

The classification of retail format in china economics essay

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Thanks to the strong and sustainable development in China's macro economy, the urbanization process continued its steady growth. Consequently, the hypermarkets benefited from the urbanization growth (USDA 2012). Hypermarket facilitated with large parking facilities, multiple stores, numerous restaurants and coffee shops that enable consumers to combine shopping and leisure activities, has been well accepted by affluent customers (USDA 2012). The large hypermarket chain retailers focused their expansion on the first-tier and second-tier cities in China. Therefore, there is saturation of the hypermarket stores in these cities. According to Datamonitor (2011), although international and local domestic retailers are proactively expanding stores nationwide, but the retail market is still highly fragmented. To support this statement, IGD (2011) also stated that the market shares of top grocery retailers in China are ranges from 0.004 to 15% in 2010. Hence, at this moment, the large nationwide retailers, both international and local retailers, gain only a small portion of the market share. Large number of regional retailers are still dominated the market and, though these regional retailers do not have many stores but they dominate their home market in which the nationwide hypermarket retailers still do not have a strong presence (Chang & Luan 2010). Catering to the tastes and demands of local consumers, supermarkets in Shanghai are putting more efforts into expanding their fresh section, to compete with hypermarkets. This is also encourage by the local government to create fresh supermarkets, enlarging the floor space dedicated to fresh products from less than 1/3 to over 1/2. More than 300 stores in Shanghai have finished the change and sales of fresh produce are gradually increasing. Supermarkets throughout

the region (including Suguo, a unit of CRV) are appear to be moving toward this direction, but are being slowed by problems in sourcing large quantities of quality product. USDA (2012) define this phenomena could indicate the trend is away from low cost and traditional ' wet markets' which are often unable to match hygiene standards of supermarket and hypermarket chains. Notwithstanding, wet markets still dominate sales of those fruits and vegetables. According to USDA (2012), local retailers dominated in China supermarket sector. China Resource Vanguard, and Suguo are the major domestic companies in the market. In supermarket sector, it is still quite a fragmented market since there are a large number of regional small chained or independent supermarkets in China, especially in many Tier 2 and Tier 3 cities. Chang & Luan (2010) mentioned that international retailers may also rely too much on their existing business model and thus lack of flexibility and adaptability in the local market. But in recent years, some international retailers have started to enter this market (supermarket sector) (USDA 2012). Tesco Express, a new brand launched by Tesco in mid-2008 in Shanghai, which was designed as an outlet basically selling fresh food and daily supplies to nearby communities. Wal-Mart also opened its neighbourhood market outlets in 2009. USDA (2012)/ we believes that more international retailers will enter this market in the future. A recent study (Siebers 2012) has defined two ways the foreign retailers use to adapt to the Chinese environment in different circumstances. At first, when the deregulation of China's retail sector started from 1992, foreign retailers followed and complied with most central government policies. After China opened its retail market completely in 2004, the foreign retailers took the

second way and moved to a proactive expansion stage from one region of China to another region. However, Sieber (2012) emphasized, as the opening of China's retail market benefits all retailers, its value for competitive advantage is diminished as time goes by. It has been implied (Siebers) that because the benefits of deregulation are available to all competitors resulted in foreign retailers are driven to take up proactive strategies on aggressive expansion. Most foreign retailers sustain their unique competitive advantages, for instance, keeping customer and localization while pursuing expansion into new regions of the country. According to Sieber (2012), the spread of deregulation attracted foreign retailers to expand from their bases in East and South China areas, which were opened up earlier to foreign retailers, and further move into emerging regions such as the North, Northeast, and Middle China. When the Chinese central government announced its "Go West" policy that provides incentives (including low tax of rental of the land) to encourage business development in this less developed regions (West China), retail giants also attracted to invest in that region from the end of 2004. During this period, Wal-Mart and Carrefour opened stores in West China. Foreign retailers often favour to implement the government policies that are beneficial for their business. According to China Economic Review (2007), foreign retailers have taken advantage of the lifting of territorial restrictions and have expanded their operations into Tier-2 and even Tier-3 cities to gain more market share. Why foreign retailers have low expansion in China? Political factors can act as obstacle to foreign retailers' expansion. Sieber (2012) pointed out an example, Heivado was failed to expand and its second store was forced to close due to political

