, both from other foreign retailers (see Table 1.11) that have already begun operating in the country, as well as from Chinese retailers. However, Chinese retailers will continue to challenge and face tests from existing foreign retailers as well as new arrivals.

**Table 1.11 Selected Foreign Retail Investment in China (Kutyla, 2004)**

COUNTRY OF ORIGIN	NAME OF COMPANY	FORMATS	2002 RETAIL SALES (US\$MIL)
US	Wal-Mart	Discount, Hypermarket, Supermarket, Superstore, Warehouse	229,617
US	McDonald's	Food service	15,406
US	Toys "R" Us	Specialty	11,305
US	Starbucks	Food service	2,793
France	Carrefour	Cash & Carry, Convenience, Discount, Hypermarket, Specialty, Supermarket	65,011
France	Auchan	Department, Hypermarket, Specialty, Supermarket	26,071
France	LVMH	Department, Specialty, Supermarket	3,156
Germany	Metro	Cash & Carry, Department, DIY, Hypermarket, Specialty, Superstore	48,349
Germany	Bertelsmann	Mail Order, E-commerce	2,922
Japan	Ito-Yokado	Convenience, Department, Food service, Specialty, Supermarket, Superstore	26,179
Japan	Aeon	Convenience, DIY, Drug, Department, Discount, Food service, Specialty, Supermarket, Superstore	23,030
UK	Kingfisher	DIY, Specialty	16,185
UK	Marks and Spencer	Department, Specialty, Supermarket	11,986
Netherlands	Ahold	Cash & Carry, Convenience, Discount, Hypermarket, Specialty, Supermarket, Drug	40,755
Netherlands	SHV Makro	Cash & Carry	2,831
S.Korea	Lotte Shopping	Convenience, Department, Food service, Hypermarket, Supermarket	6,575
S.Africa	Metcash	Cash & Carry, Convenience, Specialty, Supermarket	5,403
Sweden	IKEA	Specialty	10,033

**1.1.9 Impact of Foreign Consumer Products into China**

Many Western-based consumer product companies are currently building a presence in China (Wong, 2004). There are companies such as Avon, Johnson & Johnson, Unilever, Procter & Gamble, Eastman Kodak, and Whirlpool. These MNCs have successful business histories in their own countries, and when they venture abroad with their successful formulae they have ambitions to expand and seek sales growth. For example, the commercial director of Whirlpool has declared that the Chinese market is on their map (Dolven, 2003).

Although these product companies do not sell directly to the final customers, their products and famous brands have entered the Chinese market. They have had a significant effect on the traditional Chinese product and retail market. Foreign retailers take advantage of their brands' ability to attract more customers than Chinese brands.

#### □ **Unilever in China**

Unilever is an Anglo-Dutch company, which owns many of the world's brands (Dove, Pond's, Elizabeth Arden, Vaseline, All and Lipton) in foods, beverages, cleaning agents and personal care products (De Mortanges & Rad, 1998: 366). Unilever has been successful in both designing and implementing effective strategies (Maljers, 1990: 63).

Unilever owns the Lipton brand and in April 2004, Lipton tea entered China's green tea market. It was backed by an advertising budget valued at RMB10 million a month from Unilever (Luo, 2004).

China is the homeland of tea, along with silk and porcelain. Chinese tea began to be known all over the world more than a thousand years ago. It has a superior quality and fragrance, and is the most popular eastern beverage. Tea has always been an important Chinese export (Williams & Veterans, 2000), yet China has few internationally recognized tea brands in the world (Luo, 2004). Chinese teas have not been differentiated into brands and marketed under brand labels. As a result, even in China, the names are foreign to customers and foreign tea brands dominate.

Lipton introduced their tea to the Chinese people by establishing a strong brand awareness and image. Lipton pitches its advertising at a more upscale income audience, using a variety of media such as movies, television, magazines such as Vogue, and Internet novels. Through a long-term brand building strategy, drinking Lipton tea has become a symbol of the young, working generation. Lipton tea is currently the third largest beverage brand in the world behind Coca Cola and Pepsi, taking the highest market share in China amongst similar products (Anon, 2005b). Lipton tea enjoys high sales by the foreign retail supermarkets in China (see

Figure 1.10). This has had a serious impact on special teashops (see Figure 1.11), on local tea manufacturers and also on China's proud tea culture.

**Figure 1.10 Lipton tea bags draw customers to supermarkets**



**Figure 1.11 An idle sales assistant awaiting customers at a tea shop**



## **1.2 Statement of the Research Problem**

With China's surging economic development, it continues to represent an enormous opportunity for foreign companies. A growing number of foreign companies have increased their investment in China's commercial sector. In Beijing, for example, China Capital-Beijing authorities approved 816 foreign branch offices, according to figures released by the Beijing Municipal Foreign Trade and Economic Co-operation Committee. Foreign companies had set up 10,380 representative offices in Beijing by the end of 2001, as an increasing number of foreign businesses moved into the Chinese market, according to a report by the Xinhua newspaper (Embassy of the People's Republic of China in the United States of America,

2002a). "An average of 2.24 foreign companies have been setting up offices in Beijing per day" (Tan, 2005a). Foreign retailers are targeting and exploring the Chinese market, with Chinese retail shops facing fierce competition from foreign retailers.

Since the Chinese government opened the retail market, statistics indicate that 70 per cent of the world's top 50 retailers, have established footholds in China. Wal-Mart has a goal of 100 shops in China. Carrefour continues to open new shops in East China. Metro has set up 18 shops in various parts of China. Nearly 80 per cent of supermarkets, the main channel of retail sales in China, are dominated by foreign retail companies (Embassy of the People's Republic of China in the United States of America, 2004). An increasing number of foreign retailers is seeking to develop footholds and establish purchasing centres in China. They implement their advanced retailing management, techniques and experience to promote the Chinese retail industry standard and development. They have superior merchandising expertise and management know-how, including the wisdom to employ capable local managers to help them bridge cultural gaps. Their understanding of the Chinese market and well-developed sales networks, enable foreign retailers to respond quickly and flexibly to market changes.

The Chinese retailing environment is now in turmoil. Challenged by changing consumer behaviour, the emergence of nimble foreign competitors and rapid technological advances, with competition among foreign retailers and Chinese retailers already driving down retail margins, the Chinese retail battle has begun.

China is a country nearly as big as the continent of Europe, with 31 provinces, each different from the other. China's retailing industry was highly fragmented due to the large geographical spread of the nation, and the market share of leading retailers remains very small. For example, Shanghai Lianhua Supermarket was the leading retailer in China but captured a mere 1.27% share of the market in 2003 (Anon, 2004a). "According to official sources, China's top 100 retailers accounted for just about 8% of the market in the year ended 2002 and has not fared much better in 2003. Their average Return on Equity (ROE) has fallen to 2% in 2003 and these retailers are now under pressure to expand into chain stores and discount stores" (Anon, 2004b). The well-known McKinsey & Company predicts that over half of China's retail markets

will eventually be controlled by three to five multinational retail giants ((Xinhua New Agency, 2002a). These figures reflect that Chinese retailers are not very strong, the growth mechanisms are not perfect and retail management ability is weak. Foreign competition has been particularly successful at eliminating traditional small stores.

Major problems of the Chinese retail industry are the lack of managerial experience, financial resources and capable personnel (Laroche, Kalamas & Huang, 2005: 675). Many of these Chinese retailers are independent, family firms, and are especially prevalent in middle-sized, second-tier cities. It is more difficult for small Chinese shops to achieve the economies of scale in buying and selling, management expertise and labour that can be achieved by larger chains. Chinese independent firms' strategic management has been slow to adapt to the intense global international competition, which increases Chinese retailers' costs, which in turn are reflected in their prices. This is in distinct contrast to most foreign retailers, who advocate "low price every day" discount prices. These are some of the economic forces that have tended to push small, independent stores out of the Chinese retail market.

Foreign retailers in China play a significant role with regard to changing the traditional Chinese model of shopping, retail management and consumers behaviour. Their access to the market will speed up their expansion, and more are eyeing the Chinese market. They are a threat to their Chinese rivals. "Chinese retailing companies have been described as sheep while foreign retailers are wolves coming into China" (People's Daily, 2004). The competition between Chinese and foreign retailing businesses is becoming increasingly intense.

A Chinese enterpriser commented that China's real worries are not the high-tech foreign companies, but foreign retailers, such as Wal-Mart, Carrefour and Metro, whose antennas could reach every corner of China (Frost, 2004).

The main research problem is stated as: How Chinese retailers could choose and implement strategies to counter stiff competition from foreign retailers and survive in the marketplace. The research problem focuses on decisions related to developing effective and positive strategies that will result in strengthening the Chinese retail industry.

### **1.3 Aims of the Research**

The research aims to choose, from a range of strategies, those most effective, viable and important, that are likely to enable Chinese retailers to retain their market share. This study seeks to identify strategies through which Chinese retailers can increase their competitive advantage and protect themselves by implementing flexible strategies to survive foreign competition.

### **1.4 Objectives of the Research**

- To introduce the Chinese situation concerning population, economic growth, policy, retail sector and shopping culture, to understand the advantages of foreign retailers that appeal to Chinese customers.
- To conduct a literature review on the nature of retail business management, and to identify and understand retail strategies that are used by foreign retailers and that could be used by Chinese retailers.
- To conduct research methodologies through interviews and questionnaires of Chinese customers and foreign retailers to determine the retailers' competitive strategies.
- To do an analysis of Chinese retailers' strengths and weaknesses, as well as the opportunities and threats they face regarding foreign competition and what strategies they could use to counter this competition.
- To explore and discuss viable strategies for Chinese retailers to survive the challenging competition.

## **1.5 Outcomes and Contributions of the Research**

Many foreign retailers have operations in China and plan aggressive expansions to get a share of the Chinese market. Chinese retailers need to assess their own conditions to survive and to consider what strategies they can adopt and adjust to create their competitive advantage. This research will be of benefit to Chinese retailers in helping them understand target consumer behaviour and valid strategies that will enable them to consistently anticipate their competitors as a means to survive in China's evolving competitive marketplace.

## **1.6 Methodology and Design**

### **1.6.1 Source of Information**

The researcher set up a method to collect the required information from three sources:

#### Internal primary sources

##### 1. Chinese retailers had to fulfill two requirements to qualify as primary sources:

They are firstly, to be permanently resident in China, and secondly, have the characteristics of an independent retailer running existing stores. They come into contact with customers and receive comments about the store, products, brands and services. They train their employees and they know their retail organisation's policies, culture, management and strategies.

##### 2. The Chinese consumer is another source of internal primary data.

#### External primary source

Exploratory research was based on three typical foreign companies: Wal-Mart, Carrefour and Metro.

□ External secondary sources

These consist of up-to-date retail information and retailing theories, and they are divided into three main types:

1. Government statistics, for example: WTO regulation, General Agreement On Tariffs and Trade, Chinese Labour law, Income Tax law, economic trends, social trends.
2. Periodicals and retailing textbooks, academic papers, magazine articles, business dictionary, newspaper items and Internet sources also provided useful information for this thesis.
3. Reports from specialist retail research organisations such as Journal of Retailing, Journal of Marketing, and American Neilson researches.
4. The researcher also collected some published foreign retailer's documents such as company handbooks, advertising and materials on bulletin boards in offices.

### **1.6.2 Collecting the Information**

In this thesis the following survey methods were used to generate external and internal primary data, namely:

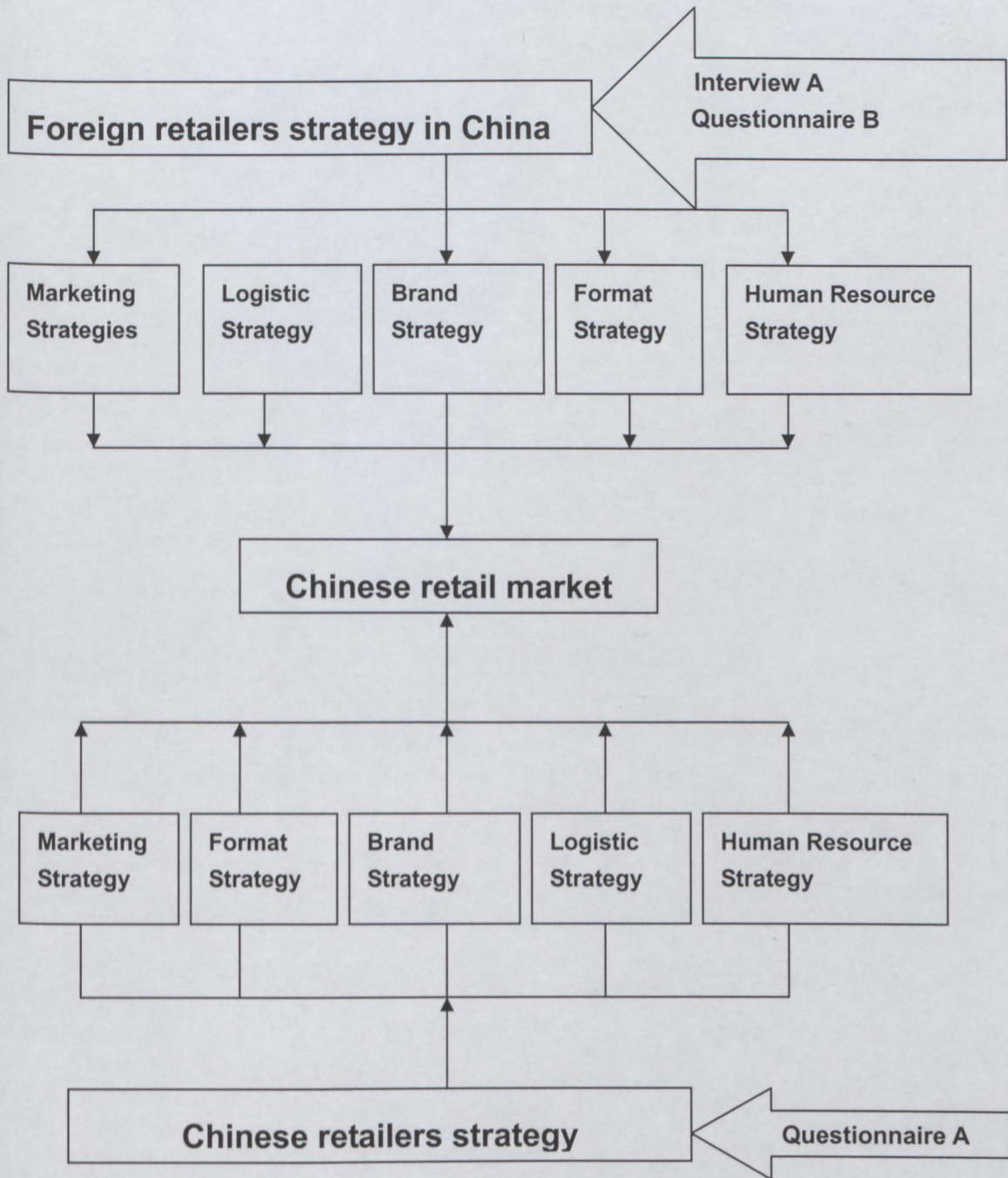
- Interview A (see Appendix C) to foreign retailers was used to generate external primary data. Interview A was done with managers of Wal-Mart, Carrefour and Metro in China. An analysis of these interviews will help Chinese retailers to effectively understand foreign retailer strategies and determine these retailers' strategic strengths and weaknesses.

- Questionnaire A (see Appendix A) to Chinese retailers was used to generate internal primary data. Questionnaire A was conducted with Chinese retailers in Beijing, Shanghai, Nanjing and Shenyang in China. Questionnaire A asks Chinese retailers to provide strategies that they think they could implement and offer some analysis of strengths, weaknesses, opportunities and threats they perceive in their present situation.
  
- Questionnaire B (see Appendix B) to Chinese customers was used to generate internal primary data. Questionnaire B was used for customers shopping in Wal-Mart, Carrefour and Metro in China. Information was gathered from questionnaires from 100 male and female respondents between the ages of 18 and 65 years old, representing a middle-class section of the Chinese population.

It helped reveal an understanding of the Chinese retail market, consumer behaviour, shopping culture and brand awareness. The researcher also did qualitative and quantitative analysis on Questionnaire B.

The methods used may be represented as shown in Figure 1.12:

Figure 1.12 Diagrammatic Representation of Research Methodologies Approach Utilised



These research methods and design are presented in detail in Chapter 3.

## 1.7 Delimitation of the Research Study

There are four delimitations of the research, outlined as follows.

Firstly, in recognition of the fundamental differences between goods and services, marketing academics make a distinction between goods retailing (department stores, supermarkets) and service firms (airlines, restaurants). This thesis focuses on goods retailing; most foreign retail giants dominating the Chinese market are mass merchandisers, whose development outside of their home markets continue with foreign company-owned retail chains. However, most of the foreign service firms only expand into the market by franchising (McDonald's, KFC, Pizza Hut, Dairy Queen, Dunkin' Donuts and Subway). These franchises are a possible future research area. The following sections focus solely on comparing foreign mass merchants and Chinese retailers, on studying foreign retailers' successful experiences, and on attempts to find the most valid strategies for Chinese retailers.

Secondly, only store-based selling is explored. The TGI Global Consumer Barometer (2004) reports that in China, just 1% of consumers claim to have purchased something online. This is partly due to lower levels of Internet penetration in that country.

Thirdly, of the many business strategies implemented by foreign and Chinese retailers, the research is focused on marketing strategy, brand strategy, format strategy, human resource strategy and logistic strategy.

In the fourth instance, because consumer behaviour changes over time, the research can only give insight into current consumer behaviour and perception of foreign retail stores.

Finally, the researcher's motivation to assist the relatively weak Chinese retail industry through this study is derived from China being the researcher's place of birth. By taking an academic approach the researcher has sought to place the indigenous retail industry with its difficulties and problems in a wider perspective. The researcher wishes to point out that some bias may exist, since all of the measures in this study are perceptual and all the research input is from a Chinese cultural perspective.

## **1.8 Synopsis of the Study**

A brief summary of the contents of each of the subsequent chapters is given below.

### **□ Chapter Two**

Chapter Two is a literature review, which contains the demarcation of the literature covered. In this chapter, the researcher references a number of key definitions in retailing to find different retailing perspectives; discusses the nature of retailing, retail trends and strategies, international retailing, the implementation of strategy, and goes on to explore valid strategic issues within the challenging competitive market.

### **□ Chapter Three**

This chapter involves the research design; the data collection methods encompass two sampling frames. Through the research instruments implemented, data-editing and sample size choice, two sampling frames divided into two parts are discussed with each research methodology. Full details of data collection processes are given.

### **□ Chapter Four and Chapter Five**

The two sampling frames discussed here, analysis and interpretation of data, are dealt with separately in Chapter four and Chapter five. In the two chapters, data analysis procedure is described. The main strategy implementation and adaptation, trends, connections in the data are referenced to the research problem solution and a final interpretation of the main results are provided.

□ Chapter Six

This covers an analysis and interpretation of the data collected. This chapter analyses the data and contains a discussion of this data in relation to the research problem.

□ Chapter Seven

The final chapter is devoted to the main findings and conclusions, which were drawn from the research results and provides recommendations for future research.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

The point of departure for this chapter is the demarcation and discussion of the literature about retailing strategies covered during the study. The research result of this retailing literature affects the research problem of the thesis. The literature review is organised around several key concepts and theories, which are derived as background to the research problem, and creates a conceptual and theoretical framework for the research design. The aim of the literature review is to obtain significant retailing strategies, and to demonstrate their valid effect in a new emerging competitive market.

### **2.2 Overview of Retailing**

#### **2.2.1 Retailing Definitions**

Retailing is an important subject, "in the mid-1980s retailing had become strong and powerful" (Walters, 1989:2). Retailing has been a main part of the marketing system. It is one of the most diverse and dynamic sectors and occupies an outstanding position in the economies of modern societies; the evolution of retailing has reflected the evolution of society and the economic activities in a country. It affects every facet of life. Retailing contributes to the theories that span a variety of subjects, retail formats, technology, logistic, human resources and consumer behaviour. To understand and explain current retailing phenomena, it is necessary to have consistent retailing definitions and comprehensive retailing theories based on these definitions.

**Table 2.1 Selected Definitions of Retailing**

<p>□ "It can be considered to be the summation of all activities that result in the offering for sale of goods and/or organisations for purposes of ultimate consumption" (Bolen, 1988: 2).</p>
<p>□ "Is the final stage in the flow of merchandise from producer to consumer" (Dunne <i>et al.</i>, 1992: 3).</p>
<p>□ "It consists of the final activities and steps needed to place merchandise in the hands of the consumer or to provide services to the consumer" (Lusch <i>et al.</i>, 1993: 5).</p>
<p>□ "All activities involved in the marketing of goods and services directly to consumers" (Lucas <i>et al.</i>, 1994: 612).</p>
<p>□ "The promoting and selling of merchandise directly to customers, augmented by advertising, store promotions, and personal contacts in the community, where the retailer's outlet is located. Retailing is the selling of finished goods and services to the consumer for personal or family consumption. It includes store retailing, such as department stores, <i>nonstore retailing</i>, such as direct selling and mail order, or service retailing, such as dry cleaning" (Cross, 1995: 312).</p>
<p>□ "A set of business activities carried on to accomplishing the exchange of goods and services for purposes of personal, family, or household use, whether performed in a store or by some form of <i>nonstore selling</i>" (Bennett, 1995: 245).</p>
<p>□ "All business activities involved in selling goods and services directly to ultimate or final users for personal, <i>nonstore</i> consumption or use" (Koschnick, 1995: 515).</p>
<p>□ "The set of business activities involved in selling products and services to ultimate consumers" (Levy &amp; Weitz, 1996: 419).</p>
<p>□ "The more important retailing functions may be summarized as: (a) the physical movement and storage of goods; (b) the transfer of title to goods; (c) the provision of information concerning the nature and use of goods; (c) the standardization, grading and final processing of goods; (e) the provision of ready availability; (f) the assumption of risk concerning the precise nature and extent of demand; (g) the financing of inventory and the extension of credit to consumers" (Baker, 1998: 238).</p>
<p>□ "Consists of the final activity and steps needed to place merchandise made elsewhere in the hands of the consumer or to provide services to the consumer" (Dunne &amp; Lusch, 1999: 5).</p>
<p>□ "Consists of the final activity and steps needed to place merchandise made elsewhere in the hands of the consumer or to provide services to consumers" (Dunne, 2000: 379).</p>
<p>□ "Business activities involved in selling goods and services to consumers for their personal, family, or household use" (Berman &amp; Evans, 2001: 28).</p>
<p>□ "The activity of selling goods and services to final consumers for their own personal use" (Varley &amp; Rafiq, 2004: 3).</p>
<p>□ "Consists of final activities and steps needed to place merchandise made elsewhere into the hands of the consumer or to provide services to the consumer" (Dunne &amp; Lusch, 2005:537)</p>

Retailing is an academic subject in its own right and the definition of retailing is critical to the retail management process. Historically, the retailing concept has been viewed as the sale of goods to consumers through retail shops. However, retailing at present should be viewed as being broader. Table 2.1 above represents a selection of definitions of retail management. The purpose of Table 2.1 is to explore the potential scope of the word 'retailing' in an academic environment. These retailing definitions were obtained from a variety of retailing textbooks and business dictionaries that date from 1988-2005. The definitions share numerous similarities such as the "service to customers" concept. There are also notable differences - different definitions reflect different perspectives of retailing.

For example, most major traditional store-based retailers have launched electronic retail offerings to run their business. Therefore, many researchers compile non-store activities to illustrate retailing definitions in retailing textbooks, such as the definitions of Bennett (1995:245), Cross (1995:312) and Koschnick (1995:515) (see Table 2.1). Although the Internet is perceived as the "foundation for a new industrial order" (Hamel & Sampler, 1998:80-87) and some researchers have been predicting substantial growth in non-store-based retailing (Jones *et al.*, 2002:229), this thesis focuses on store-based retailing.

The Internet, vending machines and direct selling are potential complementary components of retail channels, but are currently not considered as mainstream for retailing success, especially considering the low penetration levels of computer and Internet connection in a developing country. This thesis regards store-based retailing as more important (see 1.7).

By reviewing the definitions listed in Table 2.1, it may be noted that retailing, in later definitions, is defined in terms of the retailing activities that are directed at the 'final customer'. The customer is not simply the end result, it is at the centre of all marketing activities. Recent retailing definitions reflect that retail has become more customer-focused. The concept of retailing is not limited to examining the activities of larger retail businesses, but also studying small-scale retailers, selling small quantities to customers.

## 2.2.2 Retailing Developments

From a historical overview of the development of retailing, the earliest retail forms of exchange took place in markets, ordering local produce from the surrounding area and providing goods to homes and workplaces for consumption for personal and family use. With economic growth and population increase, selling took place from the workshop directly to the store and goods were bought and traded by the shopkeeper. Retail shops and retailing methods have been transformed and general stores have attempted to satisfy the needs of customers for all types of goods.

General stores were converted into more specialised stores for market segmentation before the nineteenth century (Kent & Omar, 2003:5). With retailers increasing and differentiating, at the end of the nineteenth and the beginning of the twentieth century, the concept of department stores was emerging (Diamond & Pintel, 1996:4). Department stores, large stores that carry a wide variety and assortment of goods, evolved from these specialised types of shops. These large stores are located in major shopping centres, or near densely populated areas.

Most of the types of variety store, such as convenience stores, developed their retailing to appeal to consumers' desires for purchasing convenience in location and late-hour availability. Discount retailers met consumer demands for lower prices and provided a broad variety of merchandise in shopping centres. Large discount stores developed into supermarkets which respond to consumers' desires for lower prices, self-service, and parking. They also sell an abundance of miscellaneous items from drugs, toys, plants and hardware, to men's, women's and children's accessories.

With several new retail formats having emerged, more aggressive marketing is apparent. Retailers constantly seek sales growth and diversification that drive their marketing environment. Retailers had to be responsive to environmental pressures and competitive threats. Kent & Omsr (2003:7) have commented that after the Second World War, the geographic scope in which retailers operated increased significantly. Many retailers continued the process of consolidating their national networks of outlets, but increasingly turned to

foreign markets to open new outlets. Indeed, it is the domestic market's relative absence of growth opportunities, and the identified growth opportunities overseas, which have been the motivating factors for leading retailers to seek to develop new trading markets outside their domestic one.

Moreover, a new retailing theory came into being, which is international retailing. "International retailing has attracted considerable research attention since the resurgence in international retail activity in the mid-1980s and since the change in the intensity of that activity since the mid-1990s among the world's largest retailers" (Alexander, Quinn & Cairns, 2005:5). Treadgold (1990:4) early advocated international retailing, "at the junction of the old decade and the new, it is clear that it is one of the most important forces of change shaping retailing". This is a meaningful comment for retailing development. Some journal issues are devoted to the subject (Alexander & Doherty, 2000:322-325; Wrigley & Currah, 2003: 221-243). Lewison (1994:805) has highlighted the international retailing definition, which consists of the management of merchandising and operating activities across national boundaries in order to satisfy the particular needs of various foreign and domestic markets.

However, the international retailing definition needs to define the actual process. It is more sensible to consider it as a wider and more complex process than merely the transfer of stores in the new geographic market. Gilbert (2003:400) suggests that a usable definition for international retailing is: the process of a retailer transferring its retail operations, concept, management expertise, technology, and/or a buying function across national borders. This definition explains the international transfer of retail operations and management functions into a variety of non-domestic markets, which will act as a catalyst to retailers to utilise this strategy of retailing.

International retailing emphasized that retailers and their competitors, who are large foreign competitors leading the international movement and expansion, have their origins in mature and accumulated capital; therefore, a growing number of foreign retailers is presently showing great flexibility in strategies for entering new markets. International retailers are presenting a new competitive world for domestic retailers and this reality is reshaping the new retail environment for domestic retailers.

## **2.3 Nature of Retailing**

The nature of retailing is divided into three parts, each of which is a strong element of retail business management.

### **2.3.1 The Retail Environment**

Retail environment has always been dominated by evaluations of the importance of business management, with the range of conclusions from these studies being broad (Ward & Barnes, 1999:139-144;Kumar & Karande, 2000:167; D'Astous, 2000: 149; Sirgy, Grewal & Mangleburg, 2000:127;Chebat & Robicheaux, 2003:503). Some researchers focused on operating environments for retailers. An early and widely cited attempt at retail environment operation was made by Kotler (1974). Greenland & McGoldrick (2005:132) further described the designed environment in terms of ambient conditions, psycho-geographic concepts and architectural features.

Retailers need to be concerned with how customers perceive the in-store environment, and whether they are comfortable in it. An effective environment is crucial for customer attraction and retention. Some commentators emphasise the importance of the interaction of customers, retailers, and suppliers with the retail environment (Hogarth-Scott, 1999: 668; Collins & Burt, 2003:668). These elements are classified under micro-environment retail management.

Conversely, the macro-environment is a crucial factor for retailers. The impact of the macro-environment includes economic, technological, social, and political factors. Trying to

understand the retail environment is an important, but difficult, task facing many retail organisations. The regulation of retail activity has shaped many countries' markets. Most foreign retailers have to conform to national legislation, take into account hours of opening, consumer laws, labour laws and corporation tax, all of which impact their operations.

Owing to the research aspect of this thesis, the changing consumer environment has been considered, as this has impacted upon retail changes, and is discussed in some detail below.

#### □ Demographic Trends

The country's population, age groups, and population growth rate will impact upon the growth of the economy, household composition, and consumers' consumption saving. Most countries with a large population have been viewed as potential battlegrounds for retail competition.

#### □ Socio-Economic Trends

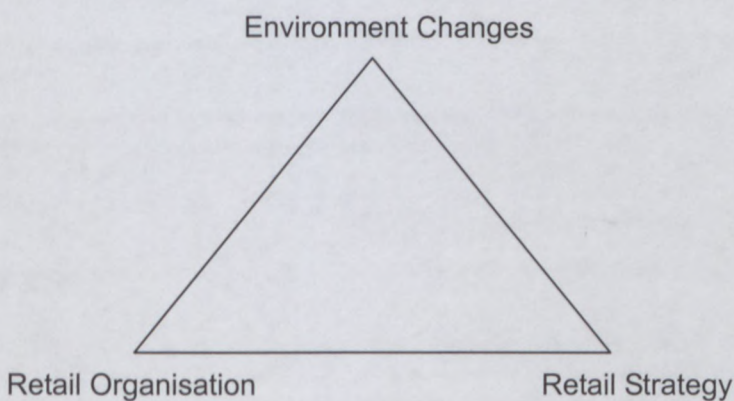
A country's socio-economic trends will influence customer market growth or decline, the patterns of expenditure on goods and services, discretionary purchases emerging and credit sales. These phenomena are more distinct for customers in developing countries.

#### □ Lifestyle Trends

Clearly there are strong relationships between demographic trends, socio-economic trends and consumer behaviour trends. A large number of the growing, young, working generation will follow lifestyle changes.

Lowson (2002:43) suggests the environment is uncertain to an extent that it may be impossible to plan on a long-term basis. Figure 2.1 represents co-adjustment between the environment, the retail organisation and its strategies. When the environment changes, the retail organisation needs to change its strategies. Retail strategies cannot be developed in isolation, and should take environment changes into account. Walters and Hanrahan (2000:3) emphasizes that “effective strategy is developed first by identifying and understanding the implications of the changing events in the business environment”. Many of the changing events occurring at present have a wide international impact, and strategic perspectives may be seen to be influencing the results and responses of large retailers.

**Figure 2.1 Environment, Retail Organisation, and Strategy in Co-adjustment**



Environmental changes present market opportunities and threats, in considering the impact of the environment on retailers. Retailers need to attempt to develop strategies that are suited to their strengths and weaknesses and should take advantage of new opportunities or avoid new threats within the environment. Their operations should constantly measure their internal capabilities against the external environment.

### **2.3.2 Major Classifications of Retailers**

In 1992, Rogers, Gamans and Grassi (1992:30) carried out a foundational retailer classification of retailers: (1) food based retailer; and (2) general merchandise retailer. Kent and Omar (2003:18), according to employment recorded within the industry, distinguished

retailers as very small (micro) retailers (0-9 employees), small (10-49 employees), medium-sized (50-249 employees) retailers, and larger retailers with over 250 employees.

Retailing has gone through significant changes but most of these types of retail organisations are still in operation. Retailing is a diverse business activity taking on many different forms; retailers can be classified in terms of the number of outlets, margin versus turnover, and location. By reviewing these methods of classifying retailers, the research makes a distinction between the different types of retailers by organisation ownership and control. Most retail organisations can be placed into three categories, which are independent retailers, multiple retailers and retail conglomerates.

#### □ The Independent Retailer

An independent retailer is a small-scale retail organisation owned and managed by private individuals, with fewer than 10 branches (Varley & Rafiq, 2004:20). They can be located almost anywhere, from single sites to shopping centres, offering a specialized product range while the majority of independent retailers operate out of physically small stores.

#### □ The Multiple Retailer

Multiple retailers are stores that belong to a retail company with 10 or more branches all selling a similar type of merchandise, having a similar appearance and following similar business procedures (Kent & Omar, 2003:24). Another term that is often used for a multiple retailer is a 'chain store', which is any retail organisation that operates multiple outlets. "Technically, any retail organisation that operates more than one unit can be classified as a chain" (Lewison, 1994:59). However, this is not a very practical definition. Dunne (2000:386) pointed out that the United States Census Bureau classified chain stores into two size categories: two to ten stores and eleven or more. Retailers generally use the 'eleven or more units' definition when using the term 'chain store'.

Ghosh (1994:40), Kent and Omar (2003:24), summarized the major advantages of multiple retailers over independent outlets:

- The opportunity to standardise retail operations and to gain economies of scale.
- Since all outlets have the same or similar merchandise, a common advertising and promotional campaign can be developed for the entire group of multiple stores. Pooling these resources reduces the amount of money that each outlet spends on advertising.
- Compared to independent stores, multiple stores also have access to more varied advertising media and can advertise on national network television, as well use the Internet.
- Multiple retailers can gain scale economies in distribution and information systems. A large chain, for example, can gain cost efficiency by performing its own shipping, storage and order processing, thereby reducing its reliance on wholesalers.
- Multiple stores have a significant bargaining power advantage in negotiating with their suppliers.

Independent retailers can rarely afford these advantages. Generally, retailers with several units are a stronger competitive threat, possessing more successful experiences, gaining more important advantages than independent and small-scale retailers, resulting in the retailing industry being dominated by large and powerful corporate entities.

#### □ The Retail Conglomerate

Retailers become increasingly powerful retail conglomerates, with a growing number of financial activities in terms of mergers, takeovers, acquisitions and alliances. They have a larger market share, significant culture of co-operation, advanced management systems and strong brand equity. Examples of such are Wal-Mart, Carrefour, Metro, Dixons and Gap, who have dominated international retailing with their expansions.

Generally speaking, retailing research has developed in countries such as the UK, the United States, Germany and Japan, with well-developed information storage and management systems. A number of economics books (Darymple & Parsons, 2000:250; Skyrme, 2001: 2; Levicki, 2003: 89) have testified that retailing is dominated by large organisations. This has resulted in a number of streams of literature concerning large retailers or powerful multinational retail organisations (Ganeshan, 1999: 341; Cliquet, 2000:183; Editorial, 2000:iii; Sung & Lee, 2000:347; Bloom & Perry, 2001:379). Less literature exists concerning research about independent retailers, owing to their decline in numbers.

Indeed, independent retailers should be a complement to multinational retailers, which dominates in most sectors. Some other reasons for independent stores' declining problems, is their conception, management expertise and retail strategies, as well as their small size and scale. Independent retailers (especially those competing against retailing giants such as Wal-Mart or Carrefour) should have a clear sense of how they will strategically distinguish their organisations in the marketplace. This thesis attempts to correct this imbalance for independent retailers.

## **2.4 Retailing Trends**

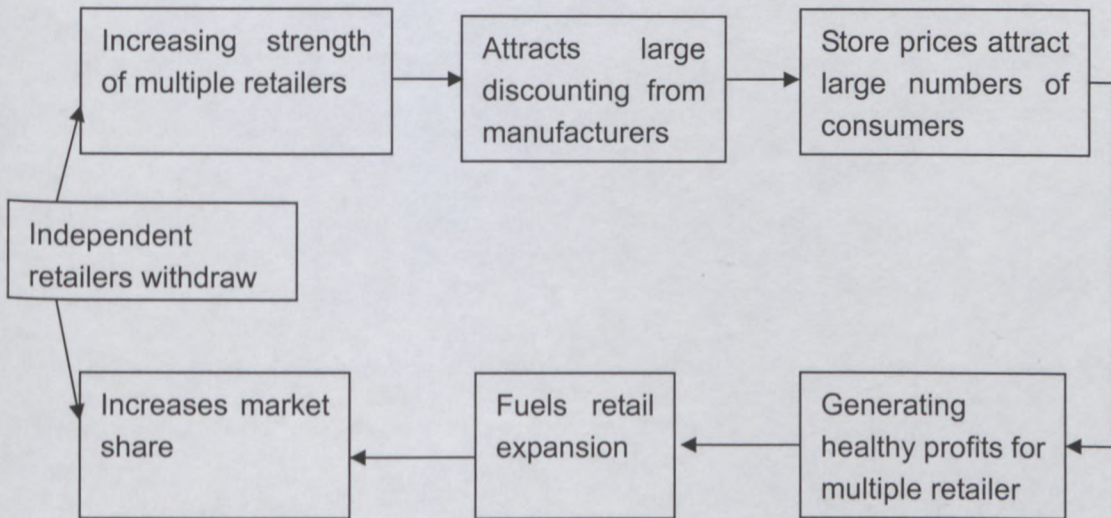
According to a broad review of literature related to the future of retailing, the researcher frequently took into account some trends in retailing, pertaining to how retailers plan and conduct their competitive strategies.

- New retail formats and combinations continue to develop. Supermarkets offer facilities such as bank branches, photographic laboratories and pharmacies; gas stations include convenience stores and bookstores have attached Internet cafes. Competition at present increasingly affects these different types of convenience store formats.
- Independent retailers have continued to decline (see Figure 2.2) as the retail marketplace has become increasingly dominated by a relatively small number of large retailers who have aggressively pursued strategies to increase their sales, their market share and their

profits (Jones *et al.*, 2005:34). Large multiple retailers have become increasingly powerful and offer strong cost-savings for customers. The main retailing trend has already been identified, which is that fewer and larger retailers are dominating the market.

- Retailers with unique formats and strong brand positioning are increasingly moving into other countries (Philip, 2000:530). Large retailers have created brands around themselves to undertake many other marketing tasks. Retailing is increasingly becoming a global business.

**Figure 2.2 Independent Retailer and Multiple Retailer Development Trends**



- The emergence of certain retailing-related technology has been successfully predicted (Peterson & Balasubramanian, 2002:12). Retailing has grown increasingly technology-intensive with the introduction of e-retailing.
- Logistic systems are increasingly becoming professionally managed and programmed.
- The retail industry is concentrated with fierce competition. Retailing is an activity of enormous economic value and contributes significantly to a nation's development. Multiple retailers realize the opportunities in some new emerging markets. Most researchers have focused on describing and examining the issue of international retailing.

## 2.5 Competitive Business Strategies by Retail Businesses

When the social and commercial environments change, competition emerges, forcing retail businesses to examine their environment and change their retail strategy. "Retail strategy is about corporate survival and prosperity in a changing retail environment" (Ferne *et al.*, 2003:70). The retail strategy indicates how the firm plans to focus its resources to accomplish its objectives. It is about internal and external environmental analysis, successful factor identification, and the recognition and building of corporate competence. Strategies are actions taken to utilize the firm's resources in the best way possible to take advantage of opportunities and to avoid threats.

Strategy implementation has long been recognised as being critical for business success in strategic management literature (Chimhanzi, 2004: 73). In the literature on retail strategic management, the competitive strategy is crucial to the success of a retail organisation. "Competitive strategy is seen as a primary process for achieving competitive advantage and subsequent performance outcome" (Davis, Dibrell & Janz, 2002:339). Walters and Hanrahan (2000:28) contend that competitive strategy "is about being different; the essence of strategy is in the activities, choosing to perform activities differently or to perform different activities than rivals". Competitive strategy is an organisation's approach to achieving a sustainable competitive advantage over, or reducing the competitive advantage of, its competitors (Daniels, 1998: 167). In a competitive strategy sense, retailers are concerned with growing larger and faster than their competitors, being different from their competitors, attracting and keeping customers, and gaining efficiencies in retail management. Competitive strategy reflects the way retailers understand the present and envisage the future.

Business strategy textbooks have recently contained retail strategy references. The researcher has already done a comprehensive literature study about retail strategy. This chapter discusses some retail strategy as information support and provides a starting point in strategic selection. These key retail strategies involve a marketing strategy, human resource strategy, format strategy, brand strategy and logistic strategy. The researcher has completed a

study of strategic decisions which are most likely to generate a long-term competitive advantage for target retail firms. Chapter six includes a detailed discussion around this issue.

### **2.5.1 Retail Marketing Strategies**

A strategy is a set of actions through which an organisation, by accident or design, develops resources and uses them to deliver services or products in a way which its users find valuable, while meeting the financial and other objectives and constraints imposed by key stakeholders (Haberberg & Rieple, 2001:32).

Currently, the term 'strategy' has been used rather haphazardly in a business context. "From the late 1960s to the mid-1980s at least, management strategy seemed to be inevitably linked to issues of product-market selection and hence to marketing strategy" (Baker, 2000:11). Dickson (2000:11) argued that a marketing strategy, is a concept defined as the corporation's mission to seek a sustainable competitive advantage by meeting customer needs. Kotler & Armstrong (2004:54) qualified this concept by stating that, "marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives". Retail strategy outlines the objectives a retailer wants to achieve and a plan that determines how it will achieve them. It is an analysis that focuses on marketing objectives and strategy development, designed to meet the needs of customers in each target market. It provides strategic decisions for dealing with its operation, customers and competitors. It takes into account a constantly changing business environment and customer satisfaction.

Owing to the above, marketing strategy has involved the most study in recent years, while measuring the performance of marketing strategies has been undertaken in numerous contexts (Campo & Gijsbrechts, 2004: 369; Jamal, 2004:1; Chimhanzi & Morgan, 2005:787; Lukas, Whitwell & Doyle; 414; Mottner & Ford, 2005: 829). Marketing strategy research covers a wide domain. It has many roles as market researchers have addressed a large number of organisational issues relevant to marketing strategy, such as branding (Ailawadi & Keller, 2004:331), competitive behaviour (Guercini, 2004:320), positioning and segmentation (Hassan & Craft, 2005:81), quality management (Lagrosen, 2004:396), corporate culture (Sadri &

Lees,2001:853), multi-channel management (Duffy, 2004:356) and customer satisfaction (Bond & Fink, 2003:204). These are also important debates for marketing strategy evolution. Developing marketing strategy can be rewarding. All retailers should develop an effective strategy for dealing with the competitive environment and decide on whether and how to change marketing strategies. Marketing strategy decides the firm's plan that ultimately deals with corporate survival and growth.

The dynamics of the international market have changed in recent years with markets increasingly characterised by sophisticated and demanding customers, within a competitive environment that is more volatile and less predictable than before. Kotler and Armstrong (2004:58), as well as Rensburg and Cant (2003:11), point out that the marketing strategy is better described in terms of the traditional four Ps - Product, Price, Promotion, Place. The balance of these basic components needs to be varied for different countries, based upon variations in market conditions in each country. The emphasis placed on different components of the marketing mix identifies the competitors in each market. Offering the right merchandise, in the right quantity, in the right place, at the right price and at the right time, is a vital part of strategy and certainly the basis for a firm's success, especially within new, emerging markets.

Marketing strategy entails shaping a co-ordinated plan of action around the fundamental components of product, price, promotion, and place. Marketing strategy is an indication of how each element of the marketing mix will be used to achieve the marketing objectives.

#### □ Product Strategy

A product is "anything that can be offered to a market to satisfy a want or a need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organisations, information and ideas" (Kotler, 2003:407). Kotler defined five levels of a product:

- The *core* benefit level is the fundamental need or want that consumers satisfy by consuming the core product or service.

- The *generic* product level is a basic version of the product and contains only those attributes or characteristics absolutely necessary for its functioning, but with no distinguishing features.
- The *expected* product level is a set of attributes or characteristics that buyers normally expect and agree to when they purchase a product.
- The *augmented* product level includes additional product attributes, benefits or related services that distinguish the product from its competitors.
- The *potential* product level includes all of the augmentations and transformations that a product might ultimately undergo in the future.

Product strategy is “breadth and depth of the competition’s product offer” (Fernie *et al.*, 2003:156). A product is an element of marketing decision-making, in terms of which activities are involved in developing the right goods or services for the firm’s customers. It not only involves deciding what product the firm should offer to a group of consumers, but also includes decisions about new product development and package design, brand, guarantee, product lifestyle and positioning. Product positioning refers to its overall situation within the market, relative to its sales, market share and profitability, as part of the selection of a marketing strategy.

- Pricing strategy

Pricing is a highly sensitive issue for both retailers and consumers. “From a demand side perspective, a firm’s pricing strategy is essentially a quantification of the perceived value that the firm creates for its customers. From a supply side perspective, pricing is a strategic and tactical expression of how the firm wishes to compete to generate revenues and, in light of its business model, realize profit” (Lancioni, Schau & Smith, 2004:113). Price is often considered a surrogate indicator of product quality. Pricing strategies accord with retail components such as location, promotion, display, service level, and merchandise assortment. The consumer often makes judgements on products or the store as a result of their response to the price of

merchandise. Pricing strategy is the element of marketing decision-making that deals with the methods of setting profitable and justifiable exchange value for goods and services.

The pricing strategy selected by an organisation depends on how management decides to position the product relative to the competition and whether price performs an active or passive role in the marketing programme. The use of price as an active or passive factor, refers to whether or not price is highlighted in promotion efforts. Cravens and Piercy (2003:390) describe the following characteristics and features:

□ High-Active Strategy

The underlying logic of emphasizing the high price in promotional activities is to convey to the buyer that because the brand is expensive, it offers superior value.

□ High-Passive Strategy

Relatively high-priced brands are often marketed by featuring non-price factors rather than using high-active strategies. Product features and performance can be stressed when the people in the target market are concerned with product quality and performance.

□ Low-Active Strategy

Several retailers use the pricing strategy when price is an important factor for a large segment of buyers. A low-active price strategy is very effective, as indicated by the rapid growth of these retailers. "Everyday low pricing refers to the pricing strategy in which a firm charges the same low price every day" (Urbany, 2000:528). The low-active strategy is a more attractive strategy for some retail giants. It encourages competitors to offer comparable prices.

□ Low-Passive Strategy

This strategy is used by small manufacturers whose products have lower cost features than those of other suppliers. The firm runs less risk that potential buyers will assume that the product quality is inferior to that of other brands.

An illustration shows how pricing decisions are guided by policies. "Pricing policies are rules of action, or guidelines that ensure uniformity of pricing decisions within a retail operation" (Dunne, *et al.*, 1992:259). A retail store's pricing policies should reflect the expectations of its target market. A firm that possesses its own core pricing strategy would support a product strategy in order to achieve certain pricing objectives and fit the realities of the market's environment changes.

□ Place Strategy

Retail place is important to customers, who take the place of the store into consideration when making the decision where to buy. Place strategy refers to market area, market coverage, store layout and design decisions. Parking, basic cloakrooms and in-store transportation are often assumed to be all that is needed.

□ Promotional Strategy

"Retail promotion is the descriptive term for the mix of communication activities which retail companies carry out in order to influence those publics on whom their sales depend" (Gilbert, 2003:175). The major aim of promotions is to generate demand for the retailer's products, and the retailer's communication programme moves customers through the stages of the buying process (Varley & Rafiq, 2004:235). Retail promotion is comprised of advertising, sales promotions, publicity, and personal selling for use in communicating with and seeking to persuade potential customers.

Promotion provides customers with information that will help them make better purchase decisions. Advertising is an important component of promotion strategy for retailers (Cravens & Piercy, 2003:400). Both manufacturers and retailers advertise via one or more forms of media, including telephone directories, guides, newspapers, magazines, radio, television, direct mail, web pages and billboards. Retailers generally value manufacturers' consumer advertising because it increases consumer product awareness and utility, thereby reducing the retailer's costs.

Management's perception of how advertising can contribute to the promotion objectives has an important influence in determining the role of advertising (Cravens & Pierce, 2003:409). In retail stores there are many different types of advertising to make consumers aware. Advertising is an expressive medium by which individuals can feel that they share a set of values with what the retail store has to offer. Some of the different types are as follows:

□ Product Advertising

Product advertising is aimed at enticing people to the store in order to consider specific merchandise. This promotional strategy is widely used by all kinds of retailers.

□ Markdown Event Advertising

This is used to create some excitement about a special period of cost offers that are below the products' normal prices. It is used for seasonal markdowns or may occur through negotiations with manufacturers during the stocktaking period.

□ Co-operative Advertising

This is used when manufacturers fund part of a promotion by supplying leaflets or advertising material for use by the store. There are differences between retailer and manufacturer advertising strategies as retail advertising is often based on short-term objectives with the emphasis on value or price. Sales promotion is a component of retail promotion. The most popular sales promotions used by retailers are consumer premiums such as gifts or coupons, games of chance and product demonstrations. Sales promotions are intended to help generate short-run increases in performance.

A well-designed retail advertising programme requires capital. The retailer hopes that the funds spent on advertising will bring in more money. Some retailers will systematically try to assess the effectiveness and efficiency of their advertising. Promotion decisions need to make sure that the promotional objectives are obtainable. A retailer's promotional strategy must be reinforced by its building and fixture decisions. Promotion decisions communicate the firm's marketing strategy to customers

Product strategy, price strategy, promotion strategy and place strategy, form the range of marketing component strategies, which constitute the total marketing strategy by different classes of retailers.

### **2.5.2 Retail Brand Strategies**

If a retailer wants to be successful in the modern competitive retail marketplace, improvements and investment in stores or retailing operations will not be enough. The brand should encourage customers to visit the store repeatedly to purchase. The current trend in marketing methods of achieving positive brand management is to embark upon a strategy of brand building. Within the retail industry, brands have been regarded as a strategic resource or asset.

“A brand is a perception or emotion, maintained by a buyer or a prospective buyer, describing the experience, related to doing business with any organisation or consuming its products or services” (Mcnally, 2002:4). The American Marketing Association defined a brand as “a name, term, sign, symbol or design or a combination of them, intended to identify the goods or services of sellers and to differentiate them from those of their competitors” (Kotler, 2003:419). Kotler (2003:419) further argues that a brand is a complex symbol that can convey up to six levels of meaning:

- Attributes: A brand brings to mind certain attributes.
- Benefits: Attributes must be translated into functional and emotional benefits.
- Values: The brand expresses something about the producer's values.
- Culture: The brand may represent a certain culture.
- Personality: The brand can project a certain personality.
- User: The brand suggests the kind of consumer who buys or uses the product.

Ellwood (2002:1) estimates that brand is one of the most valuable assets (see Table 2.2), which an organisation can possess:

- Branding provides the key communication with customers.
- Branding creates critical differences within the marketplace.
- Branding shapes internal company culture.
- Branding leverages the intellectual assets of the business.
- Branding generates increased business performance.
- The competitive position of a brand can be the strength of its customers' loyalty.

**Table 2.2 The world's most valuable brands by brand value. (Clifton, 2000:viii)**

BRAND	COUNTRY OF OWNERSHIP	BRAND VALUE \$USM	MARKET CAPITALISATION OF PARENT COMPANY \$USM
1 Coca-Cola	United States	83,845	142,164
2 Microsoft	United States	56,654	271,854
3 IBM	United States	43,781	158,384
4 General Electric	United States	33,502	327,996
5 Ford	United States	33,197	57,387
6 Disney	United States	32,275	52,552
7 Intel	United States	30,021	144,060
8 McDonald's	United States	26,231	40,862
9 AT&T	United States	24,181	102,480
10 Marlboro	United States	21,048	112,437

These large organisations (Table 2.2) possess more trading ability, attract and retain customers, have a higher market share at identical prices, have higher loyalty, and they institutionalize marketing as the means to manage the long-term development of brand values. The benefit of developing a strong brand is that consumers are often prepared to pay a price premium for perceived added values related to buying good brands. "The price premium, also known as brand equity, is the price customers are prepared to pay above the commodity value of a product or service" (Gilbert, 2003:304). While many researchers agree on the notion of the

value of brand equity, it is a difficult concept to grasp, in part owing to the considerable definitional problems (Pitt, 2001:39). The issue of brand equity has emerged as one of the most crucial topics for marketing management in the 1990s (Kim & Kim, 2005: 549). An accepted definition of brand equity is given by Aaker (1996:7), as a set of brand assets and liabilities linked to a brand, its name and symbol that add to, (or subtract from), the value provided by a product or service to a firm and/or that firm's customers. The assets and liabilities discussed by Aaker include brand awareness, brand loyalty, perceived quality, brand associations and image. High levels of brand awareness and a positive brand image, should increase the probability of brand choice and create consumer loyalty, while decreasing vulnerability to competitive marketing actions.

Brand equity is regarded as an important concept in business practice as well as in academic research. In recent years, Customer-Based Brand Equity (CBBE) has generated considerable attention. Several conceptualizations of CBBE exist. They have offered valuable insight into consumers' evaluation processes when it comes to their choosing brands within a given product category (Netemeyer *et al.*, 2004:209). Keller defined CBBE as the differential effect that brand knowledge has on consumer response to the marketing of that brand (Keller, 2003b: 59). The challenge for retailers in building a strong brand is to ensure that consumers have the right type of experiences with products and services. Lassar, Mittal and Sharma's (1995:11) analysis of customer-based brand equity led them to the following conclusions:

- Brand equity refers to consumer perception.
- Brand equity refers to a global value associated with a brand.
- The global value associated with the brand stems from the brand name, and not only from physical aspects of the brand.
- Brand equity is not absolute, but relative to competition.
- Brand equity positively influences financial performance.

Table 2.2 shows that America is the cradle of the global consumer goods brand. These valued brands have been successful in the west over a long period. None of the world's top global brands originate in China. There is a great contrast between developed and developing

countries. Developing countries are still building top brands and the ability to build brand equity.

Randall (2001:2) comments on a key issue in branding – “branding is a fundamental strategic process that involves all parts of the firm in its delivery. It is about marketing, but is not confined to the marketing department”. Developing brands in the contemporary marketing environment poses unique challenges for retailers. Brands play a critical role in a firm’s competitive strategy. A successful brand strategy will both aid and convince consumers in the decision process to select certain companies and merchandise.

In deciding to brand a product, companies have several strategies. Berkowitz, Kerin, Hartley and Rundlious (1994:335), early classified manufacturer brand, reseller brand, or mixed brand approaches. Ellwood (2002:231) has separated brands into the following categories:

- Core brand: strong fit with core business proposition, profitable, with a high competitive position and market attractiveness.
- Flanking brand: a supporting role to protect the core brand from competitors stealing market share. It should have a reasonable competitiveness and market attractiveness.
- Cash cow brand: requires little investment and provides healthy returns with adequate fit to core strategy.
- Entry brand: one that allows customers to try a brand for the first time without a high purchase barrier.
- Niche brand: provides a specific proposition to a segment of the target audience.
- High-end brand: often the best brand to start a new business with.

- Weak brand: one that should be divested or combined with another brand to provide collateral, usually where the brand has become a commodity or the market is shrinking rapidly.

Levy and Weitz (2001:416) distinguished between retailer merchandise and assortment plans, thus classifying manufacture brands and private-label brands. They defined manufactured brands, also known as national brands (NBs), as products that are designed, produced, and marketed by a vendor. The manufacturer is responsible for developing the merchandise and establishing an image for the brand. Private-label brands (PLBs), also called store brands, are products developed, controlled and marketed by a retailer. While researchers have examined many previous circumstances of brand strategy, dominant research focus around the management of manufacturers' brands (Bellman, 2005:215;Chen, *et al.*, 2005:504). There is scant research about the simultaneous management of own and manufacturer brands by retailers.

During the early development of private labels, retailers' use of private labels was relatively small for several reasons. "Starting from negligible levels in the 1950s, by 1993 store-brand sales represented a significant proportion of total economic activity" (Parker & Kim, 1997:221). "During mid-1970, own-label branding was characterized by cheap, poor quality items. The packaging often emphasized simplicity, with monotonous, simple names and basic text designs. They were supposed to attract budget-conscious buyers who could not afford premium brands" (Ellwood, 2002:53) (see Figure 2.3). To address this negative perception of product quality, retailers initiated a quality promotion programme, assuring consumers that PLBs are of equal or higher quality in comparison to national brands. Akbay and Jones (2005:621) describe that "over the past two decades, these products have gained a larger share of grocer sales". Top-branded supermarkets' own-label brands are presently of a better quality, innovation and promotional activities than many manufactures' brands. Sales of PLBs have been growing rapidly in recent years.

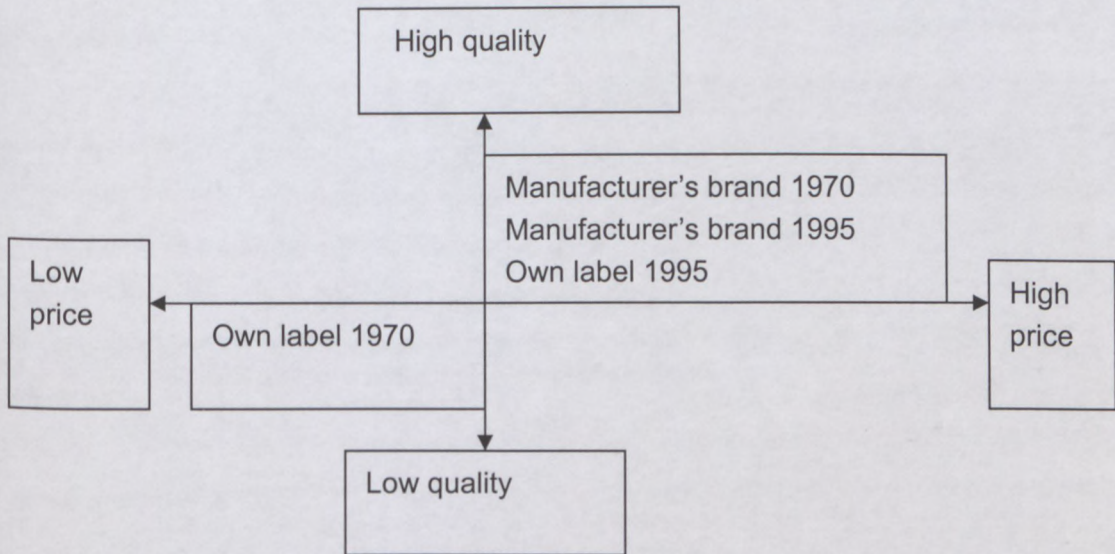
Retailers have promoted PLBs (Richardson, Jain & Dick, 1996: 159; Batra & Sinha, 2000: 175) as a way to:

- Generate store loyalty;
- Increase chain profitability;
- Gain control over shelf space; and
- Develop bargaining power over manufacturers.

PLBs have also been used strategically to try and decrease shelf space available for other brands, and to pressure manufacturers into competing more vigorously on price and for market share control.

In recent years retailers have created their own brands by developing and marketing their products. Varley and Rafiq (2004:205) introduced retailer own brand development. Retailer brands are presently a dominant force in the grocery sector of the UK retailing industry. The share of grocery sales allocated to own brand products has increased rapidly during the last 20 years. Retailer own brands account for an average of 20 per cent of the purchases in U.S. grocery stores, and, as much as 50 per cent in some product categories in drugstores (Levy & Weitz, 2001:420). Retail own brands have become so strong that their parent corporations have evolved into powerful retailers, which have generally moved into the position where they can dictate terms to weaker manufacturers and brands.

**Figure 2.3 Relative Changes of Private-Label and Manufacturer's Brands (Ellwood, 2002:53)**



Retail own brands can be an element of retail branding and are a most significant element of a branding strategy (Reynolds & Cuthbertson, 2004:16). The increasingly influential role of the private-label brand would suggest that this thesis should introduce own brand development strategies to developing countries.

### **2.5.3 Human Resource Strategy**

An organisation's most important resource is its people. Retailing remains labour-intensive as retailers rely on people to perform basic retailing activities such as buying, merchandising, and providing services to customers. No matter what the size of the organisation, its success is directly dependent on its employees. Human resource management is particularly important in retailing because employees play a major role in performing critical business functions. It is an organisation's plan to achieve its goals through people.