disagreement between national and local government leading to the failure in co-operation with local partner. Sieber (2012) noted that foreign retailers tend to deal with local government strategically. She emphasized that in most circumstances, local government policies are far more important than the central government policies for the retail operations in China. Positive local government help attract a foreign retailer to expand into a particular region. Conversely, obstructive or non-supportive local government policies can deny a foreign retailer to expand elsewhere. According to Sieber (2012), Wal-Mart was incapable to open its first store in Shanghai, in East China, because of the lack of the local government support, therefore the company opened its first store in Shenzhen, in South China, in 1996 (Chuang et al. 2012) , instead. Since Wal-Mart has had powerful support from Shenzhen local government, and hence it has expanded greatly in the surrounding areas. However, Chuang et al. (2012) argued that Wal-Mart chose, or was forced, to locate in Shenzhen because its joint venture partner was headquartered there. Come to the procurement function, Wal-Mart used the same centralized procurement concept in China that it does in United States (Chuang et al. 2012). Wal-Mart established a Wal-Mart Global Procurement Centre (WMGP) in Shenzhen in 2002, purchase orders for all products manufactured in China moved from the headquarters in United States to the WMGP, which sources and negotiates for new products and sets prices with manufacturers. This centralized procurement system has been very effective and Wal-Mart's strength as a global buyer is unsurpassed especially for its success in globalizing procurement activities for the United States market. However, Chuang et al. (2012) pointed out that this centralized procurement

system had given Wal-Mart very little flexibility to respond quickly and efficiently to fluctuations in the variable Chinese market. Wal-Mart has begun to modify its procurement system by establishing five regional centres (Chuang et al. 2012). Two of them, one located in the south and the another is located in the north, which are focus entirely on domestic procurement and report to the Shenzhen headquarters directly. The Purchasing Centres control all product selections, price negotiations, display, and promotion events in China. With no exclusion, each provincial capital that has outlets has a purchasing as well. Wal-Mart's new procurement structure is showed as below. With the increasingly competitive retailing environment, more and more retailers are adopting customer-centric strategy in the review period, aiming to facilitate consumers' shopping experience. In making efforts to enhance customers' shopping experience, retailers have strengthening the logistics system and enriching their product portfolios (Euromonitor Business 2013). Grocery retailers have endeavoured to improve their on-line stores by providing a range of consumer-friendly services, including home delivery and self-pick-up in nearby outlets. To cater to the local consumer preference for fresh produce, grocery retailers have increased the proportion of such products in the total portfolio and have sourced products directly from producing areas to ensure freshness and quality. Many grocery retailers are constantly optimizing the merchandise mix in their outlets to cater to consumers' changing needs. (Euromonitor International 2013)According to Sieber (2012), at the early stage of foreign retailers' expansion in China, especially for those have less international experience have often neglected pshyctic distance factor. This is due to a lack of knowledge of the market.

Sieber (2012) emphasized, psychic distance is gradually being recognised as a significant factor for expansion. In her study, Wal-Mart, Metro and Heivado, which have less experience in the Asian Market, compared to Carrefour and Tesco, which responded to psychic distance in China at the early stage of their expansion. According to a study (Evans, Treagold & Mavondo 2000), although ethnocentric oriented foreign retailers tend intent to retaining their own culture and management styles, but to succeed in the market, they must respond to psychic distance effectively and adapt to the host market management characteristics. Foreign retailers with more international experience tended to deal more effectively with psychic distance and expand more rapidly than their rivals, a real example is the success of Carrefour and Tesco compare with Wal-Mart and Metro. Sieber (2012) has mentioned that learning is important for retail internationalization. Through the learning process, foreign retailers can be more localized in China. They learned to collaborate with local partners and to employ local management teams in management decision-making to help them understand the differences in cultural and business between China and their home countries (Sieber 2012). Significant business and cultural differences do exist between China and other more developed markets. Foreign retailers have had difficulties in understanding central and local government policies, business networking, and social and cultural issues in the local areas in which they are operating (Sieber 2012). Sieber (2012) claimed that in all the cases studied, foreign retailers made incremental efforts to train a local management team and empower local Chinese managers in decision-making about the expansion process. Establish a business network is imperative for a foreign retailer to