A useful definition of human resource strategy exists which includes: The strategic management of training, development of management and professional education interventions, so as to achieve the objectives of the organisation, while at the same time

ensuring the full utilisation of the knowledge and skills of individual employees. It is concerned with the management of employee learning for the long term, keeping in mind the explicit corporate and business strategies (McCracken & Wallace, 2000: 281). "The strategic objective of human resource management is to align the capabilities and behaviors of employees with the short-term and long-term goals of the retail firm" (Levy & Weitz, 2001:288). Human resource is seen as "the available talents and energies of people who are available to an organisation's mission, vision, strategy and goals" (Jackson & Schuler, 2000: 37). The retailer's human resource management strategy has been much explored and is intimately related to its strategic marketing planning and organisation culture change.

"The concept of Strategic Human Resource Management (SHRM) became popular in the 1980s with the development of the Harvard Business School's two models integrating strategy and human resource management" (Jain, 2004:166). Jain wrote that some researchers emphasized the importance of aligning human resource management to organisational strategy. The fact is that a rapidly changing environment creates an imperative need for a more comprehensive and strategic perspective regarding human resources. Environmental challenges are forces external to the firm. Many retailers face a volatile environment in which change is nearly constant. If retailers want to survive and prosper they need to adapt to change efficiently and effectively. Human resources are always at the centre of an effective response system.

Strategic human resource management is becoming more popular. It can be considered as an overall process that deals with long-term human resource issues as part of the strategic management of the organisation. Strategic human management has the following two main perspectives:

- Human resource management, as an integral part of an organisational strategy, is mainly about ensuring that the organisation has a skilled, committed and well-motivated workforce to achieve its business objectives. It can be achieved by linking human resource strategies to basic competitive strategies (Armstrong, 2000:45). Moreover, Kent and Omar (2003:238) note that: "Human Resources (HR) relate to the organisation's strategy through their ability to create competitive advantage".
- Human resource management, as a strategy in itself, means developing staff in order to face the challenges of a rapidly changing world (Jain, 2004:167).

Within the retail sector, human resource management has certain fundamental characteristics which are different from other industries. Freathy (2003:175) summaries the three main characteristics:

- Part-time Working

Part-time working is fundamentally important to retail organisations because of the hours involved and the peaks within the trading day and week. Management's ability to match staffing levels to customer flow is vital to improve retail efficiency and provide enhanced service.

- High Labour Turnover

Retailing is traditionally known as an industry with a high labour turnover as people no longer stay in the same job for their entire working lives. High labour turnover can provide some opportunities to reduce employment numbers by natural wastage.

- Low Pay

Retailing has traditionally been considered as an under-paid industry.

These are special characteristics of retail trade employment. Whilst its low pay status means inexperienced employees in lower level positions, part-time work will increase labour turnover. However, high labour turnover can be a real problem for retail companies as the costs of

recruitment and training can be high. The lack of experience and motivation among many retail employees is troublesome because these employees are often in direct contact with customers. Poor appearance, manners, and attitudes may have a negative effect on sales and customer loyalty. The skills, knowledge and experience of employees have economic value in retailing and also add potential value to an organisation because they enable it to be productive and adaptable. For these reasons, a critical task of human resource management is to motivate and co-ordinate employees to work towards achieving the firm's goals and implementing its strategy. Levy and Weitz (2001:305) use three methods to motivate and co-ordinate retail employees' activities:

□ Written Policies and Supervision

One of the most basic methods of coordination is to prepare written policies that indicate what employees should do and have supervisors enforce these policies, although strict reliance on written policies can reduce employee motivation. Employees may have little opportunity to use their own initiative to improve performance within their areas of responsibility.

□ Incentives

The second method of motivating and co-ordinating employees uses incentives to motivate them to perform activities consistent with the retailer's objectives. Two types of incentives are commissions and bonuses. A commission is compensation based on a fixed formula. A bonus is additional compensation awarded periodically and based on an evaluation of the employee's performance. Incentives are based on individual performance.

## □ Organisation Culture

The final method for motivating and co-ordinating employees is to develop a strong organisation culture. "Culture has a number of roles that affect human resources and their management. It is generally held to be valuable in promoting social cohesion within the organisation, to enable groups and teams to function effectively" (Kent & Omar, 2003:245-246).

An organisation culture is the set of values, traditions, and customs in a firm that guide employee behaviour. Many multiple retailers have strong organisation cultures that give employees a sense of what they ought to do in their jobs and how they should behave to be consistent with the firm's strategy.

Besides the three main strategies to motivate employees, training is of primary importance for employees. Retail's emphasis on customer service means that retailers recognize that they have to train their staff to deliver this. "For 68 per cent of retailers the main reason for investing in training is the improvement in customer service that can result " (Oldfield *et al.*, 2000:xxii).

Training consists of individual training, on-the job training, job-specific training, team-based training, and external training (see Table 2.3).

According to Jackson and Schuler (2000:37), the strategic impact of training is important because it serves many strategic purposes. Apart from experienced employees with the necessary abilities to perform well at their current and future tasks, training offers opportunities for employees to share many experiences and develop an understanding and helping attitude towards each other. This speeds up the process of the development of organisational cohesiveness and employee commitment. When employees become committed to their work and their working environment, they become more willing to work for valued results. Furthermore, a strong sense of commitment results in less absenteeism and lower turnover rates because employees become intensely loyal to the organisation. Training also results in higher performance, especially for organisations that are rapidly adapting to new competitive business environments.

**Table 2.3 Selected HR strategies that fit two major types of business strategies (Mejia 2001:35)**

STRATEGIC HR AREA	DEFENDER STRATEGY	PROSPECTOR STRATEGY
Work flows	Efficient production Control emphasis Explicit job descriptions Detailed work planning	Innovation Flexibility Broad job classes Loose work planning
Staffing	Internal recruitment HR department makes selection decision Emphasis on technical qualifications and skills Formal hiring and socialization process	External recruitment Supervisor makes selection decision Emphasis on fit of applicant with culture Informal hiring and socialization process of new employees
Employee separations	Voluntary inducements to leave Hiring freeze Continuing concern for terminated employee Preferential rehiring policy	Layoffs Recruit as needed Individual on his/her own No preferential treatment for laid-off workers
Performance appraisal	Uniform appraisal procedures Used as control device Narrow focus High dependence on superior	Customized appraisals Used as developmental tool Multipurpose appraisals Multiple inputs for appraisals
Training	Individual training On-the-job training Job-specific training "Make" skills	Team-based or cross-functional training External training Generic training emphasizing flexibility "Buy" skills
Compensation	Fixed pay Job-based pay Seniority-based pay Centralized pay decisions	Variable pay Individual-based pay Performance-based pay Decentralized pay decisions

"The global competitive market environments have led to new challenges for both organisations and individuals in them" (Costea, 2002:261). With continued change within the industry internationally, multiple retailers have adjusted their retail strategies to gain the competitive advantage: "the transfer of human resource management practices across national boundaries has become a key strategy for multinational companies to achieve competitive advantage in global markets" (Anon, 2004c: 8). Strategic international human resource management is the transfer of human resource management practices. Strategic

international human resource management has been widely defined as: human resource management issues, functions, policies and practices that result from the strategic activities of multinational enterprises and that impact on the international concerns and goals of those enterprises (Braun & Warner, 2002:556). Strategic international human resource management emphasizes that the multinational company's functions, policies and practices need to be designed for expansion.

Large retail organisations expand their market mostly to enter other countries. It is necessary to scan the retail environment for relevant social, cultural and demographic changes and implications for the business in any country. National differences in commercial environment are major factors, which may complicate the process. The changing environment will give a high level of potential conflict and hence, these multiple retailers' functions and structures have become more complex. They need effective cross-cultural skills, as they have to adjust to a fundamentally different cultural and social context than their own. The organisational culture should be redesigned in the context of their international market activities.

"The theory and practice of human resource management has been heavily influenced by cultural and managerial traditions of the country in question" (Satow & Wang, 1994:3). On account of increasing globalization, cross-cultural training has become more and more important (Barmeyer, 2005:577), the diversity of people coming from different countries and working together in multicultural groups may lead to cultural synergy, as well as misunderstandings. There are considerable differences in the way that human beings behave in a multinational company in different countries. The local employees need to be told what to do with the company, or are trained to do a job at an international standard, and acceptable behaviour is learnt through the organisation's culture. In order to implement a human resource strategy, retailers must support a cross-cultural training that is consistent with the organisation's business purpose.

This thesis examines how multinational competitors may benefit from cross-cultural training that leads to the creation of a harmonious organisational climate. It also attempts to provide some effective human resource strategies for small independent retailers.

#### 2.5.4 Format Strategy

One of the consequences of the intense transformation experienced by the retail sector in recent decades has been the diversification of store formats (Benito, Gallego & Kopalle, 2005:59). The retail industry has witnessed the emergence of several striking new formats. The traditional convenience store, department store and speciality store are challenged by “big box retailers” and power centres. Hahn (2000:223) explains that “big box retailers” include large supermarkets, “category killers” (also see Table 2.4) and warehouse clubs. The introduction of the supermarket as a self-service format was followed by the hypermarket as a larger superstore retailer in large industrial-style buildings, and the development of the discount store as a low-price-oriented supermarket.

The retail market is becoming more segmented with an increasing variety of retail formats focusing on the needs of particular consumer groups. They have repositioned themselves by emphasizing retail atmosphere, discounts, quality, service, and selection. These present increasingly sophisticated customers with a wider choice of retail formats. Some research studies have attempted to identify the benefits of different store formats (Redondo, 1999: 99; Morganosky & Cude, 2000:215; Bhatnagar & Ratchford, 2004: 39; Benito, 2005:457). Currently consumers can purchase the same merchandise from a wider variety of retailers (see Table 2.4)

**Table 2.4 Six basic types of store-based formats (Dunne, 2000:380)**

RETAIL FORMAT	DESCRIPTION
Department stores	They were first introduced in the mid-1800s. They are large-scale operations containing a broad product mix consisting of many different product lines with above-average depth in each of them.
Speciality stores	They were introduced in the mid-1940s. They are relatively small-scale stores offering a great deal of depth in a narrow range of product lines.
Supermarkets	The supermarket concept of retailing was first developed in the 1930s. They are retailers that sell groceries and some general merchandise products through large-scale physical facilities with self-service and self-selection displays that enable the retailer to shift the performance of some marketing functions to the consumer.
Supercentres	They are cavernous, one-stop combinations of supermarkets and discount department stores, which range in size from 120,000 to 160,000 square feet, and carry between 80,000 to 100,000 products ranging from televisions to peanut butter to fax machines.
Category killers	They get their name from their marketing strategy of carrying such a large amount of merchandise in a single category at such good prices that they make it impossible for the customer to walk out without purchasing what they need, thus "killing" competition.
Convenience stores	They stock frequently purchased products such as gasoline, bread, tobacco and milk that tend to be consumed within 30 minutes of purchases, as well as offering services such as ATMs and car wash services.

As shown in Table 2.4, there are six basic types of retailers using the store-based format, each using different marketing strategies. Each marketing strategy uses a differentiated strategy of product, price, promotion, and place. Format strategy is intimately related to market strategy planning.

The retail format identifies a retailer's capabilities and serves as the unifying component of the competitive plan. "Store formats determine a retail competitive structure" (Benito, Gallego & Kopalle, 2005: 59). Small-scale retailers offer personalized service, convenient locations, less assortment; on the other hand, larger retailers offer one-stop convenience and lower prices, but often at less service and less convenient locations. For these larger retailers, this range of customer options raises the question of how to assess competition from small stores, to small retailers. It raises the problem of how to develop ways to co-exist with large and general assortment retailers. The greater diversity of retail formats increases competition in the industry and also enables consumers to buy products and services from a retailer who better

satisfies their needs for the specific purchase environment. Walters and Hanrahan (2000: 231)

interpret retail format objectives as:

- To match customer expectations and observe purchasing behaviour with an effective trading environment which increases their visits, transaction values and loyalty.
- To match customer lifestyles with a cost-effective trading environment.
- To differentiate the retail offer, and therefore its competitive advantage, by reinforcing the overall positioning.

The retail format can be considered to be part of a successful strategy for the retailer, and by adopting a successful format on a geographical spread, the retailer obtains economies of scale, increases efficiency and maintains a strong identity. Many large retail organisations have grown using a particular retail format. An understanding of the different retail formats available is important for retailers to gain an understanding of a successful retail strategy.

With the growth of retail internationalization, retailing is fast becoming a global industry. A number of large retailers already operates in developed economies, and a growing number of international retailers have shifted their attention to developing economies. These international transfers demonstrate the capabilities of these large companies to strategically transfer their retail format. "Format strategy is often the key to an international retailer's ability to gain a strong competitive position in host countries" (Goldman, 2001: 221). The focus of this thesis is to study the strategy of international format transfer by retailers into China. A study of the new retail formats is important for retailers of the host country to conquer challenges from multinational retailers.

Chain stores are retail organisations that operate multiple outlets, offering a standardized merchandize mix, and utilizing a centralized form of ownership and control (Lewison, 1994: 59). Chain stores have a major advantage in the opportunity to standardize retail operations and gain economies of scale. Chains can also gain scale economies in distribution and information

systems. They gain another important advantage in their bargaining power with suppliers (Ghosh, 1994:40).

### 2.5.5 Logistics Strategy

The movement and exchange activities of goods are features of retailing, therefore, logistics can not be divorced from retailing. Logistics, as defined by the Council of Logistics Management, "is that part of the supply chain process that plans, implements and controls the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption in order to meet customers' requirements" (Anon, 2001b). Logistics encompasses the business functions of transportation, distribution, warehousing, material handling, and inventory management, and interfaces closely with manufacturing and marketing.

Logistics is a key business function: "logistics service providers are professionals that serve clients like manufacturers, raw material suppliers, distributors, retailers, and shippers within the supply chain" (Chow *et al.*, 2005: 272). These activities are an important part of supply chain management. In many companies, logistics have been implemented as part of the strategic level of the decision-making process by the practitioners. These are both consequences of the realization of the strategic importance of logistics (Lehmusvaara, 1998: 379). Lehmusvaara summarizes that the strategic orientation of logistics has developed from the cost minimization of one company, to the value-added maximization of production networks and, further, to a more adaptable and flexible direction. Ratliff and Nulty (1996:2) argued that business logistics is increasing in importance due to the following:

#### □ Deregulation

Transportation has shifted from a highly regulated, to an increasing free market industry. The result is more choices and complexity regarding logistics services and costs and more opportunities to improve business operations.

#### □ Global Markets

The business marketplace is increasingly global in scope. Enterprises have expanded their markets beyond national boundaries because of the need for more flexibility in logistics management and the redesign of logistics operation is essential to achieve greater efficiency and effectiveness.

In addition, Chow, Choy, Lee and Chan (2005: 273) commented that production in enterprises has changed from traditional mass production mode led by products, into the mass customization production mode for global market competition.

#### □ Customer Service

Deregulation, global markets, and other factors create a more competitive business environment, resulting in the need for supply chains that can deliver products quickly and accurately, and can adapt to rapid market changes to meet customer needs.

#### □ Environment

Current and future environmental regulations have significant implications on logistics, and fundamentally impact on the locations of facilities including plants, storage facilities and recycling centres. The environment of logistics has changed because of global integration and the gradual shortening of lifecycles of products.

As commented above, there are factors that have led to a new focus on logistics strategy development and management. Logistics, as a strategic level challenge, has been widely discussed among scientists for retailing development. It plays an increasingly important strategic role for organisations that strive to keep up with market changes and supply chain integration. Some researchers, like Meade and Sarkis (1998:201), point out “the successful companies will be those who recognize and take advantage of the leverage which can be gained by effective management of the supply chain, from supplier through end users”. “It is widely recognized as an extremely important aspect of the overall business strategy” (Rao & Swarup, 2001).

Retailers manage their logistic operations in terms of product movement and demand management. Freathy (2003:253) describes the logistics task, which is concerned with managing the components of the "logistics mix", including five components:

□ Storage Facilitates

These are warehouses, distribution centres or simply the stock rooms of retail stores. Retailers manage these facilities to enable them to keep stock in anticipation of, or to react to demands for products.

□ Inventory

All retailers hold stock to some extent. The question for retailers is the amount of stock or inventory that has to be held for each product and the location of this stock to meet demand changes.

□ Transportation

Most products have to be transported in some way at some stage of their journey from production to consumption. Retailers, therefore, have to manage a transport operation that might involve different forms of transport, different sizes of vehicles and the scheduling and availability of drivers and vehicles.

□ Communications

Retailers have become increasingly concerned with being able to capture data at appropriate points in the system and to use that information to have a more efficient and effective logistics operation.

In order for logistic tasks to be carried out effectively, there are development areas that have largely been responsible for retail logistic management. These are supplier and retailer relationships; information systems development; and supply chain management techniques. Walters & Hanrahan (2000:325) identifies some trends, which are:

□ Supplier-Retailer Collaboration (SRC)

Supplier/ Retailer Collaboration (SRC) is when both retailers and suppliers share proprietary internal or external data, and / or share policies and processes used in decision making with the clear objective of sharing the benefits. In relationship management, suppliers play an important role, as their focus on product category helps to shape collaboration by several means, such as cost-cutting or forming strategic alliances.

□ Electronic Data Interchange (EDI)

Electronic data interchange is one of the more important enabling information technologies. "It is the computer-to-computer exchange of business documents from retailer to vendor, and back" (Levy & Weitz, 2001:325). This system is able to facilitate an electronic flow of information between retailers and suppliers through computers. In addition, sales data, purchase orders, invoices, and data about returned merchandise are transmitted from retailer to vendor. Many retailers now require vendors to provide advanced shopping notices through EDI. In logistic management, EDI is the means of logistic information combined with enterprises into effective systems. Multinational retailers can link all their stores with regional and national headquarters and to central warehouses through communication technologies.

□ Efficient Consumer Response (ECR)

Efficient consumer response has had a major impact on fast-moving consumer goods of manufacturers and retailers on a worldwide basis. ECR is initially concerned with efficient product replenishment.

Many companies consider both their cost effectiveness and market proficiency to depend primarily on efficient logistics management. Developments in logistic management techniques have been numerous for servicing logistics strategy. An increasing number of multinational

retailers have developed sophisticated logistics systems to enter other countries. In international retailing, logistics strategy “ is an element of advantage in an increasingly competitive international trading environment” (Clinton & Calantone, 1997:224). Some retail giants are doing their own distribution centres (DCs) in host countries.

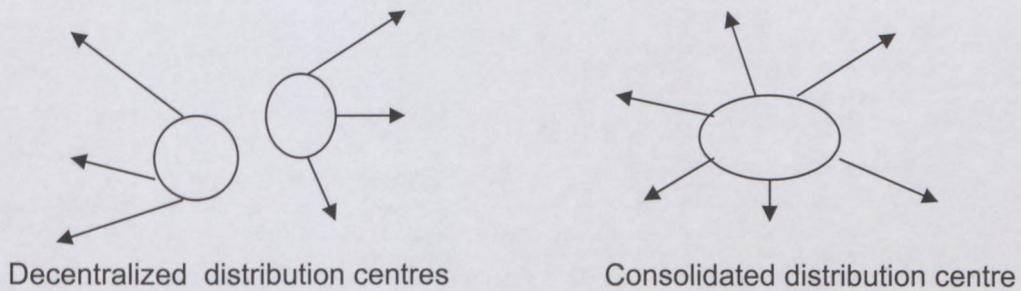
Developing distribution centres strategy is a contemporary logistics strategy: “distribution centers serve a strategic role of achieving the logistics objectives of reduced cycle times, inventories and costs, and increased customer services levels” (Chen, Huang, Chen & Wu, 2005:453). Distribution centres occupy an important position in the supply chain, such as storing products, and retrieving products from storage to fulfill customer orders. The distribution centre (DC) is considered a key to strengthening company logistics management and have the following advantages:

- More accurate sales forecasts are possible when the retailer does a combined forecast for all stores that draw from a distribution centre rather than doing a forecast for each store;
- Distribution centres enable the retailer to carry less merchandise in the individual stores, resulting in a lower inventory investment system;
- It is easier to avoid running out of stock or having too much stock in any particular store since merchandise is ordered from the distribution centre as needed; and
- Retail space is typically much more expensive than space at a distribution centre, and distribution centres are better equipped than stores to prepare the merchandise for sale.

In the retail expanding process, multinational retailers specialize in establishing the distribution centre because it is more efficient for a supplier to deliver to one location than to all the retail branch stores across the country. Suppliers also wish to sell nationally by using distribution centres. Multinational retailers mainly implement two distribution centre strategies (see Figure 2.4), according to their source, technology and business environment. The two basic distribution centre strategies include: consolidated distribution (fewer but larger distribution

centres) and decentralized distribution (more but smaller distribution centres) (Ratliff & Nulty, 1996:19).

Figure 2.4 Two basic distribution centres strategies (Ratliff & Nulty, 1996:19)



This thesis will illustrate a successful logistics strategy for multinational retailers to implement flexibility and efficiency operation by nationwide procurement and centralized distribution in China.

## 2.6 Summary and conclusions: Literature Review

This chapter emphasizes the interpretation of the basic concepts of retailing and some important retail strategies, with regards to retail marketing strategy, brand strategy, human resource strategy, format strategy and logistics strategy. It provides these strategies' advantages and discussions, as well as some illustrations of their possible application in an international market environment and along with development trends.

There are a number of retail strategies that were generated in retailing developing, though not every strategy is able to be adopted and is relevant in every case. Retailers, based on their research, should choose valuable strategies that are fit and applicable to their organisation. These conclusions are drawn from the literature review and are relevant to retail strategies and the problem statement that can be summarized as follows:

- Retailing is the activity of selling goods and services to final consumers for their own personal use (Varley & Rafiq, 2004:3).
- Through retailing development and innovative retail, organisations came to operate most types of variety stores.
- At the junction of the old decade and the new, it became clear that there were intentional retailing.
- The retail environment has always been dominated by evaluations of the importance of business management and an effective strategy should be developed first by identifying and understanding the implications of the changing events within the business environment.
- Many of the changing events occurring currently have a wide international impact, and strategy perspective may be seen to be influencing the results and responses of large retailers.
- Most retail organisations can be placed into three categories, namely the independent retailer, the multiple retailer and retail conglomerate.
- New retail forms and combinations are continually developing.
- Independent retailers have continued to decline as the retail marketplace has become increasingly dominated by a relatively small number of large retailers who have aggressively pursued strategies to increase their sales, their market share and their profits (Jones *et al.*, 2005:34).
- Retail strategy is about corporate survival and prosperity in a changing retail environment.

- Competitive strategy is seen as a primary process for achieving competitive advantage and subsequent performance outcome (Davis, Dibrell & Janz, 2002:339).
- Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives.
- Product strategy is the “breadth and depth of the competition’s product offer” (Ferne *et al.*, 2003:156).
- From a demand perspective, a firm’s pricing strategy is essentially a quantification of the perceived value that the firm creates for its customers. From a supply side perspective, pricing is a strategic and tactical expression of how the firm wishes to compete in order to generate revenues and, in light of its business model, realizes profit (Lancioni, Schau & Smith, 2004:113).
- Retail promotion is the descriptive term for the mix of communication activities, which retail companies carry out in order to influence those publics on whom their sales depend (Gilbert, 2003:175).
- Production strategy, price strategy, promotion strategy and place strategy, is the range of marketing component strategies, which constitute the total marketing strategy by different classified retailers.
- A brand is a perception or emotion, maintained by a buyer or a prospective buyer, describing the experience, related to doing business with any organisation or consuming its products or services (Mcnally, 2002:4).
- The price premium, also known as brand equity, is the price customers are prepared to pay above the commodity value of a product or service (Gilbert, 2003:304).

- Retail own brand can be an element of retail branding and is a significant element of a branding strategy (Reynolds, 2004:16).
- Strategic human resource management can be considered as an overall process to deal with long-term human resources issues as part of the strategic management of the organisation.
- An organisation culture is the set of values, traditions, and customs in a firm that guides employee behaviour. Many multiple retailers have strong organisation cultures that give employees a sense of what they ought to do in their jobs and how they should behave to be consistent with the firm's strategy.
- The retail format can be considered to be part of a successful strategy for that retailer, and by adopting a successful format on a geographical spread, the retailer obtains economies of scale, increases efficiency and maintains a strong identity.
- Logistics, as a strategic level challenge, has been widely discussed among scientists for retailing development. It plays an increasingly important strategic role for organisations that strive to keep up with market changes and supply chain integration.
- The development of distribution centres' strategy is a contemporary logistics strategy: "distribution centers serve a strategic role of achieving the logistics objectives of reduced cycle times, inventories and costs, and increased customer services levels" (Chen, Huang, Chen & Wu, 2005:453).

## **CHAPTER 3: RESEARCH DESIGN AND RESEARCH METHODOLOGY**

### **3.1 Introduction**

The researcher followed the multi-dimensional approach in choosing the research design and obtaining both relevant information and data for this thesis, and those that were most efficient from a research perspective. In this way, the researcher decided to utilise three streams of research.

#### **3.1.1 Descriptive Research**

Descriptive research is used to explore information about, investigate the relationship between, describe characteristics of, or predict characteristics of a population (Brain Gym International, 2003). Nevertheless, Siu (2000:106) advocates that a descriptive study does not mean that it is simply a fact-gathering expedition; rather it is the glue of explanation and understanding, and also the framework of theory. Thus, the descriptive research method was used for this research. The specific phenomenon of the Chinese retail market in Chapter one formed the initial part of the descriptive research. Descriptive research around the Chinese retail environment analysis, participant observational work and structured interviews of foreign retailers was used to gain insight into the research problem. The descriptive research used for obtaining information is to determine whether or not a research problem exists and whether it has research value and to gain familiarity with the Chinese retail market environment.

#### **3.1.2 Exploratory Research**

The main research objective of this study is to identify some important retail competitive strategies that are most likely to positively improve the Chinese retailers survival in foreign competition. The specific retail strategic conceptions in the literature review, undertaken in Chapter two, were used as a source, providing significant background for these strategies in the early phases of this research programme. The researcher used questionnaires listing multiple strategy options as the measuring instrument, with Chinese retailers as the

respondents, and through analysis, could pick out those strategies most often selected by the retailers, expecting these the most likely to produce positive results for the research.

### **3.1.3 Explanatory Research**

In all retail industries, "good knowledge of consumer behaviour can be the strategic starting point in designing assortment" (Kristenson, 1983:44). There has been relatively little study of Chinese customer behaviour, attributes and consumption psychology "largely due to the long years of being under a planned economy, a very limited number of shopping centre developments as well as the lack of a market system within the retail industry" (Wong & Yu, 2003:61). Chinese retailers need a good understanding of their customers before they can develop and implement effective strategies. The structured research study is designed to be customer-focused in the formulation of a retail strategy. The survey questionnaires were utilised to measure the Chinese customers' biographical particulars (their age, education and income), typical behaviours, opinions, and attributes of shopping obtained due to their direct influence on any strategic plan set by retailers. Whichever type of strategies a retailer uses, the way customers are dealt with is a real priority in the management of any retail business. This customer-focused research will direct a retailer's strategic decisions.

In the explanatory study, the part results obtained were from both the exploratory research and descriptive research and were used to analyse and evaluate retail strategy selection, discussion and implementation.

### **3.2 Clarification of the Research Problem**

The main research problems stated in Chapter one related to the descriptive research in the field of the Chinese retail market from political, economic, social and technological changes. China is developing into an emphatic growth opportunity for retailers. The Chinese retail industry, which is booming, is currently facing multiple challenges from overseas retail businesses as foreign retail firms exert dominance over the Chinese retail market. Many Chinese retailers are swamped by massive foreign competition so the problem facing Chinese

retailers is how they are to implement strategies to prevent the onslaught from foreign retailers and still survive foreign competition.

The literature review conducted in Chapter two revealed key concepts concerning retail strategies around which the study is built. The researcher clarified the research problem and determined which retail strategies hold an important position for retailers in their planning and operation of strategic management.

### **3.3 Objectives of the Research Study**

The literature review presented in Chapter two provided a discussion of the types of retail strategies which ultimately motivated the five retail competitive strategies proposed by the researcher. The objectives of the research project are to test which retail strategies are the main force behind successful Chinese retail strategic management. The main objectives of the research study are stated as follows:

- To comparatively study and analyse different management strategies and operations between foreign retailers and Chinese retailers.
- To determine which retail strategies used by Chinese retailers are most important and most likely to lead to the strategic management which will survive foreign competition.
- To analyse and discuss some important counter retail strategies, their advantages and implementation which would be able to withstand pressure from foreign retailers in future development.

## **3.4 Research Methodology: Foreign Retailers Research Design**

### **3.4.1 Introduction**

In Chapter two, the researcher has analysed retailing trends according to a large number of literature review studies. The main retailing trend has already been identified, with fewer and larger retailers dominating the market. Large retailers have aggressively pursued advanced strategies to increase their sales, their market share and their profits, and pose intense competition to small-scale retailers.

In this thesis, the research problem mainly concerns Chinese retailers with regards to how to implement strategies to survive foreign competition. This research problem reflects Chinese retailing trends and large foreign retailers which dominate the Chinese market. Foreign competitors are already putting down roots in China. This has had a direct impact on Chinese retailers losing their market share. It is important for Chinese retailers to understand foreign large retailers' strategies so that they can decide on their own defensive strategies in order to meet the challenges of the foreign retailers' expansion strategies in China.

Foreign competition poses a great challenge to Chinese retailers. However, survival need not be a negative aspect as long as they can learn from foreign retailers in respect of their advanced management experience and strategic processes. Most information was collected as exploratory research by in-depth interviews with managers from foreign retail organisations. Participant observation was also an important data collection method. The study also deals with foreign retailers' in-store management and human resource management as a complement research for this thesis.

Foreign retailers introduce different western brands, which are attractive to the increasingly sophisticated Chinese consumers. Most retail expenditure by Chinese consumers occurs in foreign shops in the bigger Chinese cities. Chinese consumers' changed behaviour reflects that foreign retailers have been successful in their retail management and competitive strategies, which in turn greatly influence the Chinese retail market. This thesis implemented a

questionnaire survey which deals with Chinese customers' behaviour changes as well as trying to find the differences between strategies from foreign retailers and Chinese retailers' operations.

This questionnaire is key research and discussion for Chinese retailers' development, particularly because "firms' survival depends upon their customer base and modifications to customers' needs" (Haberberg & Rieple, 2001: 168) in all retail industries. This questionnaire research is valid for both Chinese retailers and foreign retailers.

### **3.4.2 Sample Frame**

The sampling frame is a list of multinational retailers active in China. This survey was carried out in September 2004 and May 2005. The researcher conducted a typical research study of three multinational retailers in Chinese Nanjing (see Appendix F), which included:

Wal-Mart (United States);  
Carrefour (France); and  
Metro (Germany).