expand more rapidly. In China, local government policies are idiosyncratic among the different cities and regions (Siebers 2012). Business networking can help foreign retailers to have more in-depth understanding of local culture and to deal more effectively with local government. According to Chuang et al. (2012), 'guanxi', or an association facilitated by the exchange of mutual favours freely and often given, is an important part of doing business in China, and a better understanding of the social relationships between partners would greatly benefit Wal-Mart executives in developing long-term, mutually successful dealing with local governments and suppliers. 'Guanxi' networking is still a barricade between foreign retailers and Chinese governments. Foreign retail companies with more international experience in Asian markets tend to deal with 'guanxi' networks better, which contribute to their rapid expansion. Carrefour and Tesco are the examples that have proven to be more successful. However, foreign retailers that do not deal with and do not involve themselves in 'guanxi' networking are seen as just maintaining fair competition by the local government, one fit example is Wal-Mart, because they are not officially supposed to use networking parties to promote their business (Sieber 2012). Whereas Chuang et al. (2012) noted that Wal-Mart has developed strong relationships with the central government, yet because of local protectionist practices, Wal-Mart's representatives still have a way to go to have in-depth and fully understand the Chinese market. In addition, Chuang et al. (2012) stated that Wal-Mart did not need to worry about social relationships with the local community beyond sponsoring events and avoiding scandal, and they are able to achieve immediate oligopoly. Chuang et al. (2012) also point out that it is not

surprising that Wal-Mart has continues to mishandle relationships in China as China not having embraced the Chinese version of 'guanxi'. From the findings of Sieber's (2012) research, the findings indicate that a higher level of localization reduces psychic distance and facilitates foreign retailers to better interpret institutional factors and market infrastructure, and accordingly, to further enhance their core competences. According to Sieber (2012), there are three main indicators of foreign retailers' localization, which include retaining a local customer orientation, strategic location choices and rapid adjustments to local culture and conditions. There are two ways the foreign retailers use to retain their customer orientation to expand in the Chinese market. First, they are selling the right products to retain their customer. Foreign retailers have move the "wet market" into their supermarkets to meet the Chinese customers demand for products such as fresh and live fish (Sieber 2012). Because of cultural differences across the country, there is no doubt that customers in different parts of China have distinctive preferences in products and tastes. Foreign retailers are always intending to sell the same sorts of products in all their stores as what are sold in Western countries. However, successful foreign retailers adapted their policies with offering a combination of standard and regional products in different stores across China. Secondly, foreign retailers have recognized the importance of adapting to the Chinese ways of providing customer service (Sieber 2012). Different from Western countries, where do not have many staff can be found on shop floors, but in China, foreign retailers are expected to provide a large number of staffs on the shop floor to help customers, and also expected to provide more product tasting sampling

activities. Wal-Mart has recognized the habit of Chinese consumers who prefer to shop more frequently and buy smaller quantities, so the Wal-Mart's first stop in Shanghai provides up to 50 small specially designed check-outs, therefore customers can be served efficiently. When considering the different characteristics of the various regions in China, foreign retailers' location strategies are mainly influenced by investigation and research, local government support, economic conditions, potential growth rate and the location of local partners (Siebers 2012). Before foreign retailers' expansion, they spent a heap of time in researching the market in which research centred on local government, characteristics of specific locations, local market environment, customer preferences and purchasing power, and competitors' profile. Sieber (2012) had mentioned that gaining local government support is pivotal in location strategy. According to Sternquist (1998), at the beginning of entry stage, economic conditions are significant considerations when making locations choices. Before 2004, in order to achieve good profitability under the location restriction rules, foreign retailers opened their first stores in well-developed regions, such as Metro and Tesco in East China, Wal-Mart in South China and Carrefour in the capital Beijing. In consideration of specific locations in a particular city, some foreign retailers have based on their international experience to made strategic decision, whereas others made strategic changes through learning. Sieber (2012) had stated a real case in her study. As car ownership is low in China, Carrefour located all its stores in the centre of cities on bus routes, with ample of parking lots and waiting areas for taxis, bicycles and also three wheel cycles. On the contrary, Wal-Mart did not choose good locations as