They are researched and selected for this research for the following reasons:

- They are ranked as the number one retailer in their home country which enabled them to be worldwide brands. They have their own unique corporate culture.
- These three multinational retail giants expanded to foreign markets faster and more flexibly than their competitors.
- They entered the Chinese market by firstly gaining a foothold in first-tier cities before moving on to second-tier cities with a high reputation and grasp of the local culture within this host country.

- They are global mass merchants and possess their own stores in other countries with diverse retail formats.
  
- These three successful retailers create a competitive advantage, usually based upon their distinctive competencies and strategies.

The scope of the sample frame was therefore restricted to these three retail giants. All the sampling processing are completed around these three typical multinational retailers.

### **3.4.3 Sampling Methodology**

- Interviews with Managers from Three Multinational Retail Organisations

An interview survey method was used for this study. "There is often the danger that the respondents may view the interviewer as an intruder" (Welman & Kruger, 2001:158). Most information sources in foreign retailers in China wanted their confidentiality protected and the stores would not even allow the taking of photographs in the shops. In this regard, in order to avoid biased or even false information, a Nanjing business newspaper journalist, introduced in (Appendix G), assisted and participated in the interviews conducted with Chinese managers working in foreign retail stores in Nanjing (Appendix H). The managers introduced their advanced foreign strategic management systems for this academic research. Wal-Mart, Carrefour and Metro each implemented their own strategies and management systems in every branch in the early phases of their expansion into the Chinese market. Therefore, surveys of Wal-Mart, Carrefour and Metro branches in Nanjing may be seen to reflect their overall strategic management approach.

#### □ Questionnaire with Chinese Customers in Three Foreign Stores

The researcher completed a survey with Chinese customer groups where questionnaires were used as a sampling methodology to collect data. China is a vast country with 31 provinces, 1.28 billion residents (as stated in 1.1.1), “from a practical point of view, it is simply impossible to conduct research on all of them, consequently, researchers have to obtain data from only a sample of these populations” (Welman & Kruger, 2001:47). The sample frame was based on a sample of a middle-class section of China’s population in Chinese Nanjing.

### **3.4.4 Sample Size**

#### □ Interview Sample Size

The researcher interviewed managers respectively from three multinational retail organisations.

#### □ Questionnaire Sample Size

The three multinational retailer branches are situated in Nanjing City, where their customers completed questionnaires and acted as respondents on 29 September 2004 with the help of three students from a university in Nanjing. One hundred customers were chosen randomly from each multinational retailer. All respondents indicated that they have shopped in the three multinational retail branches before. Two people refused, fifty-five females and forty-five males participated, ranging from 18 to 65 years old. One hundred questionnaires were completed successfully in an average time of 10 minutes.

### **3.4.5 Data Collection Methods**

In the proposal phase the researcher selected four types of data collection methods, which are personal interviews, observation, constructed questionnaires for customers and e-mail questionnaires for foreign retailers. The researcher contacted the multinational retailers by e-mail on April 2004, whereby the survey instrument was enclosed as an attached Microsoft Word file. In the covering letter the purpose of the survey was clearly explained. However, the e-mail questionnaire data collection method failed due to three multinational retailers not

responding to the e-mails. The descriptive information was finally collected through surveys using in-depth interviews, customer questionnaires and observation.

#### □ Interviews

The researcher collected data by means of in-depth interviews at the respondents' work places. The interviews were conducted in a structured environment to contribute to the surveying aspect of the research.

#### □ Questionnaires

A customer questionnaire was a direct way to elicit product, price, quality, brand awareness, behaviour changes and preference information from customers. It is important to make it clear to the respondent what the purpose of the survey is. The strength of questionnaires is that they can provide a quick overview of attitudes and can be easily carried out in many locations at once. The data delivered can be both quantitative and qualitative.

### **3.4.6 Data Collection Instruments**

The main instruments used in this study were adopted from language support. The materials used in China were translated into Chinese by a Ph.D. Chinese student from the University of Cape Town and the researcher, both of whom are bilingually competent.

#### 3.4.6.1 Quantitative Data

Quantitative data was collected by using a structured questionnaire. The researcher modified the questionnaire to meet the requirements of this study through a process of trial and discussion with four Chinese Marketing students presently engaged with their Master's studies, from the Cape Peninsula University of Technology.

#### 3.4.6.2 Pilot Test

In order to justify the validity of the questionnaire, it was piloted to an initial sample of 50 people on a random basis in Chinese Shenyang Wal-Mart store on 19 September 2004. Modifications were then made to the questionnaire based on the responses received. The researcher

accordingly erased the personal information section and also removed any ambiguity in the questionnaire so that respondents could relate to the questions more easily.

#### 3.4.6.3 Qualitative Data

Qualitative data was collected through the use of observation and in-depth surveys using a semi-structured questionnaire to ensure consistency. The semi-structured questionnaire was tested on four respondents and questions were rectified to ensure consistency and complement the descriptive nature of the research.

#### 3.4.7 The Quantitative Questionnaire Design

The initial considerations followed in the questionnaire design process are listed as follows:

- Clarification of the research problem, objectives and the sampling approach, in conjunction with this paper.
- Development of the research questions to meet the research objectives.
- Deciding upon the method of data collection and data-editing procedures.
- Ensuring the aspects of research and the level of measurement.
- Determining the types of questions to be included and meeting the research problem.
- Checking the wording of the questions and the length of the questionnaire.
- Choosing the structure and layout of the questions.

The Chinese customers' survey questionnaires provide in-depth information of their behaviours in this thesis. The questionnaire comprised core questions regarding the customers' behaviour changes in foreign stores which reflect relevant foreign retailers' strategies (see Table 4.2). Five demographic questions relating to gender, age, education, marital status and income (see Table 4.1), were also covered.

- Question 1: This question required respondents to clarify their attitudes to shopping.
- Question 2: This question required respondents to indicate which shopping destinations they currently used. Four key selections relating to quality, service, variety and value were highlighted.
- Question 3: Required the respondents to rate the brands they currently trusted.
- Question 4: This question related to respondents' brand loyalty.
- Question 5: This question checked which foreign and local electronics and home improvement selections were favoured by the respondents.
- Question 6: Here respondents could identify whether they preferred foreign or local food product brands.
- Question 7: To find out which foreign and local clothing and footwear products respondents preferred.
- Question 8: This question was used to ascertain the reactions of respondents to promotions in foreign stores.
- Question 9: This related to whether respondents purchase their food from a particular store in terms of its format.
- Question 10: This question related to whether respondents purchase clothing and footwear in a store with a particular format.
- Question 11: This related to respondents indicating which store services they regard as requiring more attention.
- Question 12: This question is to gauge the number of stores, within a business centre, that customers visit on a daily basis.
- Question 13 and question 14: Provides shopping bank card information that could indicate whether this concept would be acceptable to Chinese customers.
- Question 15: Required respondents to rate the fresh products, meat/butchery, fish shop, frozen foods, bakery, deli, refrigerated items and ethnic food at foreign stores.
- Question 16: Required respondents to rate the store service (friendliness, checkout, and parking) and environment (cleanliness, convenience, well-stocked shelves) at foreign stores.

- Question 17: Required respondents to rate the store facilities section (advertising, store signage, dry cleaning, photolab, financial service, customer service and kindergarten, restaurant) at foreign stores.

### **3.4.8 Data Processing**

Data was collected, organised and captured by the researcher. The researcher then conducted both quantity and quality analysis of the data to derive information for this thesis

## **3.5 Research Methodology: Chinese Retailers Analysis**

### **3.5.1 Introduction**

In Chapter two the researcher analysed retailing trends which had been identified in Chapter one. Independent retailers continued to decline to respond. In this thesis, the research problem mainly concerns Chinese retailers and how to implement strategies for them to survive foreign competition. This research problem reflects that retailing trends indicate that a large number of Chinese retailers are losing their market share. Thus, this research is necessary and it's important to point out that Chinese retailers need to organise their own defensive strategies.

In this chapter most of the information collected was the result of exploratory research. The researcher carried out questionnaires with Chinese retailers in order to analyse their competitive strategies against foreign competition.

### **3.5.2 Sample Frame**

Siu (2000:107) points out that there was no updated directory relating to retail firms in China. A survey using a structured questionnaire was conducted to collect the primary data from the Chinese retailers in the four major cities. A total of 80 questionnaires was sent out in Beijing, Shanghai, Shenyang and Nanjing between the months of October and November 2005 to conduct this survey.

### **3.5.3 Sampling Methodology**

Beijing, Shanghai, Shenyang and Nanjing are big cities in China. They abound in foreign retail shops with intense competition (see Table 1.7 Chinese Market-opening through WTO). The researcher purposely selected Chinese retailers from these cities because they own stores located in the same business district as foreign retailers.

For simplicity and cost constraints, convenience sampling was deployed. The sample was selected with the assistance of several Chinese business newspaper journalists in China. Questionnaires were left with the retailers to complete. The majority of the questionnaires were collected before leaving the city and the rest were forwarded to South Africa.

### **3.5.4 Sample Size**

The researcher selected fifty participants who own existing traditional retail shops in China, forty-three of whom are male and twelve females, ranging from 30 to 50 years old. These retailers are knowledgeable and possess the necessary skills required in a retailing career for a long period.

### **3.5.5 Data Collection Methods**

The study required the researcher to identify Chinese retailers who would be willing to participate in the research process by providing their experience and knowledge in choosing

one or more retail strategies listed in the questionnaires. Most of the respondents provided substantial support and did not need any incentives to respond.

A further requirement involved a comparison of the foreign retailer and Chinese retailer research by the researcher, drawing out areas of concurrence, finalizing what the similar concerns and problems were and thus the most important strategy taking into account the interests of both groups.

The unit of content analysis using a SWOT format (strengths, weaknesses, opportunities and threats), refers to a group of Chinese retailers who had to choose from five retail strategies, namely, marketing strategy, brand strategy, human resource strategy, format strategy and logistics strategy.

### **3.5.6 Data Collection Instruments**

The instruments used in this study were applied in Chinese and translated into English (see Appendices) All of the Chinese respondents answered in Chinese and their responses were translated into English by a Ph.D. Chinese student from the University of Cape Town and the researcher, both of whom are bilingually competent.

The questionnaire survey method was selected as being the most appropriate instrument in terms of the research problem. The research included both quantitative and qualitative analysis of the Chinese retailers survey questionnaire (see Appendix A).

#### **□ Questionnaire Quality Control**

In order to justify the validity of the questionnaire a small-scale pilot test was conducted at China City, in Johannesburg, South Africa (see Appendix I). The research for this thesis was undertaken during April 2005. China City is the biggest distribution and retail centre for Chinese business people in South Africa. Owing to South Africa's economic factors the price for goods imported from China is far lower for South Africa goods, and the general mark-up by

distributors on South African goods is lower than that for Chinese goods (see Appendix J). Such high profit attracts many retailers from Chinese cities to move to South Africa.

This fact gives many Chinese retailers space to survive in South Africa, and to shift the tension away from foreign competitive forces and a low retail profit margin. These Chinese business retailers have a sufficient education level, flexible skills, insight, and business experience to allow them to survive in a strange land.

The random sampling among the Chinese people in Johannesburg included people involved in businesses from different areas of China. The participants were asked to complete the questionnaire at their stores and give comments or suggestions on the context and format of the questionnaire. Information and suggestions gathered from the pilot test were noted for modifications of the questionnaire before it was distributed to persons in the retail business sample in China. Changes included enlargements and bolding of the font in certain instruction guidelines and modifications of some wording.

### **3.5.7 Data Processing**

Data was collected, organised and captured by the researcher. The researcher then conducted both quantity and quality analysis of the data to derive information for this thesis

## **3.6 Summary of Research Design and Methodology**

This chapter adopted questionnaires, interviews, and observation research methods to collect data. It explains the sample design, sampling techniques used and the criteria for the choice of the sample frame. It involves the multidimensional approach and describes data editing procedures for this thesis. Further research design is explained as follows:

- The research focuses mostly on Chinese customers, their consumer behaviour changes and an understanding of foreign competitors via the use of surveys.

- In-depth interviews with respondents will provide some data and the data collected from foreign retailers will be interpreted.
  
- The questionnaire will provide some data to reveal Chinese retailers' SWOT situation in the external and internal environment.
  
- A descriptive and exploratory research design was considered as highly appropriate for this research study, owing to the nature of the research problem.
  
- Chapters four and five, through strategy analysis, will obtain the empirical results of both the quantitative and qualitative research in Chapter three.

## **CHAPTER 4: ANALYSIS AND INTERPRETATION OF DATA ON STRATEGIES OF FOREIGN RETAILERS**

### **4.1 Introduction**

As stated in Chapter 3, three multinational retailers were researched in terms of data and information collected from interviews of participants in China. In order to avoid the possible limitations of knowledge and experience from participants, the researcher used observation and the Internet source to complement information gaps.

In order to accurately interpret the data it is first necessary to understand changes in Chinese customer behaviour as reflected in their shopping in foreign stores. With the progressively intense business competition and the strong trend of retailing, Chinese retailers need to more fully comprehend the changes in shopping behaviour. They need to be aware of what is important to customers and what is not. The analysis of the customer survey data which follows, is first presented quantitatively, then qualitatively.

### **4.2 Analysis of Customer Questionnaires from Foreign Stores**

In this chapter, the focus of the research is the implementation of foreign retailers' strategies in China. Foreign retailers view the Chinese market as an opportunity. Their considerations are associated with consumers attitudes and shopping behaviour. They form the starting point from which foreign retailers will design a whole retail strategy.

The rationale for selecting questions for the questionnaire was to test whether there were any changes in Chinese customers' shopping behaviour. The responses should reveal emerging trends that significantly affect the Chinese retail industry. This questionnaire was developed to gather in-depth information for the study. The survey instrument consisted of two sections.

The first section shows Table 4.1 as a demographic study of Chinese customers in terms of the customer questionnaire. The demographic variables were entered into an analysis model to examine how they influence the customers' purchase decisions. In terms of the fact that most of the survey participants cannot read and speak English, the questionnaire was developed and administered in Chinese. The customer survey reflected the following results: forty-five per cent were male and fifty-five per cent female; seventy-five per cent of Chinese customers were married, forming smaller families consisting of three people, because of China's "one child policy" (see Chapter one). This policy means that a smaller family can adapt more easily to new changes in economic demands and shopping behaviour. Normally, a Chinese family only has one child and in terms of the Chinese's family-centered culture, the grandparents and parents pool their time and money to raise and educate the child in their family. This suggests that household consumption occupies the main proportion of their total spending and therefore the demand for goods will be strong.

The respondents covered a wide age range, as age was associated with purchasing behaviour. Over the past five decades Chinese people have been commended for their thrift and disapproval of a hedonistic lifestyle, with 61-65 year-old people maintaining a moderate way of life. However, the traditional culture has changed, with the 21-40 year-old customers showing a higher purchasing power and more disposable income compared with the others. This group of consumers earns relatively high salaries and they have established households. Their rising incomes are particularly favourable for foreign retailers and well-known branded merchandise.

The Chinese people are accustomed to referring to Chinese currency as RMB. This study asked respondents for their monthly income. A total of eight per cent of respondents were categorised as 'low pay earners'; thirty-five per cent earned RMB801-2000 per month, described as earning a 'common salary'; thirty per cent earned RMB2001-4000 per month, categorised as 'fairly rich'; sixteen per cent of respondents were reportedly earning RMB 4001-6000 per month, and would be described as 'rich'. A total of eleven per cent of respondents earning over RMB 6001 were categorised as 'yuppies (young urban professionals)', who were educated at a tertiary level. This suggested that foreign stores have a significantly higher proportion of 'common salary', 'fairly rich' and a certain number 'rich'

customers in the middle class section of the Chinese population. Foreign retailers target higher income and younger customers, who have strong purchasing power to gain market traction, and to establish market share.

**Table 4.1 Demographic Profile of Chinese Customers in Foreign Shops**

VARIABLE	FREQUENCY	PER CENT (%)
<b>Gender</b>		
Male	45	45
Female	55	55
<b>Age</b>		
18-20	2	2
21-30	23	23
31-40	26	26
41-50	21	21
51-60	20	20
61-65	7	7
<b>Education</b>		
Less than high school	22	22
High school	25	25
Technical college	22	22
Some college	28	28
Post graduate work	3	3
<b>Marital status</b>		
Single	25	25

Married	75	75
<b>Monthly income</b>		
≤ 800 RMB	8	8
RMB801-2000	35	35
RMB2001-4000	30	30
RMB4001-6000	16	16
RMB6001-8000	7	7
More than 8000	4	4

In addition to the general questions concerning demographic attributes, the second section of the customer survey questionnaire was processed for analysis and will reveal the following results (see Table 4.2). The questionnaire included several perceptual performance measures from Chinese customers.

According to Question 1 of the survey, a total of sixty-three per cent of respondents said they enjoy shopping, with the data showing that Chinese customers have a strong desire to shop. This is one of the reasons that foreign retailers are attracted to China.

When two developing countries, such as China and South Africa are compared, differences in consumer behaviour become apparent. South African customers are more likely to have a purchase plan, on paper, before their mall visit, so that they have some idea of what will be purchased, as well as what it should cost, as observed by the researcher. In contrast, Chinese customers seemed to rely more on point-of-purchase decisions, making a large proportion of Chinese customers prone to unplanned purchases. The research findings therefore indicated that specific cultural factors contribute to the differences in the shopping behaviours of the two countries. In addition, through observation in stores, the researcher found this to hold important implications for retailers in China.

In order to complement customers' shopping behaviour, foreign retailers put a lot of effort into the point-of-purchase displays, gondola displays for special offer events and salesperson demonstrations. In general, Chinese customers prefer to listen to their friends, neighbours, colleagues, shop assistants and other customers before making a purchase decision.

Survey respondents expressed that shopping is a pastime, which they enjoy at the weekend with friends; they shop while chatting, eating, and browsing. The retail environment has become a part of leisure and social time, especially for the young working generation. Chinese customers consider the atmosphere firstly as a major reason for selecting the retail store they visit.

The researcher has observed that foreign retail stores cater to Chinese customers' demands, providing adequate space, elegance, and a convenient shopping atmosphere. More pointedly, foreign retailers outperform their Chinese competitors with regard to store layout. Foreign retailers put out stronger advertising campaigns (some national) and provide special events, such as fashion shows to attract customers. Attractive storefronts, windows, layout, and signage create a strong and exciting visual identity for the target audience. Foreign retailers spend a significant amount of capital to design innovative store layouts with plenty of space for customers, with the aim of stimulating purchasing and therefore the return on investment.

In the past, customers were willing to visit more stores during shopping times because the retail industry was relatively underdeveloped. A modern foreign shopping centre is a fairly new concept in China and is a considerable attraction to customers. In Question 12, the researcher required respondents to mention the number of stores that they visit on a daily basis in a 10-store business centre, with most Chinese customers responding that they would visit 5-6 shops during their trip. The customers' behaviour change suggests that retailers need to improve the management of inventory and the design of store layouts, owing to the fact that the frequency of visits is not high.

The results from Question 2 which relates to the choice of a shopping destination, showed that quality (83%), service (58%), and variety (49%) were the top three selections, with value in

fourth place. The important message to all retailers who want to survive in the Chinese market, is indicated in the fact that Chinese customers are becoming more sophisticated and discerning, moving gradually from finding the best price to seeking the best quality.

The three aforementioned foreign retailers (Wal-Mart, Carrefour and Metro) have become significant global operators, competing in many national markets where they have gained a significant amount of experience in sales and expansion. They constantly explore Chinese customer purchasing behaviour changes and design high quality goods and services to create their image as part of their marketing strategy.

The top four factors deemed as critical to brand loyalty were: quality (96%), a positive impact on health (85%), its care for customers (80%), and fashion (78%), with a fair price ranking only fifth (76%) in Question 3. The most critical factor in choosing a brand is therefore quality. Product pricing may entice the Chinese customers to test a brand, however, quality and value will keep customers coming back for repeated purchases. Foreign retailers can bring in a large number of high quality foreign brands with prestige pricing strategies, which are extremely attractive to the curious Chinese customers. They are able to adapt to the needs of customers and will establish themselves, while they target affluent and fashion conscious customers who are the young, working generation. Many Chinese customers spend their income on well-known foreign brand products as status symbols, and wear European and America designer label clothes such as Nike and Levi (Zborowski, 2004). Youth in China use fashion to manage their appearance, express their self-image and feelings, enhance their egos and make an impression on others.

Question 4 revealed that fifty-seven per cent of the respondents buy toiletry brands which they know and that they are unlikely to switch if their brand is not available. Survey respondents showed that they have a high level of brand awareness and loyalty. Foreign retailers have found that high-end luxury brands and lifestyle brands can carve out a significant niche market amongst the urban middle and upper class population. Foreign retailers and luxury goods retailers understand their target markets and how to sell these types of merchandise profitably. Foreign retailers therefore, actively implement right brand strategy and execution.

In Question 11, twenty-eight per cent of respondents said that if they do not find the brand they want, they opt to walk out of the store without purchasing. This is followed by high price (26%), and dissatisfaction with the service (15%). The data further reveals that Chinese customers are brand-conscious, and are becoming increasingly loyal to brands they prefer. They are, in fact, eager to see if their favourite brand is available, especially from among foreign products. In this regard, Chinese consumers require retailers to pay more attention to their services that they offer.

According to the questionnaires, Chinese consumers' preference for foreign or local brands differ greatly, depending on the type of product they buy.

In Question 5, sixty-five per cent of respondents maintained that they prefer foreign electronics and home improvement selections over local brands. In apparel and footwear, the older consumer did not show a preference for foreign or local brands; however, higher income and younger consumers both indicated a strong preference for foreign branded apparel and footwear products. The young, working generation uses foreign brands to pursue fashion, manage their appearance, and express their self-image and feelings. In this regard, foreign retailers naturally possess this advantage above their Chinese competitors, in order to satisfy Chinese customers' needs and to gain a foothold in China.

Question 6 reveals that the respondents prefer local brands in a ratio of 2:1 over foreign brands when it comes food product choices. This indicates that Chinese customers retain a deeply entrenched food culture. However, thirty-four per cent of respondents selected foreign brands, reflecting that foreign companies focus on building unique brand images for their Chinese customers. There is a potential market for foreign food brand development in China, and there is no doubt that foreign retailers are identifying Chinese market opportunities across product categories and are building and implementing winning business strategies.

The customer survey questionnaires also show a fragmented retail sector. Question 9 reveals that consumers do their food shopping at supermarket chains almost twice as often as they do at traditional open-air markets or hypermarkets. From Question 10, it was apparent that

respondents favoured department stores, specialty stores and hypermarkets for apparel and footwear.

Historically, Chinese retailers operated on a limited store format, namely, department stores. Chinese customers had not been exposed to self-service retailing before, foreign retailers introduced this enhanced shopping environment. Foreign retailers introduced supermarkets and hypermarkets, which are new, innovative formats of retailing, and have gained a strong competitive position within a developing country. These new retail store formats have rapidly become accepted by Chinese retailers and have a brighter future for the development of the retail industry in China. Chinese customer behaviour has seemingly changed from daily trips to local markets to weekly visits to supermarkets to buy packaged goods. Most foreign companies no longer appear "foreign" to many Chinese; they have penetrated deeply and have been integrated into peoples' daily lives.

It may therefore be deduced, from the above data analysis, that supermarkets and hypermarkets are becoming an important part of the Chinese retail market.

Sixty-six respondents said that retail store advertising affected their decision to shop in foreign stores. It is suggested that Chinese customers are not always loyal to Chinese retailers as many customers are won over with persuasive, foreign-style advertising.

By posing Question 13 and 14, the researcher attempted to introduce a kind of shopping bank card information for respondents, to test their reflection. This kind of shopping bank card provides descriptive information for the research study and is based on South Africa's Pick 'n Pay "Go Banking" card, which provides viable and true information (see Appendix D). Fifty-six per cent, on average, of the respondents said they would be interested in some benefits from a shopping bank card. The younger respondents were easily able to understand and accept a bank shopping card. Chinese customers' payment and loan options are still waiting for China's banking system and retailers to form some sort of cooperative development. This process should be accelerated before foreign banks are allowed access to China's domestic market in

2007 under the WTO agreement (McLaughlin, 2005). If it does not, China's banks will enter an embarrassing position, like the Chinese retailers, and face intense competition from foreign banks. Foreign retailers will then have a new partner in the form of foreign bankers on Chinese territory.

**Table 4.2 Chinese Customer Survey Questionnaire Used in Three Multinational Retail Stores**

QUESTION	FREQUENCY
Question 1. Do you like shopping?	
<input type="checkbox"/> Like	63
<input type="checkbox"/> Dislike	37
Question 2. What are your priorities when shopping?	
<input type="checkbox"/> Quality	83
<input type="checkbox"/> Service	58
<input type="checkbox"/> Value	30
<input type="checkbox"/> Variety	49
Question 3. Please choose critical factors that you trust in a brand.	
<input type="checkbox"/> Quality	96
<input type="checkbox"/> A positive impact on health	85
<input type="checkbox"/> Its care for customers	80
<input type="checkbox"/> Fashion	78
<input type="checkbox"/> Having a fair price	76
Question 4. When you want to buy a toiletry brand you know, if this brand is not available, are you likely to switch?	
<input type="checkbox"/> Yes	43
<input type="checkbox"/> No	57
Question 5. In electronics and home improvement, which brand do you prefer?	
<input type="checkbox"/> Foreign brands	65
<input type="checkbox"/> Local brands	35
Question 6. In food products, which brand do you prefer?	
<input type="checkbox"/> Foreign brands	35

<input type="checkbox"/> Local brands	65
Question 7. In clothing and footwear, which brand do you prefer?	
<input type="checkbox"/> Foreign brands	54
<input type="checkbox"/> local brands	46
Question 8. Has advertising affected your decision to change brands in Wal-Mart / Carrefour / Metro?	
<input type="checkbox"/> Yes	66
<input type="checkbox"/> No	34
Question 9. Where do you normally shop for food?	
<input type="checkbox"/> Open-air markets	19
<input type="checkbox"/> Supermarket	72
<input type="checkbox"/> Hypermarkets	31
<input type="checkbox"/> Department store	33
Question 10. Where do you normally shop for clothing and footwear?	
<input type="checkbox"/> Open-air markets	2
<input type="checkbox"/> Supermarket	21
<input type="checkbox"/> Hypermarket	51
<input type="checkbox"/> Department store	73
<input type="checkbox"/> Specialty store	45
Question 11. If you walk out of the store without purchasing, what are your reasons?	
<input type="checkbox"/> Not finding the brand you want	28
<input type="checkbox"/> Out of stock	31
<input type="checkbox"/> High price	26
<input type="checkbox"/> Dissatisfaction with service	15

Question 12. There are 12 stores in this business centre, how many stores are you prepared to visit today?	
<input type="checkbox"/> 1~2	11
<input type="checkbox"/> 3~4	23
<input type="checkbox"/> 5~6	41
<input type="checkbox"/> 7~10	25
Question 13. Would you like a shopping bank card that offers the same value for money, which has competitive bank charges and high-interest-earning savings and you could track your spending through the receipt, with a detailed monthly statement at home?	
<input type="checkbox"/> Yes	59
<input type="checkbox"/> No	41
Question 14. Would you like a shopping bankcard that gives customers even more value for money when customers do certain transactions, for example, a discount paid back to your account?	
<input type="checkbox"/> Yes	53
<input type="checkbox"/> No	47

In Question 15 (see Appendix B), the researcher required respondents to rate these three multinational retailers about their food section (fresh products, meat/butchery, fish shop, frozen foods, bakery, deli, refrigerated items, ethnic food). Question 16 gauged these three foreign store service environments (friendliness, checkout, parking, cleanliness, convenience, and well-stocked shelves). The majority of respondents rated the store facilities section (advertising, store signage, dry cleaner, photolab, financial service, customer service, kindergarten, and restaurant) for these three multinational retailers in Question 17.

Interestingly, no significant differences were found among the three multinational retailers in terms of how respondents rated them. The choices oscillated between "excellent" and "good" mostly. As most respondents seemed satisfied with the service provided by these foreign retailers.

### 4.3 Analysis of Foreign Retailers in Terms of Interviews

An interview survey method was used for this purpose. These interviews lasted approximately 30 minutes each, the following are summaries of the interviews from the three multinational respondents, where some important responses and keywords from respondents were used to try find important strategies implemented by their companies. The researcher then conducted a comparative analysis of the strategies for Wal-Mart, Carrefour and Metro, which are cross-sectional foreign retailers in China. The three interviews by table format are described as follows:

#### 4.3.1 Findings from Wal-Mart Interview

QUESTION (DATE: 16 <sup>TH</sup> MAY, 2005)	RESPONSE & KEYWORDS
Question 1: Could you introduce me to Wal-Mart's background?	<ul style="list-style-type: none"> <li><input type="checkbox"/> The world's largest retailer.</li> <li><input type="checkbox"/> It was founded by Sam Walton in America.</li> <li><input type="checkbox"/> Successful.</li> </ul>
Question 2: Why did Wal-Mart choose the Chinese market?	<ul style="list-style-type: none"> <li><input type="checkbox"/> A large market.</li> <li><input type="checkbox"/> Fast growing major economy.</li> <li><input type="checkbox"/> Large and growing population.</li> <li><input type="checkbox"/> Retailing developing.</li> <li><input type="checkbox"/> Potential consumption.</li> </ul>
Question 3: Wal-Mart is a strong retailer giant in the world, with its rapid expansion in China, do you think it has harmed Chinese retailing?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Wal-Mart has been committed to improving the living standard and consuming habits of the local consumers.</li> <li><input type="checkbox"/> Stimulating consuming demand with its advanced computerized management, modernized facilities, and new retailing concepts.</li> <li><input type="checkbox"/> In addition to supporting local companies in China, Wal-Mart has also helped these small manufactures to expand globally.</li> </ul>
Question 4: What is its marketing and service strategy?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Adopt a play-safe strategy in internationalization.</li> <li><input type="checkbox"/> Low prices everyday.</li> <li><input type="checkbox"/> Quality merchandise.</li> <li><input type="checkbox"/> Well-developed sales networks.</li> </ul>

	<input type="checkbox"/> High stock turnover. <input type="checkbox"/> Promises customers satisfaction. <input type="checkbox"/> Respect everyone, serve customer, and search for perfection. <input type="checkbox"/> 8 teeth smile, ten-foot rule, and sundown rule.
Question 5: What is its brand strategy?	<input type="checkbox"/> It is a well-known brand in the world. <input type="checkbox"/> Positive impression of own brand. <input type="checkbox"/> Brand equity. <input type="checkbox"/> Promotion.
Question 6: What is its human resource strategy?	<input type="checkbox"/> Powerfully motivate employees. <input type="checkbox"/> Share knowledge. <input type="checkbox"/> Cultivate employees. <input type="checkbox"/> Stock option. <input type="checkbox"/> Social responsibility.
Question 7: What is its format strategy?	<input type="checkbox"/> Build differentiated business departments to serve different market segments. <input type="checkbox"/> Supermarket. <input type="checkbox"/> Sam's Club.
Question 8: What is its logistic strategy?	<input type="checkbox"/> Cross docking. <input type="checkbox"/> Reduce stock-carrying costs. <input type="checkbox"/> Satellites communicate with stores and demonstrate new products. <input type="checkbox"/> Efficient consumer response system. <input type="checkbox"/> Procurement centre. <input type="checkbox"/> Distribution centres.
Question 9: Could you give some suggestions for Chinese retail industries?	<input type="checkbox"/> Adapt to environment changes.