they located Wal-Mart stores outside the city centre, and were not served by convenient transport systems. This is because Wal-Mart assumed the Chinese would follow Western shopping styles. Carrefour has been greatly benefited from their previous experiences in the Asian markets and operating stores in Taiwan. Wal-Mart eventually adjusted its location strategies by 2005 and started to locate new stores in walking streets, such as in the shopping districts of Shenyang city in Northeast China and similar locations in other regions for example, Middle China. USDA (2012) found that most hypermarkets in China offer free shuttle bus service to nearby communities. According to Sieber (2012), free mini bus services from affluent suburban residential areas to their stores have been provided by both Wal-Mart and Carrefour. Sieber (2012) notes that these changes manifest the strong sense of customer orientation of these foreign retailers. Recently, Wal-Mart has shown some sensitivity to local customer demographic differences (Chuang, Donegan & Ganon 2012). Wal-Mart sells a wide variety of take-out meals in its Beijing, Chaoyang store, in order to accommodate its young professional customers. Conversely, Wal-Mart focuses on fresh products in its Haidian district store as the customers are older and habituated to preparing home cooked meals. This literature review provides insights into what are the key factors influence foreign retailers' expansion in China market. Upon China joined WTO, it committed to gradually eliminate market access barriers for foreign enterprises. Prior to 2004, foreign retailers could operate only in major cities and special economic zones. In 2004, the Chinese government issued the Administrative Measures for Foreign Investment in Commercial Sectors, which permitted

foreign investors to establish retail enterprises in China without geographic limitations, and foreign retailers also allowed holding 100 % equity in Chinese firms (Business Monitor, 2012). Foreign investors are now allowed to provide retail services through joint ventures (JVs) or wholly foreign-owned enterprises (WFOEs). Hence, China's retail sector experienced an accelerated growth. The 2009 Administrative Measures for Foreign Enterprises or Individuals Establishing Partnership Enterprises in China has also permitted foreign investors or individuals to establish partnership retail enterprises beginning in March 2010 (Business Monitor, 2012). Lifting FDI restriction since 2001 in China has made the early adoption of modern retail best practices with organised retail for example, having Western-style chain outlets, department stores, supermarkets and other formats. All of these accounted for an estimated 22.5 % of the total retail market. The Chinese government has long focused on encouraging traditionally prudent consumers, who save as much as 40% of their income (one of the highest individual savings rates in the world) to spend more. In order to support the retail industry in maintaining a fast growth rate over the next five years, the government has established some supportive policies: As laid out in the 12th Five-Year Plan, targeting a 15% annual growth for social retail sales. Aiming to accelerate the pace of water and electricity price cuts for the retail industry down to industrial rates. The cost to retailers of water and electricity would be decreased by 30%-40%. Cutting the commission rate on bank card usage from 1% to 0.5%. Allowing VAT on air-conditioner and elevator equipment to be deducted from a company's VAT calculation. This is a direct tax preferential policy given by the government to the retail industry. Planning is

a key characteristic of the Chinese economy. China's five-year plans are a series of economic development initiatives shaped by the Communist Party of China (CPC) through the plenary sessions of the Central Committee and National Congresses. The party plays a leading role in mapping economic development, setting growth targets and launching reforms. The twelfth five-year plan, approved in March 2011, seeks to address rising inequality and domestic consumption, and to improve social infrastructure and social safety nets. The plan maps the government's effort to rebalance the economy. It shifts the emphasis from investment to consumption and from urban and coastal growth to rural and inland development. The plan also continues the prior plan's effort to enhance environmental protection, accelerate the process of openness and reform, and to emphasize Hong Kong's role as a center of international finance (Chart 5). China's Ministry of Commerce (MOFCOM) and the State Administration for Industry and Commerce (SAIC) are the central government agencies responsible in approving business licenses and registration applications for foreign-invested commercial enterprises in China (Lu 2010). However, there are some changes in recent years. To simplify the licensing process for some foreign retailers, the agencies have gradually delegated this authority to local governments. Beginning in September 2008, MOFCOM devolved the authority to review and approve applications of foreign-invested commercial enterprises to provincial commerce branches. This help to ease the process for foreign retailers for the establishment of additional retail store outlets. Under the 2003 Administrative Measures on Authorizing the Registration of Foreign-Invested Enterprises, SAIC is responsible for the registration of all foreign-