### 4.3.2 Findings from Carrefour Interview

QUESTION(DATE: 19 <sup>TH</sup> MAY, 2005)	RESPONSE & KEYWORDS
Question 1: Could you introduce me to Carrefour's background?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Ranked number two retailer in the world.</li> <li><input type="checkbox"/> A global retail power from France.</li> <li><input type="checkbox"/> More expansion experience.</li> <li><input type="checkbox"/> Expand to foreign markets faster and more flexible.</li> </ul>
Question 2: Why did Carrefour choose the Chinese market?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Chinese economic growth.</li> <li><input type="checkbox"/> Has a booming retail industry.</li> <li><input type="checkbox"/> Opportunities.</li> <li><input type="checkbox"/> Growing population.</li> <li><input type="checkbox"/> Consumption capacity.</li> </ul>
Question 3: Carrefour is a strong retailer giant in the world, with its rapid expansion in China, do you think it has harmed Chinese retailing?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Not all.</li> <li><input type="checkbox"/> Expansion into China more beneficial than harmful to local trade.</li> </ul>
Question 4: What is its marketing and service strategy?	<ul style="list-style-type: none"> <li><input type="checkbox"/> One-stop shopping.</li> <li><input type="checkbox"/> Service customers and action orientation.</li> <li><input type="checkbox"/> Free parking facilities.</li> <li><input type="checkbox"/> High quality.</li> <li><input type="checkbox"/> Replenish stocks all the time.</li> <li><input type="checkbox"/> Discounts every day.</li> <li><input type="checkbox"/> Prices lower than supermarkets and department stores.</li> <li><input type="checkbox"/> A wider range of fresh products.</li> <li><input type="checkbox"/> Increase in food items and non-food items.</li> </ul>
Question 5: What is its brand strategy?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Brand image.</li> <li><input type="checkbox"/> High brand equity.</li> <li><input type="checkbox"/> Introduce foreign brands.</li> <li><input type="checkbox"/> Own brand and loyalty.</li> <li><input type="checkbox"/> Advertising.</li> </ul>
Question 6: What is its human resource strategy?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Corporate heritage and culture.</li> <li><input type="checkbox"/> Instil management philosophy.</li> <li><input type="checkbox"/> Social responsibility-"green packaging joint actions".</li> </ul>
Question 7: What is its format strategy?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Hypermarkets.</li> <li><input type="checkbox"/> Supermarkets.</li> <li><input type="checkbox"/> Huge mass retailer.</li> </ul>

Question 8: What is its logistic strategy?	<input type="checkbox"/> Procurement headquarters. <input type="checkbox"/> Distribution centres.
Question 9: Could you give some suggestions for Chinese retail industries?	<input type="checkbox"/> Learn advanced management and experience <input type="checkbox"/> Implement viable strategies.

### 4.3.3 Findings from Metro Interviews

QUESTION (DATE: 26 <sup>TH</sup> MAY 2005)	RESPONSE & KEYWORDS
Question 1: Could you introduce me to Metro's background?	<input type="checkbox"/> It is the world's number one Cash & Carry system business. <input type="checkbox"/> A strong and international trading group. <input type="checkbox"/> The first foreign retailer to gain permission from the Chinese government to set up stores. <input type="checkbox"/> Self-service shopping.
Question 2: Why did Metro choose the Chinese market?	<input type="checkbox"/> Surging economic development. <input type="checkbox"/> A rapid increase in the population. <input type="checkbox"/> Represents an enormous opportunity. <input type="checkbox"/> Chinese government opened retailer market. <input type="checkbox"/> The highest population. <input type="checkbox"/> Retail sales rising. <input type="checkbox"/> Potential market.
Question 3: Metro is a strong retailer giant in the world, with its rapid expansion in China, do you think it has harmed Chinese retailing?	<input type="checkbox"/> Will affect Chinese retailers. <input type="checkbox"/> Competition is important and necessary.
Question 4: What is its marketing and service strategy?	<input type="checkbox"/> Identify new markets. <input type="checkbox"/> Continuous focus on customer needs and satisfaction. <input type="checkbox"/> Comfort shopping. <input type="checkbox"/> Fresh foods offered. <input type="checkbox"/> Big package with low price strategy. <input type="checkbox"/> Weekly surprise price strategy. <input type="checkbox"/> Free gift promotion strategy. <input type="checkbox"/> Discount pricing strategy. <input type="checkbox"/> Unique long business hours – 06:00-22:00. <input type="checkbox"/> Understanding of Chinese culture.

Question 5: What is its brand strategy?	<input type="checkbox"/> High standards in own brand strategy. <input type="checkbox"/> Own brands diversity. <input type="checkbox"/> DIN standard (German industry standard). <input type="checkbox"/> Monitoring of private labels-International Food Standard.
Question 6: What is its human resource strategy?	<input type="checkbox"/> Organisation culture. <input type="checkbox"/> Educate employees. <input type="checkbox"/> The training campus in China. <input type="checkbox"/> Discovering talented individuals. <input type="checkbox"/> Incentives.
Question 7: What is its format strategy?	<input type="checkbox"/> Defined format adapted to local market needs. <input type="checkbox"/> Hypermarkets. <input type="checkbox"/> Non-food specialist stores.
Question 8: What is its logistic strategy?	<input type="checkbox"/> Strong purchasing power. <input type="checkbox"/> Logistic technology. <input type="checkbox"/> Radio frequency identification technology. <input type="checkbox"/> Win-win partnership with our suppliers. <input type="checkbox"/> Efficient and low-cost logistic operations.
Question 9: Could you give some suggestions for Chinese retail industries?	<input type="checkbox"/> Learn advanced management and technology. <input type="checkbox"/> Increase competitive advantage.

#### 4.3.4 Comparative Analysis of Foreign Retailers' Strategies

These three foreign retailers have survived in China because while they have similar business operations, they each have their own unique strategies and competitive advantages. In this chapter the respondents' data is presented and contrasted based on the information from the interviews. The researcher has extracted and summarized the commonalities and differences in strategy from the comparisons of Wal-Mart, Carrefour and Metro. This research will introduce foreign retailers' significant strategies so that Chinese retailers may implement new defensive strategies.

The comparative analysis is based on the nine questions which concern their five competitive strategies around marketing, brands, human resources, formats and logistics. The analysis is as follows:

In Question 1, all respondents introduced their background. These responses signify their important positions within global retailing.

Question 2 required respondents to give reasons why they selected the Chinese market. Respondents said that foreign retailers had found the large population enticing, in addition to China's economic development, growing consumption, retail sales growth and the larger number of opportunities. These responses were in accordance with the background research discussed in Chapter one. However, none of the respondents commented on an important factor – the inexperience and naivete of local retailers that made them weaker competitors. Foreign retailers appear to be driven by high growth rates, growing consumption from the middle-class, the maturation of retailing and the weakness of local retailers in the developing country.

The respondents were cautious about answering Question 3 on foreign retailer expansion in terms of whether it will harm Chinese retailing, since this is a sensitive topic for them. Undoubtedly, Chinese retailers have lost their market share. However, the fact that foreign retailers bring in advanced management is a fact. They are skilled at stimulating consumer demand, they meet a wide range of consumer demands and requirements in various regions and sell Chinese goods from their Chinese procurement centres in other countries.

The Chinese are open to foreign products, while at the same time Chinese manufacturers attempt to equal their counterparts with regard to quality and image. Foreign retailers are also supportive of Chinese small manufacturers expanding globally.

#### 4.3.4.1 Marketing and Service Strategies

According to Table 4.2, Chinese customers are becoming more sophisticated and discerning, moving gradually from finding the best price to seeking the best quality. These three multinational retailers have been successful at introducing foreign products into the Chinese market and provide high quality products to garner reputations as high value-added retailers.

Metro provides quality food products of international standard, using products from reliable suppliers who guarantee quality, freshness and hygiene. They have also increased the variety of fresh fruits and vegetables on offer, in accordance with the Chinese custom, where Chinese people prefer fresh vegetables to meat for their supper. Wal-Mart always places their customers' needs and wants first, by providing live fish, crab and shrimp (swimming in their tanks in-store) because their customers prefer buying live fresh food. "This is the essence of retail marketing - developing products and services that will satisfy specific needs of customers" (Kent & Omar, 2003:153).

Carrefour plans to increase the product ranges of both food and non-food items, in addition to promoting the sales of frozen and convenience foods. When stepping into any Carrefour store, Chinese customers will see staff walking around and checking product dates and replenishing shelves with fresh stocks.

A trend in Chinese customers' shopping behaviour is to seek out the best quality. They usually combine this approach with being price-conscious in making their buying decisions.

Wal-Mart, Carrefour and Metro have commonly implemented a price strategy in China. Wal-Mart's marketing strategy guarantees "everyday low prices" as a way to attract customers. In their television TV advertising campaigns, one always finds a key theme, namely, "low prices always". Wal-Mart's advertising flyers are also distinctive with the slogan "WAL-MART® ALWAYS LOW PRICES, ALWAYS WAL-MART, ALWAYS".

Low prices and value-oriented headlines from its advertising include: "Your Wal-Mart restaurant has delicious food at affordable prices! "; "Wal-Mart brand products that fit your budget"; "The savings keep getting better and better"; "Wow! Check out all the great items RMB 10 can buy! "; "Buy it for low prices on great microwave ovens "; all items are on "Sale! "; and the regular prices are given. All price advertising is headlined "Great Ways to Save" and explains the meanings of the "Every Day Low Price" slogan.

According to the literature review in this thesis, a low-active price strategy is very effective, as indicated by the rapid growth of retailers. The low-active strategy is a more attractive form for some retail giants. This strategy encourages competitors to offer comparable prices.

Wal-Mart's "Lowest prices every day" strategy is a typical low-active price strategy and it significantly reduces customer research costs for this retailer. Everyday low pricing (EDLP) is a popular long-term pricing strategy. Retailers who operate using this policy, strive to offer competitive prices on all of their product range instead of the high-low variation of seasonal pricing. In this way prices are kept low all the time. EDLP strategy makes it necessary for retailers to keep their selling costs low in order to maintain the pricing strategy as well as make a profit. Chinese small-scale retailers are not able to apply the concept of "every day low price". Most Chinese retailers cannot beat Wal-Mart due to their higher prices, mainly because of their infrastructure and management.

Carrefour and Metro do not use EDLP strategy to create a corporate image as they focus on "discount prices". Carrefour advocates "discount every day" and "special month" to attract customers to buy impulsively. The company constantly stresses discounts for every day, which is very different from Wal-Mart (see Appendix K).

According to the above-mentioned statement, price and quality are essential attributes which influence Chinese consumer purchase intentions.

The three multinational retailers emphasize a customer service strategy. Wal-Mart's employees follow three management philosophies in China, which relate to a respect for everyone, serving customers and a search for perfection. They carry out Wal-Mart company policies, including the "eight teeth smile", which means greeting customers with a warm smile. The "sundown rule" is a corporate directive whereby all Wal-Mart employees should reasonably answer a customer's or supplier's request or question within 24 hours and provide 95% product as a minimum for 95% of the time. The "ten-foot attitude" states that store employees must greet, smile and attend to a customer in a store when within 10 feet of them. These are aggressive hospitality policies, which have become a benchmark of the retailing

industry. In order to satisfy and serve different types of customers Metro has implemented unique, long business hours from 6:00 to 22:00 and for the traditional Chinese Spring festival, Metro is open until 24:00.

Carrefour has adopted friendly customer and after-sales service. Carrefour instils top-level management of every store with the management philosophy of “serve customers” and “action orientation”. Each of the store managers in charge is also required to wander around the store when it is open. When walking into any Carrefour store in China, Chinese customers will see a French store manager with a Chinese translator walking the floor.

Three foreign retailers have focused on perceiving and studying the Chinese culture and the influences of this on their business practices. Wal-Mart, who is familiar with Chinese consumption habits, culture and historical background, even sells Chinese ethnic goods. During the Chinese Spring Festival, the most celebrated traditional festival in China, Wal-Mart holds various activities such as guess riddles and contests in which customers make dumplings, a favourite Chinese food. Carrefour and Metro both hold similar activities for their customers by providing free gift promotion strategies to motivate customers. At the same time they instill a sense of trust towards Chinese customers, by utilizing Chinese folk cartoon characters to realize the localization of store images. Apart from this, Carrefour and Metro have considered the actions of the local culture through retailer observation, and by doing this, have avoided any form of culture shock in their host country.

Metro has tailored its employee uniform in China to mimic Chinese traditional clothing (see Figure 4.2). This adaptation shows that Metro is determined to develop a distinctly Chinese Metro to expand into the Chinese market, as a more successful means of developing Metro in China.

**Figure 4.1 Metro employee wearing a uniform, which shows some traditional Chinese designs**



By retailer observation, these three multinational retailers have successfully built an efficient shopping environment, which provide wider shopping spaces, wide aisles, clear displays, good signage, a friendly atmosphere and parking facilities to make customers' buying more convenient. In this regard, most Chinese retailers could not beat foreign retailers; they have, in contrast, declined in customer appeal because they have neglected their store's environment and could not provide satisfactory levels of service for their customers.

The research also found that a large number of products packaged at Wal-Mart, Carrefour and Metro, come from Chinese manufacturers and suppliers. This information indicates that the three multinational retailers have given sufficient attention to specific national and regional customer needs as part of their marketing strategy.

#### 4.3.4.2 Brand Strategy

The French hypermarket retailer Carrefour, initiated its own brand of "Produits libres" in 1976. Carrefour's own brands were first introduced in the UK in 1977. From the mid-1980s onwards, retailers began to sell more up-market own-label products, which are the most common own-brand variant in most countries at present (Haberberg & Rieple, 2001:667).

In terms of developing the range, an ability to develop retail own brand with local suppliers and manufactures is an important factor. Wal-Mart has developed its own name brand to sell products (Carlson, 2004). Wal-Mart's corporate management strategy involves selling high quality and brand name products at the lowest price. The Wal-Mart respondent said that it aims to create a positive impression of customer satisfaction with the Wal-Mart brand. Unlike other retailers' private brands, Wal-Mart does not try to mimic the package design of national brands. Wal-Mart own brand products are distinct brands with their own values and impressions. Carrefour is somewhat further ahead than Wal-Mart in this regard as, it has launched a private brand called "Harmonie" into the China apparel market. These brands have a fashion orientation, including clothing and accessories in a wide range of colours, sizes and styles and assortments are broad and deep. Carrefour's own brand strategy targets Chinese career people and the young, working generation in the middle to upper-middle income level, according to the researcher's observation.

Through the researcher's observation, the researcher found that the three multinational retailers are engaged in partnerships and co-branding, for example, many Wal-Mart and Carrefour stores have a McDonalds or a KFC restaurant in them (see Figure 4.1). This co-branding strategy increases retail traffic for both sides.

Figure 4.2 Carrefour and KFC restaurant co-branding strategy: A KFC restaurant set up in a Carrefour store in China.



Metro monitors its own brand (see Figure 4.3) by high standards, incorporating the DIN (German industry standard) strategy, which meets the high quality of standards of China. These products are approved by famous national and international institutions, with the lowest price directly from suppliers.

Figure 4.3 Metro own brands through DIN standards

**SIGMA** 喜迈

**TIMOR** 添慕



**Tarrington House** 亭轩

The researcher has found, through observation, that Sigma has a quality assortment of copy and fax paper, cabinets, folders and pens; Timor's main products are male and female underwear; and Tarrington House's main products are household textiles. These high quality

goods' prices are lower than other Chinese same assortment manufacture brands and therefore possess competitive price advantages.

#### 4.3.4.3 Human Resources Strategy

Wal-Mart, Carrefour and Metro have consistently practised policies of being friendly toward customers, reduced costs and engaged in cross-cultural training for employees. They have also accepted many Chinese into their administration field and have thus realised the localization of management.

Wal-Mart cultivates and trains employees, making them understand responsibility, participation and share information. The company has developed a number of employee programmes to enhance experiences and skills. They also allow employees to buy Wal-Mart stocks at discount prices. Those employees who have shown ambitions to become leaders have been afforded with opportunities to do so. Employees can also take courses supplied in the Wal-Mart Institute and have job rotation opportunities to enrich their expertise. Some employees hold shares in the company, which serves as an incentive for employees to perform sufficiently well in order to maintain their jobs and sources of income. This measure also avoids high labour turnover.

China has had an important role in Metro's internationalization, which also applies to its human resources development. In order to develop corporate culture and to strengthen their image, Metro has established an international training network and has a training campus located in China. It provides a cross-culture training service for buyers, store managers and floor managers for Metro's global business. This ensured that their staffs are well trained and educated, have sophisticated serving skills and offer high quality services and efficient management and operation.

The Carrefour respondent stated that the localization of employees is a foundation for the development of business in China. Carrefour emphasizes the importance of corporate heritage and culture by infusing management's philosophy through western managerial

training programmes for top-level management in China. It gives better performance evaluations to those Chinese managers who manage their stores in a more westernized manner. Chinese employees are generally ambitious, eager to learn and are enthusiastic to study.

Chinese retailing has expanded in recent years, despite most Chinese retailers not forming organisation cultures, lack company policies, rules, or training programmes. Chinese employees who work in Chinese retailers have acquired their knowledge from the job, and not based on professional retailer knowledge. The Chinese education system has no course for Retail Business Management. Most Chinese retailer employee graduates come from marketing and other management courses or lower education levels, which leaves a gap in the field of Retail Business Management.

As for the three foreign retailers' social responsibility, Wal-Mart spends money on charities, is also involved in local community services and environmental issues, and provides scholarships. However, it needs to do more social community work in order to build a reputation in China. Carrefour promotes environmental protection. Carrefour and the Chinese Packaging Corporation initiated "green packaging joint actions". Carrefour further requested all their stores in the world to make less use of plastics in packaging and won the reputation of being a model within the retailing industry. Metro also followed this proposal and the research found that they use two types of plastic bags, which cost RMB 0.3 for a medium size and RMB0.5 for a large size packet in Metro stores. Metro encourages their Chinese customers to re-use these high quality bags, which helps to protect the environment, as Carrefour does.

#### 4.3.4.4 Format Strategy

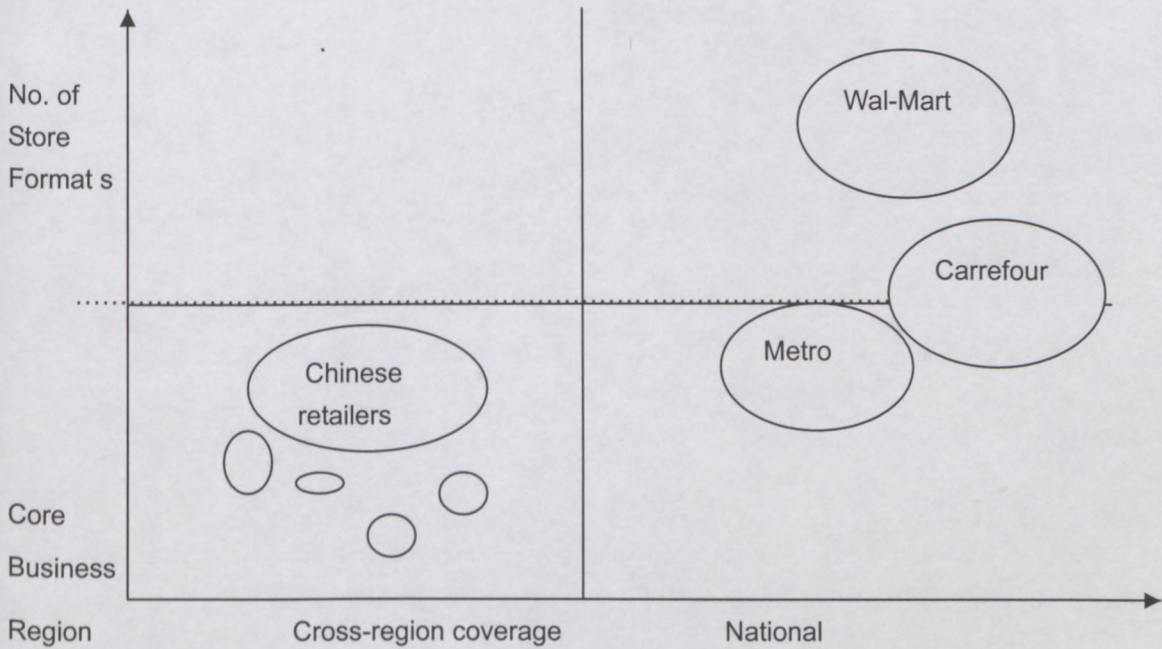
According to Chinese market conditions, development, and position, the three multinational retailers commonly provide self-service shopping, which has gained them a competitive position in China. Wal-Mart has implemented an advanced managing theory, as well as experience, to differentiated business formats in order to serve different market segments in China. They include hypermarkets, supermarkets, category killers and discount stores.

Carrefour chose mass selling based on the supermarket and hypermarket, "which is well-suited to the start-up and development phase in developing countries" (Colla & Dupuis, 2002:107), one-stop shopping, full range of choices, free parking and lower prices than supermarkets and department stores. It is their competitive advantage over Chinese retailers, whilst instilling a sense of trust and convenience in Chinese customers.

Metro group is the leading strategic management holding company. The operating business is divided into six sales divisions which act independently in the market with their individual brands. While the Cash & Carry business distributes only to businesses and professional customers, the other divisions operate as retail businesses with end consumers (Metro, 2003). Metro has defined their format by adapting to the huge Chinese market needs by implementing the hypermarket format and Cash & Carry system. Cash & Carry stores range from food and non-food trading to service businesses and large institutional buyers in China. It is a different format strategy to Carrefour and Wal-Mart, and at the same time helps to avoid competition between Wal-Mart and Carrefour within the Chinese Market.

Wal-Mart and Carrefour have achieved economy of scale through a cross-region and multi-format expansion strategy in China. On the other hand, Metro has been involved in single format strategies through a cross-region (see Figure 4.4). This variety of formats is an attempt to adapt their stores to suit the Chinese customer. However, Chinese retailers rarely implement diverse multi-store formats as most of them retain traditional department stores and convenience stores in single regions, neither of which is able to meet the requirements of one-stop shopping and shopping as leisure activity for Chinese customers.

**Figure 4.4 Expansion Path of Three Multinational Retailers**



#### 4.3.4.5 Logistic Strategy

Carrefour did not respond to the researcher's request for their logistics strategy. Thus, the researcher used the Internet as a source to obtain information about Carrefour. In order to achieve significantly higher throughput, fulfill the government's requirement to establish new businesses within the time framework, Carrefour is establishing the logistical support system required (Retail research unit, 2003). Metro implements Radio Frequency Identification (RFID) technology in their logistic strategy.

The researcher, through analysis data, compared the three respondents' information and realised that compared to Carrefour and Metro, Wal-Mart has a more complete storage transportation and logistics system. It may well be the leader on a technological level as implemented an efficient consumer response system and cross-docking techniques to strengthen the supply to and replenishment of each store.

Wal-Mart operates their own EDI system and has spent millions of dollars and several years developing one of the most advanced EDI systems in retailing. They have worked with

vendors to develop systems compatible with theirs. Vendors who are unable or unwilling to adopt these systems no longer sell to Wal-Mart (Levy & Weitz, 2001:327). Wal-Mart has developed working relationships with key suppliers with whom it shares information. Wal-Mart communicates with each branch and demonstrate new products' capacities via its satellites. This capability is beyond the reach its rivals.

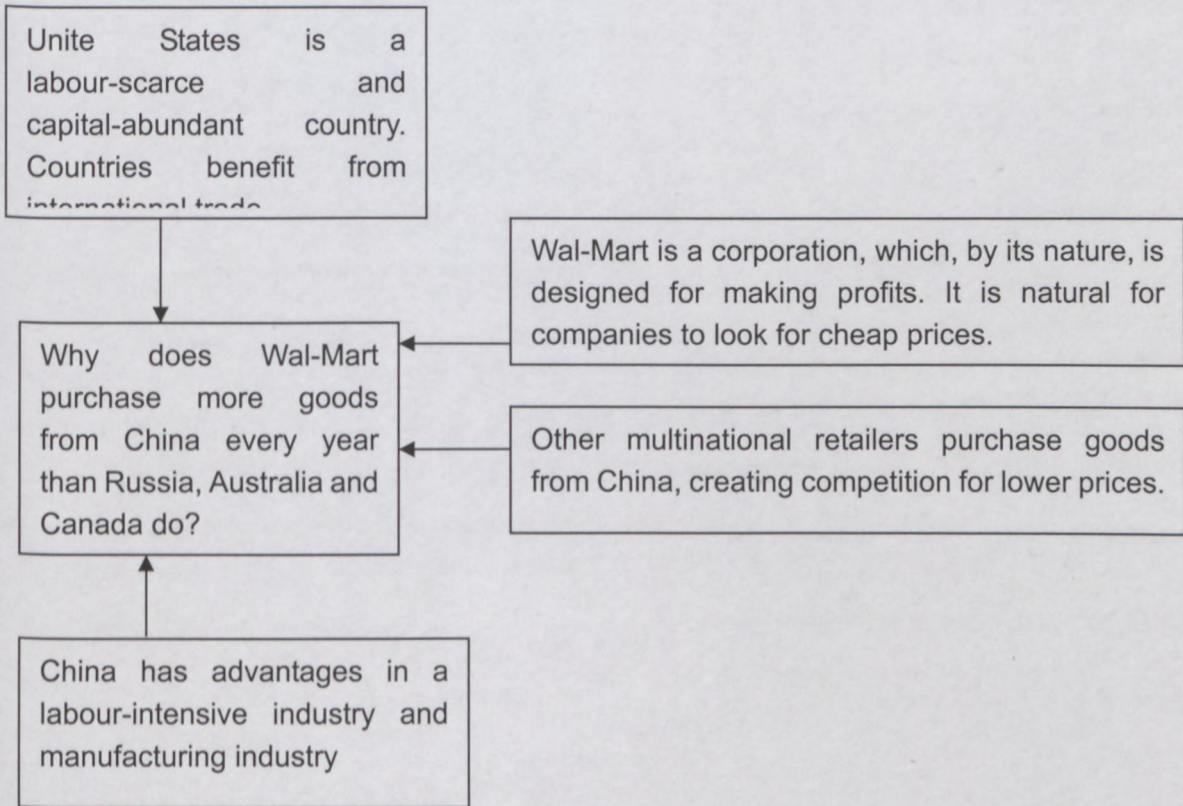
In summary, the three multinational retailers' common goal of their technology and logistic strategy is to deliver low costs, reduce stock-carrying costs and to increase operational efficiency, customer satisfaction and profitability.

Foreign retailers' main task is to meet a wide range of consumer demands and requirements in various regions that are spread across the vast land of China. These three multinational retailers have strived to provide customers with the widest choice and selection possible. The flexibility and efficiency that national-wide procurement and distribution centres allow are key to achieving the strategic goal. Wal-Mart and Carrefour respondents' emphasized their company's distribution and procurement centres in China.

Most foreign companies that buy more than \$1 billion products a year from China could save 10 to 30 per cent on their purchasing costs by setting up their own sourcing operations. The Japanese newspaper, *Nihon Keizai Shimbun*, reported that Wal-Mart already buys about \$12 billion goods from China annually, with two-thirds of it spent overseas, and plans to double the amount in five years (Dicus, 2003). Analysts have noted that Wal-Mart (see Figure 4.5) is already the single largest buyer of Chinese products. If Wal-Mart were an individual economy, it would rank as China's eighth-biggest trading partner, ahead of Russia, Australia and Canada (Jiang, 2004). Wal-Mart saves most of their purchasing costs in China. Wal-Mart already moved its procurement centre from Hong-Kong to the Chinese mainland and indirect procurements have increased every year. To satisfy Chinese requirements that foreign retailers operating in China must buy quantities of local goods, these global retailers could do well to follow Wal-Mart's model of setting up procurement centres in China.

According to an Internet source, Carrefour purchased a total of 1.5 billion U.S. dollars' worth of commodities from China (Xinhua News Agency, 2002c). Metro does the same. This strategy is common to the three multinational retailers in China. Chinese retailers have not developed overseas markets for their goods and so cannot compare.

**Figure 4.5 The Reasons for Wal-Mart Establishing a Procurement Centre**



Electronic retailing is a retail format (Gilbert, 2003:428). There has been a change in distribution strategy to increase sales through direct channels. Large retailers offer many of their products for sale on the Internet. Wal-Mart co-operated with IBM to set up a brand on-line shopping site named Walmart.com. This Internet site provides a full range of products. Other multinational retailers who have adopted the Internet as a channel of distribution will have to develop competencies and expertise to carry out successful e-retailing.

#### 4.4 Summary of Chinese Customers Survey and Foreign Retailers' Strategies

China's retail market continues to grow in sophistication and competitiveness and has begun to reach a much more advanced stage in the main urban regions. Competition in some regions has intensified and the need to be more accurate in targeting specific consumer groups is presently much more significant.

This chapter offers a detailed view of the Chinese customer's shopping intention and spending behaviour, values and beliefs, and the influence of brands on purchasing decisions. The survey found that Chinese customers are becoming more sophisticated with more consumer information, moving gradually from finding the best price to seeking the best quality shopping in foreign stores. Customers can and are being won over with the effective use of the right store format strategy, customer relationship technologies, superior service, western-style advertising and well-known brands, all of which are extremely attractive to the increasingly sophisticated Chinese consumers. Foreign retailers can carve out a significant position among the rapidly growing urban middle and upper class consumers with a strong purchasing power and household consumption.