invested commercial enterprises in China, but qualified provincial or county governments may apply to SAIC for such authority. Currently, nearly all of SAIC's provincial branches and about 100 county branches are authorized to approve foreign retailer registration applications (Lu 2010). The Communist Party of China is facing increasing factional rifts based on ideology and regionalism. Ineluctable, greater political debate would be welcomed by many and internal regime schisms could be politically destabilising (Business Monitor International, 2013). Business Monitor International (2012) mentioned, as with any other one-party state, China's political system is inherently capricious and incompetent in respond to the wider changes taking place in society. Provincial governments are often failing to enforce central government directives. Although China central government has more severe checks for opening of retail stores, some local governments and officials do not spare to go against the wishes of the central government, blind attract investment, and even does not consider the country's industrial security in order to pursuit performance. All levels of government work each for them, and lack of coordinated system, so that create chaotic situation in opening of the retail. According to Euromonitor International (2013), in order to improve incomes for rural residents, the Ministry of Commerce initiated the Nong Chao Dui Jie Programme, (Linking Farms to Supermarkets Programme) in 2008. This is to strengthen the links between farmers and retailers via direct procurement, and consequently cut out middlemen and benefit farmers and local consumers. Euromonitor International (2013) also stated that, by the end of 2011, the central government had spent a total of RMB500 million in supporting the Nong Chao Dui Jie Programme, with over 1,

000 on-going projects in 19 provinces and around 800 chained retailers involved in the programme. Many international and domestic retailers including Wal-Mart (China), Wumart, Tesco China, Shenzhen A-Best, Lianhua Supermarket, and China Resources, have been engaged in this programme. Through direct procurement from farmers, many grocery retailers are able to obtain and increasing the portion of fresh products (including vegetables and fruits) in their total product portfolio. The Nong Chao Dui Jie Programme has in line with the local consumer preference for fresh products that are cheaper. This had benefited not only farmers but also helped boost the value sales growth of retailers (Euromonitor International 2013). From the current situation, the domestic and foreign retail enterprises enjoy unequal treatment that has affected the fair competition in market. Foreign retail enterprises enjoy the Super-National Treatment that express mainly in the following few aspects. The first is tax incentives. In foreign investment enterprises, central and local of income tax rate combine as 33%. Although the nominal rate is equal with the domestic enterprises, most of the regions generally do not levy local income tax in order to attract foreign investment. Therefore, domestic and foreign retail enterprises have unequal effective tax rates. In the five special economic zones and foreign retail enterprises in Pudong, Shanghai, enjoy the "two exemptions and three reductions" of low tax incentives. Secondly, some local governments also competing each other and provide preferential policies to foreign retailers in order to meet attracting businesses and investments, and engage in the performance requirements of image projects. Some local governments examine and approve illegally foreign-funded to build stores, and implement "Super-

National Treatment" to foreign-funded retail enterprises in the land, taxation, region of expansion, commercial outlets and other respects (Wang 2006). Especially, in the site, it does not spare to sell the prime location in city and gives the most favourable policy. Foreign-funded retail enterprises and domestic enterprises do not have the same starting line. If foreign retail enterprises still enjoy the " Super-National Treatment", they will take the more absolute advantage in competition with domestic enterprises. This is one of the important reasons that the foreign retail enterprises can expand rapidly in China. The Chinese government also strongly supports the development of e-commerce in retailing market. Of the total retail sales in China, the government targeting to get more than 5 % online shopping sales by the end of the Twelfth Five-Year Plan (2011-15). Given differences in regional tastes, logistical difficulties, and the size of China, many retailers choose to focus in a particular region of China first rather than try to develop the entire market at once. The Chinese Central Government is promoting aggressive policies to develop these interior regions and many foreign retailers are racing to establish an early presence in many of these major urban centers. Opportunities are waiting to be found, but require resources and patience (USDA, 2012). According to U. S. Commercial Service, there are approximately 655 cities in China. Of this total, 160 cities are having populations of 1 million or more, and 12 metro areas with populations greater than 5 million. According to CNBC (2012) and U. S. Commercial Service (2012) stated that cities in China can be unofficially divided into different tiers, including Tier-1, Tier-2 or Tier-3. However, it is commonly agreed that the Tier-1 cities incorporate Shanghai, Beijing, Guangzhou and

Shenzhen. Tier-1 cities are regarded as large size city and have the highest income in the country. However, Tier-1 cities accounted for only 9 % of China's population. Compared with Tier-1 cities, there are more people living in the Tier-2 cities, and Tier-2 cities often defined as the provincial capitals and special administrative cities, with 23 in total (CNBC 2012). According to CNBC (2012), capitals with prefecture level or county-level are classed as Tier 3 cities. However, there is no precise breakdown between Tier-2 and Tier-3. CNBC (2012) also mentioned that it is important to break them down, as the significance of Tier-2 and Tier-3 cities is growing. Many companies are moving from the expensive coast to tap the interior regions because of people are migrating from the countryside to these cities. According to National Bureau of Statistics of China (2013), China's GDP in year 2012 was 51, 932. 2 billion yuan, increased by 7. 8 % over the previous year. Although the GDP is increasing from year-to-year, but the real GDP growth was slow down start from year 2010. The real GDP growth rate of 8. 2 % in 2012 is lower than of 10. 5 % and of 9. 2 % in 2010 and 2011 respectively. The number of people being employed in China was accounted for 767. 04 million at the end of year 2012. This number was 2. 84 million higher than that at the end of 2011. Of this total, employed people in urban areas reported at 371. 02 million, which was 11. 88 million more than that of the previous year. In contrast, the urban unemployment rate at the year end of 2012 was maintaining the same level as year 2011, which recorded at 4. 1 %. A total of 262. 61 million migrant workers in 2012, was rose by 3. 9 % over the past year. Of which, 163. 36 million workers are migrate from hometown and worked in other provinces, this had went up by 3. 0 %, the

migrant workers worked in local provinces reached 99.25 million, up by 5.4%. The per capita net income of rural households was increased by 13.5%, reached 7,917 yuan in year 2012. However, after deducted the factors of price increase, the real increase over the year 2011 was 10.7%. This was 0.7 percentage point lower than that in the previous year. On the other hand, According to National Bureau of Statistics of China (2013), the per capita disposable income of urban households was 24,565 yuan, rose by 12.6%, but the real increase was 9.6% after deducting price factors. It was also reported at 1.2 percentage points higher than that in the year 2011.

Increasing income is another major driving force behind the retail sector's future growth. In particular, we see rural households and low-income urban households as one of the main drivers of retail sales growth during the 12th Five-Year Plan period, with a higher than average income growth rate.

During the period of 2001-2005, the per capita disposable income of urban households increased at a higher CAGR of 10.8% compared to rural households' net income growth of 7.6%. However, thanks to the government's policy of improving living standards in rural households, both urban and rural households' incomes increased at a CAGR of 12.7% during 2006-2010. We anticipate that rural households' income will increase at a higher pace than that of urban areas, further contributing to overall retail sales growth. Approaching this from another angle, it is not difficult to understand that there is huge potential for rural households' income growth. In 2010, urban households' disposable income per capita of RMB19,109 was over three times the rural level of RMB5,919. Furthermore, they will also be amongst the beneficiaries of the 12th Five-Year Plan, since the government

has set a target of raising the minimum wage level by more than 13% per year during the period. Several regions have already increased the minimum wage from the beginning of 2012, such as Sichuan and Jiangxi raised minimum wage levels by 23% and 21% respectively. Moreover, we foresee that their contribution to the whole retail sector would be larger than the extent of their income growth level. The marginal propensity to consume of those in rural and low-income urban households is higher than the average, because most of them work in manufacturing industry at a low wage and a grand portion of their salary is spent on covering their daily expenses.

Therefore, in aggregate, the effects of this group on the retail sector and the economy as a whole should be more apparent, driving the consumption level in China. Rural households and low-income urban households have higher marginal propensity to consume, bringing more apparent benefit to the retail sector (Platinum Asia, 2012). According to a most recent statistic provided by National Bureau of Statistics of China (2013), in January 2013, the consumer price index (CPI) increased by 2.0 % year-on-year. In details, the prices grew by 2.0 % in cities and 2.2 % in rural areas. In January, the month-on-month change of consumer prices was rose by 1.0 %, including prices in cities up by 1.0 %, and rural areas went up 1.2 %. According to EDC (2012), 14 of China's Tier-2 cities reported at 54 % of the total imports from the United States. This shows a growing importance of the Tier-2 and Tier-3 cities.