The Chinese customers survey reveals some strategies from foreign retailers. Foreign retailers can rapidly respond to and meet the increase in consumer sophistication and demands. Expansion in China will enable Wal-Mart, Carrefour and Metro to maintain its ambitious growth strategy and consolidate their position in global retailing. They have become mirrors reflecting the general characteristics of foreign retailers in China as a whole.

A comparison of the strategies of Wal-Mart, Carrefour and Metro in China, has shown several competitive practices:

- Further expansion into Chinese markets, driven by the growth strategy of high growth rates, growing consumption, weaknesses of local retailers, and the maturation of retailing in China.

- Provision of high quality products at the lowest prices to build the reputation of the organisation and gain the trust and loyalty of customers.
- Possession of a strong customer services orientation, a capacity for innovation and emphasis on the creation of a friendly retail environment and retail facilities.
- Introduction of foreign brands to meet Chinese customer brand awareness and demands.
- Stressing cross-culture training strategy within the organisation, they provide employees with the best career training, education and incentives.
- Develop a co-branding strategy and private label strategy, monitor brand quality to shape a unique corporate image.
- Define store format adapted to Chinese market needs and gain strong competitive position and scale of economies.
- Increase bargaining power advantage in negotiating with Chinese suppliers, establish distribution centres and procure mass goods from China, by emphasizing logistics technology.

# **CHAPTER 5: ANALYSIS AND INTERPRETATION OF DATA ON CHINESE RETAILERS**

## **5.1 Introduction**

According to Chapter one, foreign retailers have a strong hold over the market in large cities; and the resultant economic forces have tended to force a few small, independent Chinese retailers out of the market. The number of independent retailers has continued to decline as the retail marketplace has become increasingly dominated by a relatively small number of large retailers who have pursued aggressive strategies.

A SWOT analysis was used on a sample of Chinese retailers to acquire the relevant data. The SWOT analysis identifies the strengths, weaknesses, opportunities and threats that face Chinese retailers. It also identifies a range of activities that can be undertaken by Chinese retailers in order to maintain, and, hopefully, improve their competitive position. This thesis seeks to explore the range of potential strategic options available to Chinese retail outlets facing foreign competition, in order to develop and secure a future for their businesses.

## **5.2 Analysis of Retailers Survey Questionnaire**

A total of 80 questionnaires was sent out to Beijing, Shanghai, Shenyang and Nanjing. Fifty-five responses were received. This implies a response rate of 68.75%, which is presented in Table 5.1.

The respondents who completed the questionnaire range from 30 to 50 years old. Forty-three males and twelve females participated. Forty per cent of respondents strongly agree that the Chinese retailers face intense foreign retailer competition. Thirty-eight per cent of respondents simply agree that the Chinese retailers face intense foreign retailer competition. In summary, the Chinese retailers' major new competition comes from multinational retailers. The researcher conducted a SWOT analysis to consider the reasons for this and four aspects feature prominently:

## **5.2.1 Chinese Retailers Strengths**

### **5.2.1.1 Sound Local Knowledge and Regional Cultures**

Thirty-six respondents (65%) stated that they have a sound knowledge of regional cultures and distinct local tastes as compared to foreign retailers, and that this would be an advantage for them. They can provide seasonal products at discount prices and promote festival products in terms of their cultural awareness. The researcher analysed this advantage and concludes that it will decline when foreign retailers get to understand the Chinese culture. Some multinational giants such as Wal-Mart, Carrefour and Metro are already familiar with the Chinese culture, especially as it is expressed under regional market conditions.

### **5.2.1.2 Good Relationship with Regional Government and Government-Related Organisations**

Littrell (2002:19) indicated that "the business and work behaviour of the Chinese, and of China as a country, is driven more by its culture than by global business dynamics and Western ideas of economics". This reinforces the major influences of the Chinese culture on their business environments and social relationships.

“China is a nation whose social relationships are neither individual-based nor society-based, but is typically a relationship-based society” (Li, 1998:19), as almost every Chinese person tries to maintain social relationships or social connections which reflect their ideology. Under the impact of culture, Chinese people view themselves as part of social networks that are interdependent with the surrounding social context, especially with respect to doing business.

When working in China and doing business there, Chinese business people believe that building a good relationship with different entities such as local governments, government-related organisations, revenue and insurance associations, banks, trade associations, boards of health and the administrative staff of these structures, is important for their businesses. A good relationship and connection with these structures can result in requests for information being met, effective responses, and more support.

Support from the regional government has been the most crucial factor for Chinese retailers in China. The regional governments have desired increased employment and taxation benefits. Regional government can change and pass local rules and regulations. Thus, 29 respondents (53%) believe that a good relationship with regional government and government-related organisations empowers Chinese retailers. However, “the deeply ingrained cultural norms of Chinese businesses would limit the applicability of western-style business solutions” (Poutziouris, Wong & Chan, 2002:384).

#### 5.2.1.3 Good Supplier Relationship

Twenty-seven respondents (49%) stated that they have a good relationship with their suppliers. This can be attributed to their localised marketing of largely local products. In addition, Chinese retailers have implemented information systems from some domestic software companies that suit local market conditions and promote the building of good relationships.

## 5.2.2 Chinese Retailer Weaknesses

Foreign retailers in China play a significant role with regards to the changing Chinese retail environment. They pose an enormous threat to Chinese retailers because of their rapid expansion. Chinese retailers have lost their market share for the following reasons:

### 5.2.2.1 Insufficient Capital and Weak Cash Flow

The retail environment is becoming increasingly competitive. Thirty-five respondents (64%) found that the Chinese retail store environment, including shopping space, parking and service facilities, is not comparable with that of foreign retailers. Some Chinese retailers maintain that financial constraints prevent them from improving their existing retail environments. A major problem for Chinese retailers is that their capital is limited because of high operational costs and therefore, 47 respondents (85%) still lack the capital and resources to compete with multinational retailers. Moreover, 37 respondents (67%) realise that a low cash flow situation hampers their financial performance.

In retailing financial statements, cash flow statements should include operating activities which lead to selling merchandise to customers. As indicated above, Chinese retailers have high operational costs in marketing activities. Thus, these Chinese retailers' operating activities result in cash being spent on high expenditures that result in a weak cash flow.

### 5.2.2.2 Weak Buying Power and Lack of New Product Development

Thirty-eight respondents (69%) reflected that the ranges of products and brands are relatively limited. Most Chinese retailers buy products, such as clothing, from domestic manufacturers, while foreign retailers procure products from around the world. Since 1994 China has successively occupied the world's top position in the quantity of apparel production, and is regarded as a mass manufacturing centre for clothing (Wang & Li 2000:127). Li, Wang and Cassill (2004:166) indicated that China's apparel industry has continued to develop largely on the comparative advantage of low-cost labour. However, China does not play a leading role in

product demand development in the global apparel industry, having few influential international brands (some brands are registered in other countries) and little in the way of high technology.

New forms of Chinese customer behaviours are changing the development of the apparel retail market. Eighty-four per cent of respondents said that Chinese retailers have weak buying power and lack new product development. At the same time, foreign retailers are importing a large variety of products and well-known brands. Fifty-six per cent of respondents show that their management resources and operations are facing challenges from foreign retailers.

#### 5.2.2.3 High Prices

The Chinese retail industry was underdeveloped due to historical reasons, early government policies and China's economic structure. Major problems of the Chinese retail industry are its small scale, backward management, increasing costs and low levels of efficiency, which in turn, are reflected in their prices. Multinational retailers have mostly used frequent price strategies to beat Chinese retailers. Their profits have not been high during the expansion stage, as they have depended on a high stock turnover and their large scale buying and selling. Thirty-nine respondents (71%) have stated that multinational retailers have a price advantage and that a price battle will ensue in the retail market. Chinese retailers are generally discouraged from lowering their prices in response to the entry of a much larger foreign competitor.

#### 5.2.2.4 The Lack of Management Expertise and Technical Skill

Because of the advantages of foreign supermarkets and hypermarkets, results from the questionnaire found that some respondents even considered modifying their retail formats, such as transforming traditional department stores into supermarkets. This format modification may entail significant costs, operating risks and difficulties, while 32 respondents (58%) stated that this idea would be a last resort. The lack of management expertise and technical skill in supermarket operations are the main reasons for 62% of respondents abandoning this idea. As supermarkets and retail stores of various types multiply, Chinese retailers increasingly need expert advice to adapt to new local conditions and to attract

professional staff. Currently, most multinational retailers have achieved successful transfer of their retail formats to China, which is why they have gained a strong competitive position. The negative image of traditional Chinese stores is because of their weak performance.

#### 5.2.2.5 Inefficient Human Resource Management

Thirty-three respondents (60%) complained of high staff turnover in their stores. Retailing is traditionally known as an industry with a high labour turnover, especially for independent retailers. Retail operations are limited in a small-scale retail organisation. This makes them generally unable to meet the salary requirements of knowledgeable individuals. They certainly cannot match the salaries paid by foreign retailers in China.

Twenty-eight respondents (51%) said that Chinese retail employees are older than their foreign counterparts, and this creates a negative atmosphere in the shop. Young Chinese people prefer to work in foreign stores when they are educated, ambitious and have a desire to learn. At times, salary is not as important as the learning opportunities. Moreover, high staff turnover might explain the lack of enthusiasm by management to spend money on staff training.

Twenty-three respondents (42%) do not have adequate on-job-training systems for their employees in order to improve expertise and the sharing of ideas between old and young staff. Foreign retailers provide a large number of training opportunities and development programmes which train qualified individuals for merchandising and management level careers. Hence, Chinese retail respondents complained of a high staff turnover in their store.

### 5.2.3 Chinese Retailer Threats

#### 5.2.3.1 Foreign Retailers Competition

According to findings discussed in Chapter one, the WTO will increase economic opportunities in China even more with the gradual elimination of most geographical and ownership

restrictions by 2005. Twenty-nine respondents (53%) complained that the Chinese government had opened the market for foreign retailers too hastily. Forty-nine respondents (89%) replied they feel that competition from foreign companies is intense for them. The Chinese government had negotiated the General Agreement on Tariffs and to join the WTO over a period of 10 years, which allowed Chinese retailers an adjustment period. The main threat for Chinese retailers is the competition from foreign retailers who are targeting and exploiting the Chinese market.

#### 5.2.3.2 Deflationary Economic Environment

Despite the strong Chinese economic growth, foreign direct investment and a more open economy, 47 respondents (85%) said that they are presently operating in a deflationary economic environment, causing the lowering of product prices.

Deflation is driven by an oversupply, improved productivity and a huge number of foreign products entering the Chinese market. The Chinese market has market-oriented economic reforms; a survey by the state's Economic and Trade Commission shows that at present no single product on the Chinese market is in short supply, and the supply of 86 per cent of the goods on the market exceeds demand (Embassy of the People's Republic of China in the United States of America, 2002b).

A senior Chinese economist stated that part of the pressure comes from foreign products, which have begun to flood the Chinese market following the country's entry into the World Trade Organisation (Anon, 2002). Zhu (2003) explains that deflation may help to increase consumer spending power, raise the standard of living of Chinese residents and weed out weaker Chinese companies.

#### 5.2.3.3 Chinese Customers Behaviour and Preference Changes

In Chinese culture, people are very conservative. The majority of customers are not fashion innovators because of their traditionally conservative views and values. In the past there were

few Chinese people bold enough to try a new fashion or stylish product for fear of criticism from parents, colleagues and friends, as well as bosses. This situation is changing.

In recent years, the Chinese marketing environment has undergone many changes. Forty-five respondents (82%) said that customers have been changing their shopping behaviour and preferences; they no longer buy traditional, cheap and old-fashioned products. They are becoming more sophisticated and have higher expectations in terms of quality and choice. Some customers have even decided what products they will buy before they visit the retail stores. They have not only increased their selection standards on product quality, but their buying is also becoming an expression of personal identity.

Foreign retailers have introduced a large number of foreign products, superior service, persuasive advertising and famous brands to meet customers' demands and they have built good customer relationships, which is why 31 respondents (56%) have stated that Chinese customers are not loyal to domestic retailers.

Fifty-five per cent of respondents indicate that Chinese customers are becoming more demanding, their buying is diversifying and they have depth of brand consciousness. Most consumers prefer the well-known foreign brands to those produced locally, especially in some large cities. They have shown a sense of loyalty to retailers who provide high-quality products, make their customers feel good, and who care about them.

#### 5.2.4 Chinese Retailer Opportunities

China has a robust economy with a rapid growing consumption. It is developing into an definite growth opportunity for retailers and consumer product companies. Sixty-nine per cent of respondents stated that customers' demands are increasing, as is the growing consumer market. More importantly, China has joined the World Trade Organisation. Forty-eight respondents (87%) plan to learn from foreign retailers' management methods and experiences.

### 5.3 Chinese Retailers Counter Strategy

The researcher found three issues that are of serious strategic concern to retailers in China.

According to comparisons with foreign retailers, respondents were first interested in a marketing strategy (83.64%), a brand strategy (78.18%), and a human resource strategy (56.36 %) as the top three strategies. A format strategy (52.73%) and a logistics strategy (45.46%) were placed fourth and fifth respectively. This data was used to establish the research findings and are in relative accordance with the SWOT analysis in terms of what Chinese retailers offered. The reviewed foreign retailers analysis in Chapter four, through the comparison study of both foreign and Chinese retailers, found that foreign retailers implemented their core strategies, which could be perceived by Chinese retailers as the need to form their own counter strategies.

In terms of participants' responses to the strategic choices, the empirical results have shown that most of the respondents pay more attention to four strategic concerns for Chinese retailers' survival - marketing strategy, brand strategy, human resource strategy and format strategy.

**Table 5.1 Chinese Retailers Research Data From a Questionnaire (N=55)**

QUESTIONNAIRES	SENT OUT	RECEIVED	
Beijing	20	16	
Shanghai	20	13	
Shenyang	20	9	
Nanjin	20	17	
TOTAL	80	55	
VARIABLE	FREQUENCY		PERCENT (%)
Gender			
Male	43		78.18
Female	12		21.82
Do you think Chinese retailers face strong competition from foreign retailers?			
<input type="checkbox"/> Strong agree	22		40.00
<input type="checkbox"/> Agree	21		38.18
<input type="checkbox"/> Neutral	8		14.55
<input type="checkbox"/> Disagree	3		5.46
<input type="checkbox"/> Strong disagree	1		1.81
Which strategies do you think Chinese retailers can improve to counter foreign retailers?			
<input type="checkbox"/> Marketing strategy	46		83.64
<input type="checkbox"/> Brand strategy	43		78.18
<input type="checkbox"/> Human resource strategy	31		56.36
<input type="checkbox"/> Format strategy	29		52.73
<input type="checkbox"/> Logistics strategy	25		45.46

QUESTION	RESPONSE & KEYWORDS	FREQUENCY	PERCENT (%)
What are the strengths of Chinese retailers as compared to foreign retailers?	Sound local knowledge and culture.	36	65
	Good relationship with local governments, government-related organisations, such as board of health.	29	53
	A good supplier relationship in local areas.	27	49
What are the weaknesses of Chinese retailers as compared to foreign retailers?	Capital is limited.	47	85
	Weak buying power and lack of new product development	46	84
	High prices compared with foreign retailers' prices.	39	71
	Number of brands is relatively limited.	38	69
	The range of products is relatively limited.	38	69
	Weak cash flow.	37	67
	Shopping environment is poor.	35	64
	Lack of management skills and expertise.	34	62
	High staff turnover.	33	60
	Significant cost, operating risks in change format.	32	58
	Management resources and operations facing challenge.	31	56
	Lose market share.	30	55
	Employees ages and trends are old and negative.	28	51
	Inadequate training systems.	23	42
What are the threats of Chinese retailers as compared to foreign retailers?	Foreign competition is intense.	49	89
	Deflationary economic environment affects retail market (low product price).	47	85
	Chinese customers' behaviour and preference changes.	45	82
	Chinese customers are not loyal to domestic retailers.	31	56
	High level of customer awareness of brand.	30	55
	Chinese government's opening market to foreign companies too quickly.	29	53
What are the opportunities for Chinese retailers as compared to foreign retailers?	Learn from foreign retailers.	48	87
	Customers' demands are increasing.	38	69

## 5.4 Summary of Chinese Retailers

One of the strengths of Chinese retailers is their focus on building healthy relationships with entities such as local governments and organisations. They employ this public relations strategy in the hope of gaining more support. They possess sound local knowledge of regional cultures, and one of their typical promotion strategies is to use this knowledge to promote festival products.

Chinese retailers emphasize the importance of having a sound relationship with their suppliers to ensure a steady supply of goods and suitable prices. Some retailers have attempted to improve their computer systems to increase performance, as part of their logistic strategy.

Chinese retailers also implement discount prices strategy to counter the lower prices of foreign retailers. Chinese retailers can barely survive this cost-cutting due to their lack of capital and higher wholesale costs.

The performance of Chinese retailers compared to foreign retailers, may be summarised as follows:

- Chinese retailers are operating on a small scale and use backward management styles compared with foreign retailers.
- Chinese retailers are generally discouraged from lowering their prices in response to the entry of a much larger foreign competitor.
- Most Chinese retailers still lack the capital support and resources to compete with multinational retailers.
- Chinese retailers' product ranges and brands are relatively limited.
- Most Chinese retailers have a negative retail environment.
- Most Chinese retailers lack management expertise and technical skill.
- Chinese retailers with a high staff turnover are unable to meet the salary requirements of experts and educated staff, or to provide effective staff training.

- Chinese retailers have weak capacities with respect to buying power and new product development.

The final empirical results have indicated that marketing strategy, brand strategy, human resource strategy and format strategy have significant importance for the Chinese retailer who is gradually becoming more skilled in business. They should attempt to improve and develop these strategies for their business survival. However, these strategies alone will not be sufficient as counter strategies to confront and match foreign retailers. According to the discussion in Chapter four, foreign retailers have implemented these strategies to out-perform Chinese retailers, owing to their long-term experience in expansion across the globe.

The researcher has completed further research to find possible counter strategies as solutions to difficulties Chinese retailers face. A detailed discussion follows in Chapter six.

# CHAPTER 6: POSSIBLE COUNTER STRATEGIES FOR CHINESE RETAILERS

## 6.1 Introduction

Wal-Mart, Carrefour and Metro are mainstream retailers in the world with the success of their management models in competitive marketplaces. However, these successful operations have had a relatively high impact on the survival of independent retailers.

Specifically, this thesis describes the substantive threats that have impacted on Chinese retailers with the arrival of foreign retailers. Most Chinese retailers could not only apply the basic concepts of some important strategies of foreign retailers, but also implement counter strategies that suit their business. The main objective of this chapter is to devise some possible counter strategies for Chinese retailers to deal with foreign competition. The possible counter strategies are presented as follows:

**Table 6.1 The Possible Counter Strategies for Chinese Retailers**

TYPE OF COUNTER STRATEGIES
Mergers and acquisitions strategies
Reformed formats strategy <ul style="list-style-type: none"> <li><input type="checkbox"/> Large retail formats strategy</li> <li><input type="checkbox"/> Reformed department store format strategy</li> <li><input type="checkbox"/> Small retail formats strategy</li> </ul>
Chain Strategy
Co-operative strategy
Human resource strategy <ul style="list-style-type: none"> <li><input type="checkbox"/> Staff training strategy</li> <li><input type="checkbox"/> Staff recruitment strategy</li> <li><input type="checkbox"/> Low staff turnover strategy</li> </ul>
Brand strategy <ul style="list-style-type: none"> <li><input type="checkbox"/> Store equity strategy</li> </ul>

- Private label brand strategy

#### Marketing strategy

- Public relations strategy
- Develop Town and Rural Markets Strategy

## 6.2 Mergers and Acquisitions Strategies

In Chapter five, respondents pointed out that multinational retailers are well-versed in pricing strategy, while Chinese retailers are generally discouraged from lowering their prices. Chinese retailers still lack the capital support and resources to compete with multinational retailers as most of them operate on a small scale and have old-fashioned management mainly due to historical reasons. Chinese retailers do not qualify to compete on an equal footing with foreign multinationals within the Chinese market.

These facts lead to increased Chinese retailer costs and reduced efficiency, which in turn are reflected in the Chinese retail consumer prices. Chinese retailers face competition from foreign retailers which forces them to attempt to adjust their strategies and modify their situation. They are still lagging far behind multinational retailers in terms of their scale, strength and cross-region coverage. The perceived weaknesses need an efficient strategy to achieve rapid corporate growth to bridge the gap in the capital, scale, and strength arenas.

Mergers and acquisitions are becoming an increasingly popular strategic option for organisations (McEntire & Bentley, 1996:154). Mergers are commonly characterized by the consolidation of two organisations into one. Acquisitions, by contrast, are commonly characterized by the purchase of one organisation from another, where the buyer or acquirer attains control (Schraeder & Self, 2003:511). Mergers and acquisitions achieve corporate growth that can lead to increased profits through internal or external growth.

There are various reasons for corporate growth and development (Delaney & Wamuziri, 2004:65). Some possible reasons are factors such as size, profit, resources, cost, capabilities, revenue, financial strength, prestige and broad market reach. "Mergers and acquisitions can

be seen as allowing a firm's portfolio of resources to be transformed very quickly. Increasingly, intangible resources are the key motivation behind mergers and acquisitions" (Gupta & Roos, 2001:297).

According to the Chinese retailers SWOT analysis, mergers and acquisitions by Chinese retailers will increase capital support and available cash flow, combine profits and cost cutting, expand geographic scope and increase knowledge. This will consolidate the retail industry in China. The detailed merits of mergers and acquisitions follows:

Efficient and successful mergers and acquisitions strategies have the potential to achieve operational synergies for retailers. Retailers can share the use of systems, resources, buildings, information and distribution. Mergers and acquisitions strategies can increase the market power of buyers, suppliers and competitors. It enables retailers to increase market share through product or service synergies and to expand into new markets. It can increase financial strength, reputation and financial credibility in order to obtain capital from external sources and reduce costs and competition from smaller retailers. In addition, mergers and acquisitions strategies can spur staff ambitions and the drive for power and status. This effect is a benefit and challenge for human resource management.

As the WTO brings a more fair and transparent business environment into China, foreign retailers face little competition from Chinese retailers in terms of their strong capital resources. They look set to strengthen their position, especially as some retail multinationals have no comparable Chinese retailers. Chinese retailers need to utilise opportunities of combining or merging their large retail groups into one organisation with significant competitive advantages, as it's vital to create a competitive basis. If Chinese retailers want to become more powerful economically and more competitive, they need to build through size, and improve organisational operations in order to improve customer service. Mergers and acquisitions will become a critical strategy, likely to be implemented in the Chinese retail market.

The researcher suggests that mergers and acquisitions become a platform to expand a market or increase market share. Mergers and acquisitions will play key roles in Chinese retailers'

survival and success. Chinese retailers will then be qualified to confront and compete with foreign retailers on a more equal footing.

### 6.3 Reformed Format Strategy

Mergers and acquisitions strategies are significant activities in the Chinese retailing industry. The researcher suggests that the merged retailer groups should be divided into sub-units according to the main types of retail formats such as hypermarkets, supermarkets and department stores, in contrast to traditional Chinese retail formats, such as counter service. The researcher has summarized some new formats for traditional Chinese retailers (see Table 6.2). The influence of foreign retailers has grown rapidly via supermarkets and hypermarkets; they fit into the large self-service retail format, which has been embraced by Chinese customers. Customers appear keen to see any new retailing format. Through the survey of Chinese customers, the researcher found that most of the shoppers felt that this way of shopping had become part of their lifestyle, as mentioned in Chapter four.

**Table 6.2 Classifying Reformed Retail Formats for Chinese Retailers**

TYPE OF BUSINESS	LOCATION	MODE OF OPERATION
Supermarkets	Residential areas, transportation centres, commercial districts.	Self-service.
Department stores	Business centres, transportation centres, commercial districts	Mainly self-service, counter sales, open-shelf display.
Hypermarkets	Transportation centres, suburbs	Self-service, open-shelf display.

### **6.3.1 Large Retail Format Strategy**

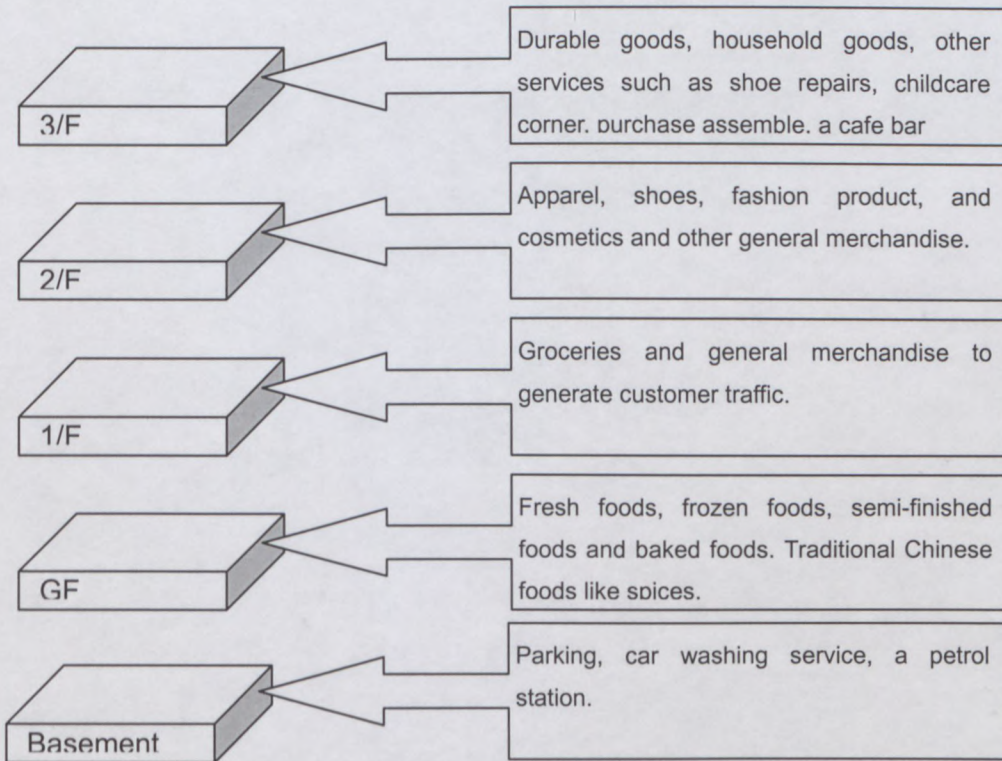
Large format retailers not only increase the overall competitiveness of Chinese retail marketplaces, but they may also act as a retailing magnet by drawing and attracting the huge number of potential consumers from surrounding communities. The large formats are popular among big multinational retailers and pose a serious challenge to traditional retailing. The large-scale retail formats are fairly new in China and have the potential to displace smaller, independent Chinese stores. Chinese retailers should copy these western big-store formats and seek to establish large retail stores to match the requirements of one-stop shopping and shopping as leisure activity for Chinese customers, reflecting the changes in their lifestyle and buying behaviour.

### **6.3.2 Reformed Department Stores Format Strategy**

In addition, Chinese retailers have a long history of operating departmental stores, which have many traditional features, such as counter service. Department stores have formed an important part of the Chinese retailing system till now. New formats need to be introduced alongside the traditional department stores (see Table 6.2). Chinese ground and store rental fee is high, so most department stores are multi-storied. The researcher has designed a multi-storey format for Chinese retailers (see Figure 6.1) to meet different segments of consumers.

Successful retailers should see the close connection between customs and customers. One way to develop a customer base is to make a product a part of their everyday life. According to the Chinese customer survey customers retain a deeply entrenched food culture. In this context, retailers could increase fresh foods, frozen foods, semi-finished foods, baked foods and traditional Chinese products to meet the different demands of consumers. Department store retailers who depend largely upon their target customers, could expand their services to include areas for childcare, purchase assemblies and prepaid customer transactions as well as handling facilities. These are important in-store services, which will contribute to the upgrading of Chinese department stores, especially since the idea of consumer service has become increasingly important. The researcher designed these in-store services for the top floor.

**Figure 6.1 Design for a Chinese department store using a multi – storied store format to capture different segments of consumers**



In addition, format strategy is closely relevant to store environment design, layout, product presentation, space allocation and fixtures. Chinese retailers should build a positive retail environment to match their changing retail formats. This important factor becomes very apparent when customers compare foreign retail stores to Chinese retail stores when they choose a shopping location.

The reformed format strategy identifies the central elements relating to a Chinese retailer versus other strategies. In the marketing strategy, Chinese retailers will need to strategise in a manner to include e.g. selling well-known foreign brand products and own brand-name products to diversify product lines, increasing promotional efforts, improving product quality, providing excellent service, and providing good retail environments and facilities. In human resource strategy, Chinese retailers should hire foreign retail experts or contract foreign management and consulting teams to conduct Chinese retailer reform formats development, hire experienced Chinese managers from foreign stores to join Chinese retail stores. This is also a productive way to support the development of format strategy. In addition, staff

recruitment and training in format strategy is an important contribution. Chinese retailers should train their staff in programmes, which should extend to include an explanation of the rationale of the retail formats offer, their positioning and implementation.

### **6.3.3 Small Retail Format Strategy**

Supermarkets, hypermarkets and department stores, are large retail formats that fit large merged Chinese retail organisations carved out for new markets, while some small retailers are not able to adopt to large retail formats. Because of their small retail formats and small capacities, they are positioned in markets with small premises, such as convenience stores or specialty stores. China has a huge market for convenience stores due to the dense Chinese population. The amount of traffic and public spaces does not permit many people to own vehicles, even though they can afford it. For this reason, many people still use public transport and ride bicycles for shopping purposes, which creates difficulties at times, especially after shopping at supermarkets and hypermarkets. Therefore, a huge market potential for convenience stores has interested foreign retailers in preparation for the ensuing battle. However, small Chinese retailers will lose their advantages as foreign retail giants, such as the United States' based 7-eleven will open more stores in the cities and local communities.

The researcher suggests that small Chinese retailers should upgrade their existing small retailing stores in particular, such as changing the traditional convenience store format to new convenience stores that cater for customers' needs with self-service in residential areas, along major trunk lines, near railway stations, hospitals, entertainment facilities, government departments and public institutions. Location is an emphasized point when it comes to convenience stores. Chinese retailers should build a brand image of fashion, health, friendliness, instant service and convenience for customers' emergency and leisure needs. Convenience stores should implement long business hours for the convenience of customers in local communities.

Chinese retailers should determine to change and modify their traditional retail formats and extend them through chain operations. Reformed Chinese retail formats should mainly

account for supermarkets, hypermarkets, self-service department stores and convenience stores. These retail formats have identified retailers' capabilities and would serve as a unifying component of the competition. Retail formats will identify the central elements to conduct other retail strategies in a retail organisation.

#### **6.4 Chain Strategy**

According to the foreign retailers' survey discussed in Chapter four and the Chinese retailers' SWOT analysis discussed in Chapter five, at present, multinational retailers adopt multi-store formats through a cross-region to form their chain structure, specializing in chain store operations. The success of foreign retailers have depended largely on their ability to master the challenges resulting from the vastness of China and the varied regional economic development, as well as their ambitious moves from first-tier cities to second-tier cities.

However, the majority of Chinese retailers mostly retain a small chain or a single store with a small scale in a single region, which is not open to rapid geographic and profit growth, as compared to foreign retailers. Most Chinese retailers are independent retailers, as described in Chapter one, which is a small-scale retail organisation owned and managed by private individuals, with less than 10 branch stores. The number of Chinese retail branch stores is less than the number of foreign retailers in the Chinese market. Merged large Chinese retail organisations could venture in becoming chain operations. If Chinese retailers can master the chain operations, it could prove to be an efficient way to survive the challenging competition from foreign retailers. The researcher has summarized the advantages of chain stores:

- Chain stores offer a major advantage in the opportunity to standardize retail formats, management, and operations. Chain stores have widespread sales networking abilities. It can gain advantages in the economies of scales and geographic of scopes.
- Chain stores can pool their resources and thus reduce the amount of money that each store or branches spend on advertising, as an example.
- Retail chains have access to varied advertising media. Large national chains can advertise in network television programmes, national newspapers, magazines and radio

to build their reputation.

- Retail chains can gain scale economies in distribution and information systems. A large chain can gain cost efficiencies by performing own shipping, storing, and order processing, thereby reducing its reliance on wholesalers (Ghosh, 1994:40). In order to match large retail chain sizes, Chinese retailers should focus on the strategic role of the distribution centre, by gradually turning their traditional warehouse into a distribution centre. The retail chain operation will supply a development opportunity for logistics management.
- Retail chains gain an important advantage in their bargaining power with suppliers, merchandise and advertising because of their larger size. Suppliers also look forward to taking the advantage of chain stores to enter into more cities and reduce costs. Chains can obtain special price concessions from manufacturers and suppliers, whereas small retailers cannot.

In addition, chain stores have a broader management base with staff who specialize in specific retail activities, such as cross-culture training, procurement at national and multinational levels and flexible supply chain management. These are some of the advantages to encourage Chinese retailers to adopt chain operations and multi-store formats across a region to form their chain structure. A retail chain strategy would be a lifeline for many Chinese retailers to combat foreign competition.

### **6.5 Co-operative strategy**

In general, small retailers have to sell goods at prices higher than supermarkets and hypermarkets, and are therefore unable to compete with the larger retailers, because it is hard for them to bargain with powerful suppliers and big companies such as Coca-Cola and Procter & Gamble. Large suppliers and big companies are able to squeeze retailers' profit margin because they are more powerful. In order for the smaller Chinese retailers to develop, they should reduce friction with suppliers, so that they may gain some of the buying power advantages. The researcher suggests the implementation of a voluntary retail chain strategy

for independent Chinese retailers' co-operatives. The independent Chinese retailers should be able to fight against multiple foreign retailers by becoming a member of a voluntary retail group.

"A voluntary retail chain is a co-operative venture between a group of independent retailers with the aim of achieving benefits through co-ordination of logistics activities, purchasing and marketing activities" (Rokkan& Buvik, 2003:248). Voluntary chains of retailers engage in bulk buying and collective merchandising, unlike co-operate chains. By co-ordinating the purchasing strategy within retail chains, the members of the chain can achieve a collective market power and better terms of trade when dealing with their suppliers through a central buying organisation in the purchasing alliance.

Voluntary chains developed in Europe and United States, could become a new retail definition for Chinese retailers, especially because the threats of decline and bankruptcy had intensified, since China fully opened its retail market. Small retailers are becoming bankrupt and declining, battered by aggressive competition from increased foreign retailers. Small Chinese retailers need to fully prepare themselves to unite and sharpen their competitive edge against challenges from foreign retailers. It is time for Chinese small retailers to consider forming voluntary chains as their survival would depend on it.

Small Chinese retailers should organise themselves into groups and use their purchasing power to enter into more advantageous purchasing agreements with their suppliers, buy in bulk at discount prices, and then be in a position to pass on this discount to their customers. Voluntary chains will be able to form competitive prices compared to large retail organisations. Chinese retailers can then set prices effectively and be competitive. Member retailers may collaborate in commodity procurement and distribution in business operations, while retaining the ownership of their existing assets and independently conducting financial audits and management. Voluntary groups have a strong brand identity and would stock a range of own-label products. According to some of the advantages mentioned above, the voluntary chain strategy would suit these weak, independent Chinese retailers and ensure their survival.

## **6.6 Human Resource Strategy**

### **6.6.1 Staff Training Strategy**

Within the context, retail organisations that choose to grow through mergers and acquisitions need the necessary human resource skills to combine different work processes and cultures. Human resource management have new roles to play. The researcher suggests that human resource strategy focuses on work harmony, building team spirit, enhancing employees' values, work attitudes, and various kinds of training programmes, such as technology training, as emerged organisations should update their technology and knowledge. Chinese retailers should ensure that their employees are provided with the necessary training and support processes to be able to cope with the new changes.

### **6.6.2 Staff Recruitment Strategy**

Emerged retail organisations can focus on staff recruitment and selection as well. In the event of recruitment, the researcher suggests that retail employees should mainly recruit from the educated young Chinese people from schools, colleges and universities for Chinese retailers. Young Chinese people are eager to gain knowledge and new things as young people have ideas on innovation and are enthusiastic to work. They will not consider salary issues when they identify what they would like to gain through training and learning opportunities. Some of them even accept low entry-level wages. Those young people recruited will create a positive atmosphere in the stores. Employers will benefit from young employees, creating high morale and lower absenteeism. On the contrary, large retail organisations may pay higher wages than their foreign competitors to hire retail experts or consulting teams, according to their organisations' needs. In the event of staff selection, recently the Chinese economy has acquired many talents, allowing employers to be selective about the employees they want. They would need to hire the best, by developing effective hiring and selection skills, which are important.

### 6.6.3 Low Staff Turnover Strategy

Finding good staff is one thing, but getting them to stay is another. In order to attract educated young employees and satisfy their curious needs, retail organisations should set up flexible work arrangements, training programmes, career development and promotion schemes to attract better qualified staff and talents, by performance appraisal, corporate policy adaptation and by establishing positive organisational culture to clearly define the responsibility of each employee. This will increase employees' current and future professional and personal value.

Retail organisations should retain younger employees who can speak English and other foreign languages as part of their skills development. English-speaking staff, should be placed in management positions, which will be of benefit to Chinese retail organizations in order to perceive and understand foreign retailers' information and operations. The environment of constant change means that Chinese retailers should pay particular attention to cultivate competencies in their human resources. These activities would be effective ways of dealing with human resource management for Chinese retailers.

According to the Chinese retailers survey respondents stated that Chinese retailers have a high labour turnover in their retail organisations. These are some of the circumstances, such as salary levels, benefits, personal development, management style, size of the company and internal problems that will cause labour turnover and staff to resign.

A successful organisation will be one, which can attract, develop and retain employees who have the ability to manage an organisation. This means that high labour turnover is inevitable and almost universal in one organisation, but most are preventable. An organisation will reduce and retain efficient talents. The researcher suggests that Chinese retailers maximize the use of human capital invested to deal with high staff turnover issues and should adopt practices as follows:

- Select and recruit new employees carefully, and identify a match between employees' skills, skill development potential and the needs of the retail organisation. It is also advisable to look for a match between the employee's work ethic and that of the retail

organisation. The selection of employees in smaller retailer organisations require even more attention due to employees in smaller stores, who are required to perform a greater variety of duties than the specialists in large stores.

- Keeping staff motivated through incentives and training programmes, continuing education and employee development opportunities. Retail organisations should be balanced with the ability of the individuals in it to develop to their full potential.
- Retain good employees by providing them with appropriate salaries for job level, flexible rewards , compensation, welfare and bonuses that are effective. In general, the smaller retail stores cannot offer the typical benefits as the large retailers do, but they can provide greater incentives through larger employee discounts.
- Empower employees by treating them as colleagues, sharing information openly, engaging them in problem solving, team responsibility and sharing profits with them.
- Improve job environment, increase job satisfaction and productivity, reduce work stress in order to increase energy and creativity.
- Honour employees by recognising and rewarding them for their contributions, achievement, innovation and work efficiency.

In spite of this, lack of a sound human resource development strategy is a common deficiency in many policies and plans (Liu & Wall, 2005:691). Chinese retailers should develop organisation policies and rules, especially in merged organisations and establish and form an organisational culture to increase corporate consolidation. In addition, some large Chinese retailers should be more involved in social responsibility programmes and public welfare to increase the organisation's reputation. Adequate human resource management is vital if an organisation wants to survive. This thesis suggests that large independent retailers need to learn from and select appropriate elements from advanced human resource management strategies as practised by multinational retailers.

## **6.7 Brand Strategy**

China dominates world manufacturing because of its low-cost labour, and thus far, most Chinese companies have been content with the role of original-equipment manufacturer

(OEM), supplying the world's biggest brands and retailers' private labels with products ranging from toys to television sets (Gao, Woetzel & Wu, 2003). In general, large Chinese manufacturers use foreign technology to produce branded products for labels registered by overseas companies, and then try to develop their own technology and products.

In the past, Chinese manufacturers have sold their own products to Chinese retailers without establishing their brands as influential national brands. Chinese brands tend to have lower price due to simpler packaging and lower advertising costs. Indeed, the Chinese government does not measure a company's worth in terms of its brand value, as the concept of brand value and brand equity, is still relatively strange in China. The brand effect on the consumers' willingness to buy is considerable. Foreign brand name products can translate into high profits and they are more profitable than local Chinese products. Consequently, Chinese brands tend to have lower market shares than foreign brands (Bowles, 1998). Foreign retailers are more competitive than Chinese retailers. Chinese brands are losing ground to their foreign rivals, and most Chinese retailers are negatively affected by Chinese manufacturers supplying unbranded products, according to the Chinese customers' survey.

In brand strategy, a growing number of foreign retailers are mainly relying upon two-way approaches to gain Chinese market share. The first is to introduce a large number of foreign brands into the Chinese market, and the second is by selling own-brand products to introduce their lowest-price strategy, using their logo packaging to highlight their own-brand concept. Most consumers prefer imported foreign brands to those produced locally, according to the foreign retailers' survey discussed in Chapter four.

Brand creation and brand management are essential for success and profitability in the business process. Branding is a critical aspect of retailing, and any company will find branding a useful tool no matter what size it is. Proper brand management improves retail sales, fuels profitable growth and increases the market. The researcher suggests that Chinese retailers focus on brand building and proposes some brand strategies for their survival.

### **6.7.1 Store Equity Strategy**

Chinese retailers need to establish the retail store as a brand to develop store equity. Wal-Mart, Carrefour and Metro, are strong global brands and their stores have a relatively high influence and reputation among Chinese customers. Chinese customers readily accept foreign retailers who offer extended shopping hours and have become loyal customers. This indicates that retail store equity can increase the ability of retailers to compete, as well as generate their growth and profitability for business expansion.

Chinese retailers, especially retail chain store retailers, should recognise the advantages of retail store equity. Brand equity as an asset can be used as a source for a long-term competitive advantage, which will allow the Chinese retail organisation to grow and establish that as a strategy for survival. Chinese retailers need to develop their stores, customers and equity.

Developing a brand is a long-term goal and can take many years and cost money. Chinese retailers need to prepare themselves to spend effort, time and large sums of money, make extensive use of the media to win the public's trust. To build store equity requires a long-term commitment to providing pleasing shopping experiences and cultivating customer loyalty.

### **6.7.2 Private Label Brand Strategy**

Chinese retailers need to build and market private label brands to establish a unique brand image that bears or suggests the name of the retailer (Sheinin & Wagner, 2003:201). According to the literature review, the private label brand concept has a longer development history in western countries, and has accounted for considerable revenue and growth for foreign retailers. The private label brand strategy could carve out a bigger market share to attract price-conscious customers, who are more likely to buy private labels that provide the same quality. Chinese retailers should effectively respond to foreign retailers' cheap private-label products strategy.

Chinese retailers have mainly sold manufacturers' brands for a long time. So far, these brands have had to compete for consumers' attention and face competition from foreign brands. Chinese retailers have little knowledge of private labels. Chinese retailing is still in the initial stages of developing private labels. The retailers need to play a more determined role in the success of their own label. The researcher proposes some practices to help Chinese retailers establish their private label brands:

- Retailers could draw on internal funds for the branding, packaging, production and advertising of their private brands, provide a deep well of marketing and advertising images, create greater tangibility and depth of brand meaning. Retailer promotional support can significantly enhance private label performance to maximize their investment return.
- The retailer could position the store brand to mimic the leading brand, weight, ingredients and packaging. Own-brand items should maintain a reasonable quality and retail prices should be lower than manufacturer brands.
- Retailers could form partnerships with local manufacturers to develop a wide range of private brands to strengthen their bargaining power when negotiating with other manufacturers of national brands and in this way increase their market share.

Retailers could study consumer behaviour to improve their understanding of branding and the design and implementation of brand building (Keller, 2003a). Chinese consumers are presented with a greater number of choices in terms of store numbers and brands available on retailers' shelves. They are growing in brand awareness and becoming increasingly sophisticated. The third strategy which Chinese retailers could use to draw customers to their stores is to advertise leading national brands, as well as reputable foreign brands, and then expose them to their quality own-label branded goods.

## **6.8 Marketing Strategy**

Peterson and McGee (2000:172) summarized a large amount of empirical literature of consultants, business writers, and retail experts who argue that small retailers need to adjust their marketing strategies to reduce the competitive pressures created by the arrival of Wal-Mart and other large format retailers. They state that incumbent merchants should engage in activities such as pruning products, increasing promotional efforts, adding new products, and/or diversifying into other lines of business. Chinese retailers should learn from foreign retailers' advanced marketing management. They should implement marketing strategies that stress quality rather than rely on price all the time; increase product ranges; provide excellent service and improve store environment and layout. Chinese retailers should be more open to promotional advertising in the places where customers shop.

### **6.8.1 Public Relations Strategy**

Public Relations involves a variety of programmes designed to maintain or enhance a company's image and the products and services it offers. Successful implementation of an effective public relations strategy can be a critical component to a marketing plan. A public relations strategy may play a key role in an organisation's promotional strategy (Berry & Wilson, 2000). The research suggests that Chinese retailers should build good press relations to communicate news and information of interest about their organisations in the most positive light. They could sponsor various efforts to publicise their retail services, and communicate with key municipal and government officials to influence legislation and regulation affecting foreign investment. For example, where the business environment is showing an increase in hostility between foreign and Chinese retailers, the local retailers could lobby for government protection to defend their markets.

### **6.8.2 Develop Town and Rural Markets Strategy**

The opening up of the Chinese market can be seen in terms of the expansion of foreign retailers from first-tier cities to second-tier cities. Large and medium-sized cities, owing to their

rapid development, have become over-supplied and have now reached saturation point. Competition in these regions has intensified and the need to accurately target specific consumer groups has been heightened. The researcher suggests that small Chinese retailers enter the town and rural markets, which offer lower competition and could provide a big part of sales for them.

This thesis illustrate a successful logistics strategy for multinational retailers to implement flexibility and efficiency operation by nationwide procurement and centralized distribution in China, introduce distribution center strategy and advanced logistic system for local retailers, but distribution centres are not viable for all retailers. If a retailer has only a few outlets, then the expense of a distribution centre is probably unwarranted. Small retailers mainly adopt direct delivery in the supply chain.

## **6.9 Summary of Possible Counter Strategies for Chinese Retailers**

This chapter has focused on a comparative analysis of both foreign and Chinese retailers to establish some possible counter strategies for Chinese retailers to increase their core capabilities for the immediate future:

- Most Chinese retailers operate on a small scale and have less effective management,; they have limited cash and are generally discouraged from lowering their prices in response to the entry of much larger foreign competitors. Merger and acquisition strategies are pathways to sales and asset growth in retailing. Mergers and acquisitions can be used as a platform to expand a market or increase market share for Chinese retailers.
  
- Foreign large-scale retail formats are a fairly new concept in China and have the potential to displace smaller Chinese independent stores. Chinese retailers should study western advanced store formats and establish large retail formats to meet the requirements of one-stop shopping and shopping as leisure in terms of Chinese customers' lifestyle and buying behaviour changes.

- The majority of Chinese retailers have small chains or single stores with small scales in a single region, incompatible with rapid geographic spread and profit growth, as compared to foreign retailers. Retail chain operations could be a counter strategy for merged large Chinese retail organisations.
- Small Chinese retailers could upgrade their existing small retailing stores, and consider forming voluntary chain. This could help to unite and organise small Chinese retailers into groups and use their purchasing power to enter more advantageous purchasing agreements with their suppliers, buy in bulk at discount prices, and then be able to pass on this discount to their customers.
- Chinese retailers could maximize the use of human capital invested to deal with high staff turnover issues, focus on staff recruitment and selection, provide the necessary training and support processes and provide appropriate pay.
- Chinese retailers could use the attraction of leading brands and reputable foreign brands to draw customers and establish private brand and store equity.
- Small Chinese retailers could enter town and rural markets which provide less competition and could prove to be a big part of sales for them.
- Chinese retailers could study and copy successful retailers on ways to plan strategies for their development.

## CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

### 7.1 Introduction

China is a rapidly growing economic country, with the largest population and the largest market for consumer goods in the world. China's large and growing consumer population practically guarantees large profits for foreign investors. When China joined the WTO and opened its market, it represented an enormous opportunity for foreign companies who found its potential size, improved political stability and markets very attractive. A growing number of foreign companies has increased their investments and expanded within the Chinese market. They implemented advanced retailing management techniques and experience, enabling them to overtake the small-scale Chinese retailers. An increasing number of foreign retailers utilise aggressive strategies and have developed footholds in China to claim a share of the Chinese retailer market. Foreign retailers in China play a significant role which is gradually changing the traditional Chinese model of shopping, retail management and customer behaviour.

Chinese retailers face socio-economic reform, policy and regulation adjustments, consumer changes and the entrance of foreign retailers. However, in realizing the threats, they are inadequately prepared to compete with foreign retailers in the Chinese market. When Chinese protection regulations gradually lose their effectiveness in protecting local businesses, the Chinese retailer will face two options; one is to succumb as the weaker competitor in a process of Darwinian natural selection, the other is to adapt their retail strategy and survive the challenges from foreign retailers.

According to the data collected and analysed from foreign and Chinese retailers, the central focus of the thesis relates to Chinese retailers' need to be informed as to how to implement strategies to survive challenges from competition with foreign retailers. Survival should not be viewed in a negative light by Chinese retailers. Rather it should be viewed as a need to focus on intensive market knowledge, such as a sound understanding of customers, foreign retailers and the market environment, and to analyse their own weaknesses to adopt effective counter strategies to regain their market share.

## 7.2 Summary of the Foreign Strategies

Chapter four focused on a study of the strategies used by Wal-Mart, Carrefour and Metro, which served as management references and were compared to that of Chinese retailers. Wal-Mart, Carrefour and Metro are powerful retail brands with advanced management, flexible strategies and a high reputation. They are mainstreams in global retailing and maintain their ambitious growth strategy to actively expand within the Chinese market. Expansion in China will enable Wal-Mart, Carrefour and Metro to consolidate their position in global retailing; most other foreign retailers, in terms of their successful management, use that as a benchmark. Wal-Mart, Carrefour and Metro are becoming a mirror reflection of the general characteristics of the foreign retailers in China.

In terms of the comparison of strategies in China of Wal-Mart, Carrefour and Metro, the researcher found some typical aggressive strategies, which are supported by the three retailer corporations. These typical strategies show the following practices:

- In marketing strategy, foreign retailers provide high quality products at the lowest prices to build the reputation of their organisation and to draw customers to their stores.
- Foreign retailers strictly require their employees to provide excellent customer services and they possess a strong capacity for innovation.
- Foreign retailers emphasize the creation of a friendly and convenient retail environment.
- In brand strategy, foreign retailers introduce and provide foreign brands to increase Chinese customer brand awareness and to meet customer demands.
- Foreign retailers co-operate with other partners to develop a co-branding strategy; they also make their own private label brands and monitor brand quality to shape a unique corporate image.

- In human resource strategy, foreign retailers stress the importance of cross-cultural training, provide employees with career training, education and incentives, and employ Chinese talents in their management levels to take advantage of their knowledge.
- In format strategy, foreign retailers have introduced new retail formats into China and have adapted these to Chinese market needs to gain a strong competitive position as well as scale of economies. These are particularly effective as large foreign retail formats have a strong advantage in attracting Chinese customers.
- In logistics strategy, foreign retailers have developed bargaining power advantages in negotiating with Chinese suppliers, established distribution centres and procured mass goods from China, emphasizing logistics technology.

The researcher summarized several characteristics of Chinese customers' purchasing behaviour from the Chinese customers survey:

- The higher income group and younger customers possess strong purchasing power, and household consumption occupies the main proportion of spending in the market.
- Shopping is a popular weekend pastime for Chinese customers, who regard it as a leisure activity. Customers pay attention to shop in-store environments, layout promotion and service. Retail store advertising has a significant influence on their decision to purchase.
- Customers are becoming increasingly aware of quality and are becoming more sophisticated and discerning, moving gradually from finding the best price to seeking the best quality.
- Customers are becoming loyal to certain brands and prefer foreign brands, especially when it comes to fashion items and new products. Foreign retailers can introduce a number of high reputation and quality foreign brands, which are extremely attractive to Chinese customers.

Foreign retailers are globally more advanced than local retailers and are gaining a foothold in the most important geographic markets. They identify with customers because of their long-term experience. One symptom of this is their rapid response in catering for consumers' increasing sophistication and demands. They are successfully dominating the retailer market, while contrastingly, Chinese retailers are losing their market share. The competition between local and foreign retailers is becoming increasingly intense.

### 7.3 Summary of the Chinese Strategies

China represents one of the fastest growing economies with major opportunities for foreign investors in the world. Its retail sector is expanding with its economic growth, particularly in the major economic cities. China has opened its market by relaxing government policies, and it has become an important destination for foreign retailers. Most foreign retailers have shown keen interest and have taken this opportunity to move into Chinese markets, and this has become a threat to local retailers. Foreign retailers in China play a significant role in bringing about changes in the Chinese retail environment.

The Chinese retailers survey and the SWOT analysis reveal that Chinese retailers hold a sound local knowledge and a good relationship with regional government and government-related organisations. Support from the Chinese regional government is a vital factor for retailers in China. In addition, most Chinese retailers have a good supplier relationship with their local suppliers.

The management of a small business is very different from that of a large corporation. The management of strategy is primarily a process of responding to changes in the environment and using scarce resources. Due to historical reasons, Chinese retailers operate on a small scale. They have less effective management, lack sufficient strength and technical skills, are low on management expertise, and suffer negative effects from the increase of costs and inefficient operations, high consumer prices, limited product ranges and unattractive store environments.

Chinese retailers lack the capital support and resources to compare with multinational retailers. Therefore, Chinese retailers have relatively weak capacities for buying power and new product development. In human resource management, Chinese retailers generally are low-paying, which leads to high staff turnover in their stores. Most Chinese retailers have no adequate on-the-job training systems for their employees and are not able to match foreign retailers' advanced training systems. Facing challenging competition, Chinese retailers have serious and urgent problems on how to create counter strategies to remedy their disadvantages, and renew their competitive advantage.

#### **7.4 Summary of Recommendations**

According to the foreign and Chinese retail study, the researcher found that Chinese retailers are not competing on an equal footing with their foreign counterparts, which leads to Chinese retailers not being able to implement effective retail management and operations to confront foreign retailers. Therefore, as stated in Chapter 6, these are some important counter strategies for Chinese retailers:

- Mergers and acquisitions strategies are pathways to sales growth, asset growth and profit growth in retailing to help Chinese retailers extend scales and improve management.
- Retail format strategy could change and upgrade traditional Chinese retailers to meet the requirements of one-stop shopping and leisure shopping for customers in relation to changes in customers' lifestyles and buying behaviour.
- Implementation of a chain strategy to form large chains to encourage rapid geographic and profit growth could be an efficient way to survive the challenging competition.
- Voluntary chain strategies could help to unite and organise small Chinese retailers into groups to improve operating efficiency and buying power, as their very survival is under threat.

- In human resource strategy, Chinese retailers could maximize the use of human capital to deal with high staff turnover issues; they could focus on staff recruitment and selection, and provide staff with the necessary training, rewards and incentives.
- In brand strategy, Chinese retailers could use the attraction of leading brands and reputable foreign brands to draw customers, establish their private brands and store equity.
- In marketing strategy, Chinese retailers could employ marketing strategies that stress quality, increase product ranges, offer excellent service and improve store environments and layout. Chinese retailers could be more open to promotional advertising in places where customers shop.
- Small Chinese retailers could enter towns and rural markets that have less competition and could provide a big part of sales for them.
- Chinese retailers could study, copy and improve upon the strategies that successful retailers have followed, and develop strategies for their own development in order to take advantage of new opportunities and avoid threats in the environment.

In addition, the researcher summarised some recommendations to assist Chinese retailers to survive foreign competition, as follows:

In particular, Chinese retailers face a growing threat from their competitors in China. Chinese retailers could become more sophisticated by developing a deeper understanding of customer requirements and improve their operations. They need to learn how to anticipate multinational retailers' future moves and strategies in the Chinese market.

## □ Chinese Government Support

Support from the government has been a crucial factor in China. The Chinese government could place a lot of pressure on Chinese retailers to continue their rapid development. International retailers have caused competition in the retail sector to become overheated in China. The researcher suggests that the Chinese government needs to take action to maintain some form of competition against the likes of Wal-Mart, Carrefour, Metro and other global corporations with aspirations in China. For example, the Chinese government could carry out policies to guide and encourage mergers, acquisitions and chain operations among Chinese retailers, thereby making entry into the market harder for foreign retailers. The Chinese central government could exercise some control, primarily to protect Chinese retailers, by implementing a permit process for the opening of businesses by foreign retailers, and requiring them to offer shares in the companies to their Chinese employees.

Foreign retailers order and procure large amounts of goods from China because Chinese labour is cheap and they implement strong bargaining powers to squeeze Chinese suppliers' costs. This results in Chinese labour working long hours for low salaries (see Appendix E). The researcher suggests that the Chinese government could focus on workplace conditions and the salaries paid to Chinese manufacturers supplying foreign retail corporations. They could also monitor Chinese suppliers and protect Chinese labour rights. The Chinese government could require foreign retailers to allow Chinese trade unions to organise workers in their stores. The media in China also have a responsibility to protect Chinese labour rights.

Moreover, Chinese provincial governments could take initiatives to support and encourage Chinese retailers to develop hypermarkets, supermarkets and chain store operations. The Chinese government needs to inform Chinese chain store retailers that they are crucial to boosting consumer spending that would promote Chinese economic growth.

## □ Shopping Bankcard Development

It is clear that social values are changing. The Chinese customers questionnaire revealed the acceptance of a shopping bankcard from retailers, especially by young people who want to purchase more freely and conveniently. Credit card use is important for electronic retailing as well as for store-based sales. It could be beneficial for banks to expand consumer credit options and to stimulate consumer consumption in this regard. The researcher suggests that large Chinese chain retailers and Chinese banks could pursue a multi-brand strategy, offering specific services and brands to cater for their clients. In order for shopping bankcards to offer the same great value for money, there should be incentives such as competitive bank charges and interest rates, and benefits for customers.

## **7.5 Future Research**

In terms of fundamental differences between goods and services, marketing academics have divided them into two parts, which are goods retailing (department stores, supermarkets) and service firms (airlines, restaurants). This thesis has focused on goods retailing research, due to the fact that most foreign retailer corporations, which are mass merchandisers or grocery retailers, have developed outside their home markets with company-owned retail chains as their entry strategy. This entry strategy relies upon total control over competitive advantages and complete strategic control by retailers. It also involves high investment expenses with no financial risk-sharing.

However, most of the foreign service firms have expanded into new geographic markets under the same name by franchising, for example McDonald's, KFC, Pizza Hut, Dairy Queen, Dunkin' Donuts and Subway. These fast food chain retailer corporations have developed an international presence through the use of franchising strategy and are also showing great flexibility in their strategies in the Chinese market. For instance, fast food meals are based on burgers and fried chicken (Schroder & McEachern, 2005:213). However, China's KFC has introduced new breakfast items to meet local food culture demands, including Chinese porridges which many Chinese have for breakfast instead of sausage and bread. China's KFC

engaged in a partnership and co-branding strategy, and opened KFC restaurants inside multinational retail stores in shopping districts. Foreign fast food retailers are employing an increasingly wide range of strategies to establish their presence. The researcher selected the Chinese fast food industry because it is one of the seven fastest growing markets in the country and one of the most rapidly developing fast food markets in the world (Laroche, Kalamas & Huang, 2005: 674).

In terms of market entry mode strategies available to international retail companies, franchising has proved an increasingly popular mode of operation in recent times (Quinn & Doherty, 2000: 356). Retailers appear to have found franchising to be a valuable means by which to develop their businesses, both domestically and abroad (Watson, Kirby & Egan, 2002:228., Watson, Stanworth, Healeas, Purdy & Stanworth, 2005:25). Franchising is a contractual agreement between a franchisor and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchisor (Levy & Weitz: 2001:65). In a franchise contract, the franchisee pays a lump sum for the right to operate a store in a specific location. The franchisor provides assistance in locating and building the store, developing the products and/or services sold, advertising, and management training to build each partner's core competencies, knowledge and efficiencies.

Franchising strategy emphasizes standardization and reduces financial risk, at the expense of cultural sensitivity and control. Franchising will help fast food retailers reach more customers by opening more outlets, especially in remote cities, due to the fact that it enables the foreign entrant into a relatively unknown market to understand local business customs, culture, laws and marketing characteristics more quickly.