According to China Briefing News (2011), Tier-2 city sample is 62% the salary of the Tier-1 city sample. Historically, Tier-2 cities wages was 30% that of the Tier 1. Whereas the average salary of the Tier-3 city sample is 91% the average salary of a Tier-2 city sample (China Briefing News, 2011). The retail

sales of consumer goods raised by 14.3% over the past of 2011, therefore reached 21,030.7 billion yuan. After deducting the price factors, the real growth was 12.1%. It also showed that there is 2.8 percentage points lower than that over the past years. In details, both the retail sales of consumer goods in urban areas and in rural areas, have reached 1,8,241.4 billion yuan (rose by 14.3%) and 2,789.3 billion yuan (rose by 14.5%) respectively. The total sales of consumer goods in December 2012 reached 2,033.4 billion yuan, the nominal growth rate was increased by 15.2% and the real growth rate was 13.5%, both are year-on-year. The total retail sales of consumer goods in December had increased 1.53%, based on month-on-month. Come to geographical differences, in urban areas, the retail sales of consumer goods was 1,751.1 billion yuan in December, rose by 15.2%, year-on-year; while in rural areas was 282.3 billion yuan, increased by 15.1%, year-on-year. According to National Bureau of Statistics of China (2013), Chinese population at the mainland reached a total number of 1,354.04 million at the end of 2012, went up by 6.69 million over that at the end of the previous year. Of which, there were 711.82 million urban population, accounting for 52.6%, and it is 1.3 percentage points higher than that at the end of 2011. The 12th Five-Year plan stated that the urbanisation level is forecasted to rise to 65% within the next 10 years. According to the latest statistics, China's urbanisation level in 2011 was 51.3%, implying that China has a greater population residing in urban areas than in rural areas for the first time in history. Ongoing urbanisation in China is mainly driven by population migration from rural to urban areas. During the last 10 years, the urban population grew at a CAGR of 3.7% while the rural population

declined at a CAGR of 1.9%. Due to unevenly distributed economic opportunities, people migrate to urban cities where the wage level is higher and there is a greater variety of goods and services available. There is no doubt that the migrants would spend at least part of their increased incomes on consumer products in urban areas. Therefore the consumption driven by enhanced urbanisation would act as a strong stimulant to the overall retail sector. In the countryside, the market will grow even as employment shrinks. For those who remain, the Chinese government is instituting policies that aim to narrow the gap between urban and rural incomes by lowering rural taxes, increasing consumption subsidies, and putting in place measures to enhance the rural social-security net and improve rural living conditions. In addition, the rural population is seeing its income rise faster than in the past due to increasing agricultural product prices and productivity: in 2011, the former rose 16% and the latter 23% (McKinsey China, 2013). The quality and pace of urban development is likely to vary sharply across China. Cities are at different stages of development, and the development paths they will follow are likely to vary and reflect strengths specific to each city. Our projections suggest that growth will be fastest outside China's megacities. In the next two decades, the dozens of smaller cities with current urban populations of less than 1.5 million will make the largest contribution to growth. A large number of these cities—now at earlier stages of development than the larger cities and so with more growth potential—will expand to become cities with populations in the 1.5 million to 5 million range. This group will represent the single largest growth cohort and contribute 40% of total China urban GDP growth through 2030. Cities that

currently have a population in the 1.5 million to 5 million range will contribute about 25 % of GDP growth over the same period, while cities with populations that are already above 5 million will contribute about 35 % (Exhibit 9). The small cities will form hub-and-spoke-type clusters around the megacity or big-city hubs that are already in existence: we have identified 22 such emerging economic clusters, each the size of a midsize European country. For example, the GDP of the Shandong cluster (around Jinan and Qingdao) will by 2020 be similar to the size of Taiwan's today, while the GDP of the central cluster—cities around Zhengzhou in the center of China—will be similar to Denmark's (Exhibit 10). According to BGL (2011), as in many developed countries, the growth of internet usage in China has been phenomenal. By early 2005 there were over 100 million internet users in China, up from 87 million in mid 2004 and 68 million in mid-2003. These users connected to the internet through over 120 million access points of which roughly one third involved high speed access. Still, despite the rise of mobile telephony, the internet continues to grow in importance. In 2004, the number of registered websites in China rose 32% to 626, 000 sites. Not surprisingly, 84% of these websites are registered in China's coastal cities. The next big step in the development of the internet in China will involve rural usage. The government intends to establish an infrastructure to support the creation of internet access for 900 million rural citizens of China. The implications of such a project are staggering. After all, most of the focus of China's economic development has involved the urban centers. Rural participation in that development has often entailed migration to cities or the absorption of rural areas into the periphery of cities. Now the government

wants to bring the benefits of modern society to the entire country. This will mean greater access to economically useful information, more efficient rural-urban supply chains, and the ability to engage in distance learning. These influences could, over time, add substantially to rural productivity and, therefore, rural incomes.