In contrast to domestic franchise activity, the internationalisation of franchising has received limited academic attention (Quinn & Doherty, 2000:357). Currently, fast food retailers implement franchise strategies very profitably in China. Education reduces the amount of employee training that is needed, which means that China is ready for franchising because the country now has a bigger pool of educated people that can be employed to run foreign restaurants.

In the internationalisation of franchising activities, KFC is a pioneer as the world's leading chicken quick-service restaurant company. KFC's 700 restaurants are in more than 150 cities nationwide, including 30 provinces and autonomous regions in China (Wei, 2002). McDonald's plans to open a further 100 restaurants by the close of 2005 and will operate around 1,000 restaurants in the country by 2006 (Armitage, 2005). Competition is challenging. McDonald's battles side by side with KFC, whose aggressive expansion was largely driven by profits in China. Foreign fast food international brands are becoming popular among Chinese customers and they will expand throughout the country. Chinese fast food retailers lack experience in operating chains and in understanding the influence of brands, and they are developing slowly. The foreign fast food industry poses a challenge to Chinese restaurants, as they also offer Chinese cuisine, as discussed in Chapter one.

Chinese fast food retailers should learn from their foreign counterparts, especially in respect of management. Foreign fast food retailers entering the Chinese market have three main features. Firstly, they expand in the form of chain stores. Secondly, they need to be highly sensitive to cultural demands. Foreign fast food is something exotic, which attracts young people and children. Thirdly, foreign fast food retailers cater for Chinese customers' lifestyle changes and in this way, meet their customers' demands.

These franchisors and their advance strategies will serve the researcher with a future research area. This research will be used to support Chinese fast food retailers in how to grow in scale and attract customers, once they have learned from foreign companies.

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## APPENDICES

### Appendix A: Questionnaire used in Chinese retailers research study- English and Chinese Version

(The original questionnaire is in Chinese. The following is the English translation of the questions appeared in the questionnaire)

Depending on your experience and knowledge, your thoughts on which retail issues would be most urgently dealt with in Chinese retailing according to your concern. Please take a moment to fill in the form and tell us what you think. Thank you for your support.

1. In which category does your age fall? Please mark with an "X".

≤ 30  31-40  41-50

51-60  60+

2. What is your gender? Please mark with an "X". Male  Female

3. Do you think Chinese retailers face strong competition from foreign retailers? Please mark with an "X". **Select one only**

Strong agree	
Agree	
Neither agree nor disagree	
Disagree	
Strong disagree	

4. What are the strengths of Chinese retailers as compared to foreign retailers? Please write in the blank.

5. What are the weaknesses of Chinese retailers as compared to foreign retailers? Please write in the blank.

6. What are the threats of Chinese retailers as compared to foreign retailers? Please write in the blank.

7. What are the opportunities of Chinese retailers as compared to foreign retailers? Please write in the blank.

--

8. Which strategies do you think Chinese retailers can improve to counter foreign retailers? Please mark with an "X"

Marketing strategy	
Format strategy	
Brand strategy	
Logistics strategy	
Human resource strategy	

Thank you for your participation in this process

附录 A:中国零售者问卷调查

根据您的经验和知识,请回答,您认为哪些是中国零售业迫切需要解决的相关问题,感谢您的支持。

1. 您属于以下哪个年龄段?请在适当答案后划“X”。

30岁以下(包含30岁)       31岁-40岁       41岁-50岁   
 51岁-60岁       60岁以上

2. 您的性别,请在适当答案后划“X”。男  女

3. 中国零售者正在面临外国零售者强烈的竞争,请在适当答案后划“X”。

非常赞同	
赞同	
中立	
不赞同	
非常不赞同	

4. 面临强大的外国零售竞争者进入中国,中国零售者的优势是什么?请填写在下面空白处。

5. 面临强大的外国零售竞争者进入中国,中国零售者的劣势是什么?请填写在下面空白处。

6. 面临强大的外国零售竞争者进入中国,中国零售者的危机是什么?请填写在下面空白处。

7. 面临强大的外国零售竞争者进入中国,中国零售者的机会是什么?请填写在下面空白处。

8. 您认为中国零售者改善以下哪些战略能反击外国的零售竞争者,请在适当答案后划“X”。

市场战略	
商店形式战略	
品牌战略	
物流战略	
人力资源战略	

感谢您的配合与参与

## Appendix B: Questionnaire used in Chinese customers research study-English and Chinese Version

(The original questionnaire is in Chinese. The following is the English translation of the questions appeared in the questionnaire)

Please take a moment to fill in the form and tell us what you think. All information is confidential. Thank you for your time.

- What is your gender? Please mark with an "X"

Male	
Female	

- Which of following best describes your age category in years? Please mark with an "X"

18-20	
21-30	
31-40	
41-50	
51-60	
61-65	

- Please indicate the highest education level attained. Please mark with an "X"

Less than high school	
High school	
Technical collage	
Some college	
Post graduate work	

- What is your marital status, please mark with an "X"

Married	
Single	

- Which of the following categories best describes your income per month? Please mark with an "X"

≤800 RMB	
RMB801-2000	
RMB2001-4000	
RMB4001-6000	
RMB6001-8000	

More than 8000	
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Question 1. Do you like shopping? Please mark with an "X"

Like	
Dislike	

Question 2. What are your priorities when shopping? Please mark with an "X"

Quality	
Service	
Value	
Variety	

Question 3. Please choose critical factors that you trust in a brand. Please mark with an "X"

Quality	
A positive impact on health	
Its care for customers	
Fashion	
Having a fair price	

Question 4. When you want to buy a toiletry brand you know, if this brand is not available, are you likely to switch? Please mark with an "X"

Yes	
No	

Question 5. In electronics and home improvement, which brand do you prefer? Please mark with an "X". **Select one only.**

Foreign brands	
local brands	

Question 6. In the food products, which brand do you prefer? Please mark with an "X". **Select one only**

Foreign brands	
local brands	

Question 7. In clothing and footwear, which brand do you prefer? Please mark with an "X". **Select one only.**

Foreign brands	
local brands	

Question 8. Has advertising affected your decision to change brand in Wal-Mart/Carrefour/Metro? Please mark with an "X".

Yes	
-----	--

No	
----	--

Question 9. Where do you normally go shopping for food? Please mark with an "X".

Open air markets	
Supermarket	
Hypermarket	
Department store	

Question 10. Where do you normally go shopping for clothing and footwear? Please mark with an "X".

Open air markets	
Supermarket	
Hypermarket	
Department store	
Specialty store	

Question 11. If you walk out of the store without purchasing, what are your reasons? Please mark with an "X". **Select one only.**

Not finding the brand you want	
Out of stock	
High price	
Dissatisfaction service	

Question 12. There are 10 stores in this business center, how many stores are you prepared to visit today? Please mark with an "X".

1~2	
3~4	
5~6	
7~10	

Question 13. Would you like a shopping bank card that offers the same great value for money, which has competitive bank charges and high-interest-earning savings and you could track your spending through the receipt you got when paying, with a detailed monthly statement at home? Please mark with an "X".

Yes	
No	

Question 14. Would you like a shopping bankcard that gives customers even more value for money when customers do certain transactions, for example, a discount paid back to you account? Please mark with an "X".

Yes	
-----	--

No	
----	--

Question 15. How would you rate the freshness, quality and selection of food at Wal-Mart/Carrefour/ Metro? Please mark with an "X".

Fresh Foods & Perishable Depts	Excellent	Good	Fair	Poor
Fresh Produce				
Meat/Butchery				
Fish Shop				
Frozen Foods				
Bakery				
Deli Refrigerated Items				
Ethnic food				

Question 16. How would you rate Wal-Mart / Carrefour/ Metro on:

Store service	Excellent	Good	Fair	Poor
Friendliness				
Cleanliness				
Convenience				
Well-Stocked Shelves				
Checkout				
Parking				

Question 17. How do you rate Wal-Mart / Carrefour / Metro on:

Store facilities section	Excellent	Good	Fair	Poor
Advertising				
In store signage				
Dry cleaner				
Photolab				
Financial service				
Customer service				
Kindergarten				

附录 B:中国消费者问卷调查

请利用您的宝贵时间 回答问题,感谢您配合我们的咨询活动.本问卷之咨询资料只用于学术研究目的,资料保密,敬请放心.

您的性别,请在适当答案后划 "X".

男	
女	

您属于以下哪个年龄段?请在适当答案后划 "X".

18-20	
21-30	
31-40	
41-50	
51-60	
61-65	

您的最高学历是,请在适当答案后划 "X".

高中以下	
高中	
职业学校	
本科或大专	
研究生或以上	

婚姻状况,请在适当答案后划 "X".

已婚	
未婚	

您的月收入属于哪一项?请在适当答案后划 "X".

≤ 800 元	
801-2000 元	
2001-4000 元	
4001-6000 元	
6001-8000 元	
高于 8000 元	

问题 1. 您喜欢购物吗? 请在适当答案后划 "X".

喜欢	
不喜欢	

问题 2. 您购物优先考虑的是什么? 请在适当答案后划 "X".

质量	
服务	
价格	
品种形式	

问题 3. 以下哪项是您选择品牌的主要因素. 请在适当答案后划 "X".

质量	
对健康益处	
体贴使用者	
流行	
好价格	

问题 4. 您想买一个熟悉的品牌, 但商店缺货, 您愿意换品牌吗? 请在适当答案后划 "X".

愿意	
不愿意	

问题 5. 在家用电器中, 您喜欢哪种品牌? 请在适当答案后划 "X". 单选.

外国品牌	
本国品牌	

问题 6. 在食品中, 您喜欢哪种品牌? 请在适当答案后划 "X". 单选.

外国品牌	
本国品牌	

问题 7. 在服装和衣帽中, 您喜欢哪种品牌? 请在适当答案后划 "X". 单选.

外国品牌	
外国品牌	

问题 8. 在家乐福, 沃尔玛和麦克隆商店中, 广告影响您的购物吗? 请在适当答案后划 "X".

是	
---	--

不是	
----	--

问题 9. 您通常在哪里买食品? 请在适当答案后划 "X".

自由市场	
超市	
大型超级市场	
百货商店	

问题 10. 您通常在哪里买服装和衣帽? 请在适当答案后划 "X".

自由市场	
超市	
大型超级市场	
百货商店	
专卖店	

问题 11. 以下什么原因会使您在商店里不购买任何物品? 请在适当答案后划 "X". 单选.

没有自己想要的品牌	
已脱销	
价格高	
不满意服务	

问题 12. 有 10 个商店在购物中心, 您准备在一天中走进几家店购物? 请在适当答案后划 "X".

1~2	
3~4	
5~6	
7~10	

问题 13. 有一种银行购物卡能提供高利息, 每月购物记录来自您所在商店中的消费, 你会选择这种银行购物卡吗? 请在适当答案后划 "X".

会	
不会	

问题 14. 有一种银行购物卡能给消费者更多的价值和打折, 你会选择这种银行购物卡吗? 请在适当答案后划 "X".

会	
不会	

问题 15. 请评估家乐福 / 沃尔玛 / 麦克隆商店中的质量, 食物的保鲜和种类, 请在适当答案后划 "X".

新鲜食品部	极好	好	一般	不好
新鲜食品				
肉				
鱼				
速冻食品				
面包				
熟食				
民族食品				

问题 16. 请评估家乐福 / 沃尔玛 / 麦克隆商店:

商店服务	极好	好	一般	不好
友善				
清洁				
方便				
物品摆放				
收银				
停车服务				

问题 17 请评估家乐福 / 沃尔玛 / 麦克隆商店:

商店设备	极好	好	一般	不好
广告				
标语				
洗衣店				
洗像馆				
银行				
顾客服务				
儿童照看服务				
饭店				

## Appendix C: Interviews used in foreign retailers research study-English and Chinese

### Version

1. Could you introduce me to Wal-Mart / Carrefour / Metro's background?
2. Why did Wal-Mart / Carrefour / Metro choose the Chinese market?
3. Wal-Mart / Carrefour / Metro is a strong retailer giant in the world, with its rapid expansion in China, do you think it has harmed Chinese retailing?
4. What is its marketing and service strategy?
5. What is its brand strategy?
6. What is its human resource strategy?
7. What is its format strategy?
8. What is its logistic strategy?
9. Could you give some suggestions for Chinese retail industries?

### 附录 C: 外国零售者采访问题

1. 您能介绍一下沃尔玛 / 家乐福 / 麦克隆的背景吗?
2. 为什么沃尔玛 / 家乐福 / 麦克隆会选择中国市场?
3. 沃尔玛 / 家乐福 / 麦克隆是世界零售业的巨头, 它快速扩张到中国, 您认为会伤害中国零售企业吗?
4. 它的市场和服务战略是什么?
5. 它的品牌战略是什么?
6. 它的人力资源战略是什么?
7. 它的商店形式战略是什么?
8. 它的物流战略是什么?
9. 您能给一些建议为中国的零售者吗?

## **Appendix D: Interview with Mr S Majiet, a Go Banking manager, Pick 'n Pay**

Place: Pick 'n Pay Hypermarket, Ottery

Date: 17/01/2005

Topic: Pick 'n Pay Go Banking

A: Hi, nice to meet you, Sedick, how long have you worked for "Go Banking"?

S: Three years.

A: How did "Go Banking" come into existence?

S: Raymond Ackerman, rated one of world's most respected business leaders met with Nedbank which was also looking for new business ventures.

A: Could you tell me about the development process of Pick 'n Pay "Go Banking"?

S: In September 2000, Pick 'n Pay and Nedcor announced an innovation that would replace Pick 'n Pay Financial Services. Pick 'n Pay and Nedcor make a perfect match! Both companies are client-focused and are market leaders with similar business cultures. Both pursue a multi-brand strategy, having developed specific products, services and brands to cater for the different needs of their customers and clients. As a division of Nedbank Limited, Pick 'n Pay Go Banking is backed by over 100 years of professional banking expertise. As a partner to Pick 'n Pay, Go Banking offers the same great value for money, competitive bank charges and interest rates as Nedbank.

A: How many customers have opened "Go Banking" accounts?

S: More than 100 000 customers and the numbers are increasing by the day. One sales person's sales target is 40 new accounts per month at present.

A: What is the focus of "Go Banking"?

S: The Go Account is Go Banking's core product. It's used as a transaction account to manage one's day-to-day finances, and also as a high interest-earning savings and investment account.

Whilst our bank charges are of the lowest, we give customers even more value for money when they carry out certain transactions. If customers have less than R5 000 in their account, the monthly minimum service fee of R12 can be made up of any combination of the following transactions:

- At a Pick 'n Pay till-point - cash withdrawals purchases, combined transaction and account payments.
- At a cash point (Nedbank, Old Mutual Bank, Peoples' Bank) ATM - cash withdrawals.
- Via electronic banking channels (self-service terminals, Internet or telephone banking) – transfer and account payments.

What's more, if you have more than R5 000 in your account, the following transactions will be FREE of charge:-

- Cash withdrawals at Pick 'n Pay till-points.
- All MasterCard and Maestro card purchases, including transactions at Pick 'n Pay till-points, debit orders and stop orders.

A: Well, how does a customer access the Go Account?

S: A Go Account MasterCard Debit Card and a Maestro Debit Card will give you direct access to the Go Account.

A: What are the features of the Cards?

S: Let's take a look at the features and benefits:

The MasterCard is linked to your Go Account. Because it's a debit card, it can only be used if there are funds available in the account, hence you cannot spend what you do not have! Plus, you can track your spending through receipts after paying, as well as a detailed monthly statement. With the MasterCard, you are safeguarded against the fraudulent use of the card, and you will be covered should your card be used fraudulently. If your card is lost or stolen, you can simply phone our Go Banking Client Care Centre to notify them. What is more, you also receive FREE travel insurance. So if you charge the full price of your travel ticket to your Go Account MasterCard, you will qualify for free insurance cover. You can then enjoy your trip, knowing that your basic needs in respect of accident and medical cover have been taken care of.

The first benefit is security:

The MasterCard is both signature and PIN-based. When shopping inside Pick 'n Pay, the card is PIN-based, which means no transaction can be done without providing your 4-digit PIN number. In addition, you will have the added security of not having to present personal identification. You can keep your privacy and therefore reduce the risk of fraud. When you use your card at any other outlet, it will be signature-based, which means your card will not be accepted if the signature on the card does not correspond to the one on the receipt. You also do not need to carry cash with you when you have the MasterCard. Simply swipe, enter your PIN (or sign), and there you go!

The second is convenience:

This card can be used at ATMs and Point-of-Sale terminals at all retail stores that accept MasterCard, but that is not all. You can do all your banking transactions at any one of over 5000 till-points in more than 200 Pick 'n Pay stores. Yes, that right! From cash withdrawals and account payments to FREE mini-statements and balance enquiries.

MasterCards are accepted at over 100 000 MasterCard approved merchants in South Africa and over 25 million worldwide.

A: It sounds wonderful, but are there further benefits for customers?

S: With your Go Account, you can get big discounts. I will show you the shopping list.

A: What documents do customers need to provide to open accounts?

S: A South African, green bar-coded Identity document, and proof of residence. Here is the Client Documentation Checklist.

A: I am so interested. I also want to open a "Go Banking" to grow my bank balance!

S: We at Go Banking have also negotiated special rewards with some very special partners, when you use your Go Banking MasterCard Debit Card at their outlets. Take a look at what benefits we have on offer. Use your card at the outlets and claim your reward. And what's more, you can make use of these offers as many times as you wish within the specified period!

A: What is the payback for Pick' n Pay?

S: Keeping customers happy by providing convenient banking at till-points, a safe environment inside the store and value for money. At present in South Africa, ATM fraud is huge and on the increase.

A customer approached and asked for a Go Banking application form. This resulted in the interview being interrupted.

A: Thank you, Sedick, for your time, and enjoy your day.

S: You are welcome! See you!

## Appendix E:

### An online database of news about workers in Southeast Asia and China and the issues that affect them

« [China: White paper on employment](#) | [Main](#) | [China: Building workers riot in Shenzhen](#) »

**May 18, 2004**

#### China: Wal-Mart cops a bucketing in the Chinese media

Wal-Mart has been attracting criticism in the Chinese press for some time now, mainly over its refusal to allow the Chinese trade union to organise workers in its stores. However, the last few months have seen the emergence of Wal-Mart stories in the Chinese media focussing on workplace conditions in factories supplying to the US giant.

This turn of events has been the result of Chinese journalists following up the findings released in report by the National Labor Committee in early February. Entitled *Toys of Misery 2004*, the report was compiled with assistance from China Labour Watch, a well known labour rights organisation in the US.

Since February, the Chinese media have published and broadcast the following stories. Titles highlighted in red are reproduced below.

- "Following the 'He Yi factory incident'," *The Chinese Social Security Magazine Society*, 07 May 2004. (The incident in question is a reference to a section of the NLC's report that focussed on the He Yi factory.)
- "He Yi investigation: Only 20 yuan stipend for whole night's overtime," *CCTV*, 11 April 2004. (The reporter mentioned that interviews with workers were monitored by someone from a distance.)
- "Overtime makes a factory lose Wal-Mart orders," *CCTV*, 11 April 2004.
- "The He Yi factory," *Central Radio Station 2*, 09 April 2004. (The program consisted of a scholarly discussion about the issues raised in the media thus far.)
- "12 hours per day, two days off per month in the Pearl River Delta: Working conditions attract the media's attention," *Beijing Youth Daily*, 05 March 2004. (The link here is to a Chinese-language article. I don't have time to translate it right now, but will try to do so in the next couple of weeks.)
- "Wal-Mart cannot undertake all responsibilities," *Southern Daily*, 01 April 2004.
- "[Untitled news report]," *Southern City News*, 30 March 2004. (The article stated that Wal-Mart was besieged by problems for which the company should bear moral responsibility.)
- "Investigation of Wal-Mart's Dongguan accident: Workers in a commercial dinosaur," *China Management*, 26 March 2004.
- "Exploitation of its workers? Wal-Mart attempts to refute allegations of its suppliers," *Beijing Youth*, 24 March 2004.
- "The dark side of Wal-Mart's low prices: Suppliers seriously violate labour law," *China Newsweek*, 22 March 2004.
- "Cruelty and Wal-Mart's low prices and a tale of a US industry," *21st Century*, 24 February 2004. (The title here is a caption.)

All translations below are courtesy of China Labor Watch.

## Appendix F: Nanjing

Home : [City Guide](#) : [Jiangsu Province](#) : **Nanjing** :

**Location:** situated at the east of China, on the middle and lower reaches of the Yangtze River; at north latitude 31°14' - 32°36', east longitude 118°22' - 119°14'; it is 300 kilometers away from Shanghai, 1200 kilometers from Beijing, 1400 kilometers from Chongqing

**Neighboring Areas:** Zhejiang, Anhui, Shandong Provinces and Shanghai Municipality



**Physical Features:** on the vast plain of the lower reaches of the Yangtze River; to the north is Jianghuai Plain, to the east is the Yangtze Delta; be close to rivers and lakes

**Population:** 5.29 million

**Urban Population:** 2.73 million

**Area:** 6,516 sq km

**Nationalities:** Han, Hui, Manchu, Zhuang, Korean and Bai

**History:** Nanjing is a famous ancient capital in China, the capital of 10 dynasties; it is one of the historical and cultural cities in the world; also known as "Jinling", "Tianjing", "Stone City", etc, it was named Nanjing in Ming dynasty, being called "Ning" for short

**Climatic Features:** belongs to the north subtropical monsoonal climate zone, four seasons clearly demarcated, cold winters and hot summers; with frost-free period of 237 days



**Average Temperature:** annual average temperature 16°C; absolute maximum temperature 43°C, minimum temperature minus 14°C ; average daily temperature in the hottest months 28.1°C, in the coldest months minus 2.1°C

**Rainfall:** plenty of rain, 117 rainy days annually, from the end of June to the middle of July is the rainy season; Annual even precipitation 1,106mm; maximum average humidity 81 percent

**Mountains:** Zhongshan Mountain( namely Zijinshan Mountain); Mount Qixia, Tangshan Mountain

**Rivers:** the Yangtze River, Qinhuai River, Xuanwu lake, Mochou Lake

Appendix G: Journalist Qualification Certificate



#### Appendix H: Foreign Stores Visited

Store Name	Manager Name	Store Address
Wal-Mart Supercenter	Li Ying Zhang	88 Hongwu Road, Baixia District, Nanjing, Jiangsu Province
Carrefour Supermarket	Xiao Qing Jiang	7 South Daqiao Road, Xiaguan District, Nanjing, Jiangsu Province
Metro Mart (Hyper Market)	Pei Bing Ni	288 Ningli High Road, Yuhuatai District, Nanjing, Jiangsu Province

**Appendix I: Map of China City in Johannesburg**

China City, Dora Street No.2, Ellis Park, New Doornfontein, Johannesburg, South Africa.



## Appendix J:

### **Sewing up textile industry crisis is no seamless task**

# **CAPE ARGUS**

May 16, 2005

It has been claimed that one of the prime factors leading to the loss of jobs and closure of factories in the textile industry is cheap imports from China.

There is no doubt that the price of goods from China is far lower than clothing made in South Africa. The reasons for that are low labour costs in China (a quarter of those in South Africa) and the economies of scale (large production runs).

Even though South Africans are being paid much more than Chinese workers, the high cost of living in South Africa means wages here are barely sufficient to cover basic needs.

The bourgeois economist will claim that the high cost of commodities such as food and medicine is directly related to the high cost of labour, and therefore if the cost of labour comes down, the price of commodities will come down. This is unmitigated nonsense and lies.

Experience has demonstrated that the price of commodities in South Africa in particular has never come down, even when conditions for a decline in price, such as labour costs and exchange rates, made this possible.

The greed of the capitalist class for higher profits prevents prices falling. The notion that market forces determine price is again absolute nonsense. Prices rise even when demand is low because the capitalist must maintain his rate of profit. When demand is high, instead of using spare capacity, or increasing capacity where spare capacity does not exist, artificial scarcity is created and prices rise.

When demand is low, workers are retrenched, salaries are cut and profits are maintained. When demand is high, commodity prices rise but the price of labour remains the same, profits go up, cost of living for the worker increases and consequently real wages fall. Inflation is a catchword used to fool the masses.

On the question of cheap imports from China, we need to consider the benefits and spinoffs.

For the first time in decades, the poorer sections of the working class can afford to buy clothing.

A large section of the so-called informal economy relies on cheap Chinese imports, and the benefits of these imports are beyond question to these vendors.

It is a great pity that there has not been a similar volume and variety of imports in the food sector which could effectively challenge the exorbitant prices charged by monopolies in the production and distribution sector.

The big chain stores have made a policy shift from buying South African-made goods to buying cheap Chinese and Indian imports. The reason is not that South African goods have progressively become too expensive for these companies to continue making handsome profits, but because Chinese and Indian-manufactured goods allow them to make super-profits.

The general mark-up by distributors on South African goods is between 150% and 200%. But Chinese and Indian-manufactured goods allow them a mark-up of between 350% and 450%.

What is the solution for the South African worker under these circumstances?

It has been suggested that the average wage of workers in the clothing and textile industry, and other industries, should be reduced from R1 500 to R700 per month, thus reducing the cost of production (while maintaining high mark-ups).

Proponents claim that imports would then decline, more factories would open and more workers would be employed.

But all of the workers - and we emphasise all - would end up starving. Classic slavery is preferable to this newfound capitalist wage slavery.

The trade union bureaucrat solution to retrenchments and factory closures is to demand from the state the devaluation of the rand and the imposition of higher tariffs (customs duties) on imported Chinese goods. But this demand does not essentially solve the high cost of living and the exorbitant salaries and profits demanded by our capitalist manufacturers and distributors.

Aside from all this, the South African state is bound by the rules of the World Trade Organisation (WTO), which regulates trade between nation states.

The rules are designed to favour the advanced capitalist imperialist countries such as Europe, America and Japan. Any protectionist policies implemented by South Africa to protect its industry from international competition would be regarded as a violation of the rules of the WTO.

Moreover SA has adopted the Growth, Employment and Redistribution economic policy. It will not implement pro-nationalist policies which may come into conflict with this undertaking.

Besides, China has become a very important market for South African steel, coal and other products. Trade between South Africa and China is increasing in leaps and bounds and it will be against the wishes of big companies such as Anglo American for the state to follow policies which will jeopardise this trade.

**Workers International Vanguard League  
Salt River**

Contact Cape Points

Fax: 021-488-4156      e-mail: [c.buso@ru.ac.za](mailto:c.buso@ru.ac.za)

Write to: 122 St George's Mall Cape Town, 8001

**Appendix K: Carrefour Special Brochure -Discount prices strategy**

家乐福

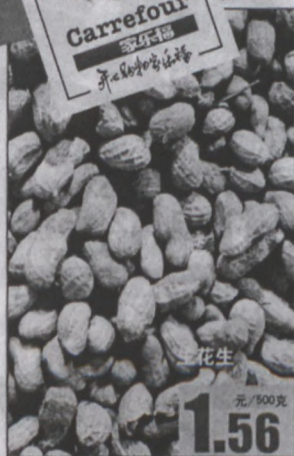


Carrefour  
家乐福

开心购物生活

家乐福

SPECIAL MONTH



花生

元/500克

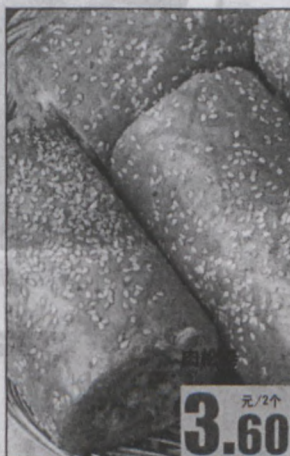
1.56



芝麻

元/500克

7.40



面包

元/2个

3.60



元/4个

2.00



大白菜

元/500克

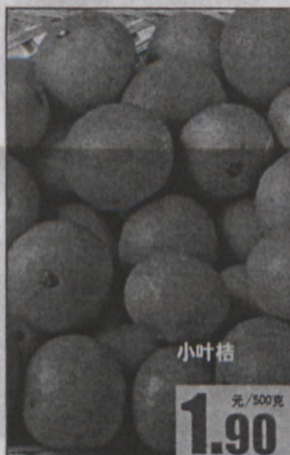
0.30



香梨

元/500克

3.50



小叶桔

元/500克

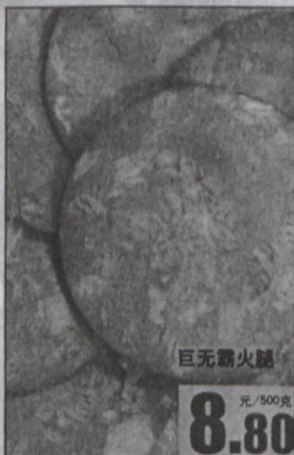
1.90



花卷

元/500克

2.00



巨无霸火腿

元/500克

8.80



鲤鱼

元/500克

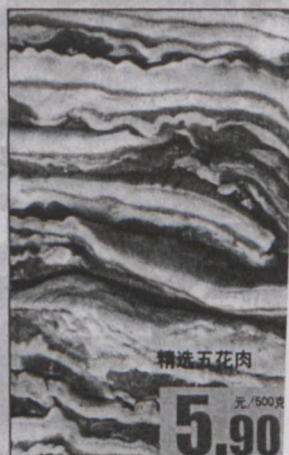
3.30



虾仁

元/500克

8.80



精选五花肉

元/500克

5.90

2. 本店只认店内实物为准

汇源橙汁饮料桶  
2.8L

元/瓶

**9.60**

农夫汽茶红茶  
480ml

元/瓶

**1.00**

威龙特级  
解百纳毛红  
750ml

元/瓶

**19.20**

统一  
鲜橙多  
250ml

元/盒

**0.89**

LOTTE 乐天  
巧克力派  
奶油夹心  
鲜奶油巧克力  
蛋黄派/巧克力  
300g

元/盒

**10.20**

金龙鱼  
芝麻油  
400ml

元/瓶

**14.10**

燕麦八宝粥

元/罐

**1.70**

千百度经典豆干  
90g

元/袋

**1.95**

蒙牛杯酸  
125ml

元/个

**0.99**

蛋奶切片  
350g

元/袋

**2.50**

双汇  
纳香肠  
135g

元/袋

**3.70**

福成肥牛片

元/盒

**10.90**

隆力奇蛇油  
SOD蜜  
165ml

元/盒

**7.60**

DEVOS  
注丝植物精华  
焗油膏  
550g

元/瓶

**9.20**

妈咪宝贝  
妈咪宝贝女用/  
男用纸尿裤  
大/中/小

元/包

**33.90**

绿伞  
绿伞清洁剂  
550g

元/瓶

**1.95**

SPECIAL MONTH