3. 1. 4. 2 Infrastructure in China

As a general rule, the three cities of Shanghai, Guangzhou and Beijing have the best infrastructure and the largest number of experienced distributors. Increasingly, those systems are being extended to the large webs of satellite cities surrounding Guangzhou, Shanghai and Beijing. Other major cities along the eastern seaboard, beyond the reach of the 'big three', generally have good logistics infrastructure, but most still rely on one of the 'big three' as an entry point for imports. Farther inland, there are a number of large cities with good market potential. In fact, many retailers in China faces serious problems in logistics and distribution. The first is China's infrastructure. While more efficient than most developing countries, there are still plenty of bottlenecks. Some of these are physical, relating to roads, ports, and so on. China does not have a nationwide network of trucks, highways and cold storage warehouses that can efficiently deliver supplies from suppliers, manufacturer or importer to the store shelf. A lack of appreciation for the value of maintaining the cold chain creates special problems for temperature sensitive items. With some notable exceptions, distributions is handled on a store-by-store or city-by-city basis, with stores receiving most imports through a local distributor, often even when alternatives exist. Because of their relative size, stores are able to effectively pass all market risk onto the

distributor. (copy from USDA 2012) Others are attitudinal as many Chinese suppliers have a hard time adjusting to the rigorous standards of modern supply chain management. A final bottleneck is one of scale: Wal-Mart's operations in China are not yet large enough to reap efficiencies from its logistics system (Harvard Business Review, 2007). Although logistics can be problematic, but improvements in the national highway system have made trucking direct from Shanghai or Guangzhou far easier than it was just a few years ago. As a result, high value and temperature sensitive products shipped by truck directly from the importer to a local distributor do surprisingly well. Currently, many secondary cities have only a few distributors for imports, particularly for high-value or temperature-sensitive products. Multi modal refrigerated rail transportation to inland cities may become viable over the next several years. Several international companies are currently developing local partnerships to create modern cold chain and distribution systems across China. China central government has focus on investment in infrastructure in Tier 2 and Tier 3 cities through lots of construction of road air airports, yet focus on improving railroads and city utilities (EDC, 2012). Besides, many Tier 2 cities especially in central China, are given significant government support. The Chinese stimulus package help improving the infrastructure and transport links in that region. The retail industry is basically dominated by few retail giants. Some retail giants are competing in several retail categories. Competition among retailers centres on pricing, store location, variations in store format and merchandise mix, store size, shopping atmosphere, and image with shoppers. Further analysis

is provided by using Michael Porter Five Forces, diagnoses the competitive environment of the retail industry in China.

3. 2. 1 Threat of New Entrants

In the early years after economy reformation, retailing was a highly protected industry in China, there was no foreign retailers allowed to enter into China retailing market. The state-owned and collective-owned retailers were the only dominant players in the market. They are protected by absolute entry barriers, hence they did not feel threaten from the new entrants though they were performing poorly. China central government was also strongly encouraged and supported the development of new retailers among Chinese. Retailers can access to buyers easily and there are no network externalities. Consequently, the number of retailers increased rapidly. Recently, China central government has introduced numbers of policies to regulate and promote the development of retailing, which encourages competitive firms to realize scale expansion, and to reorganize assets that are cross-sector, trans-region and cross-ownership. According to Zhuang et al. (2003), China central government restored and developed free markets in both rural and urban areas. In addition to restoring the old free markets, the government also helped to build new markets both in the country side and in the cities. Individuals, therefore, are allowed to enter the industry more easily. Moreover, individuals, private enterprises, and enterprises in other ownerships are encouraged and supported by government to do business in the channels. Meanwhile, leading to these enterprises to become larger and stronger. Particularly when China central government completely reduced the barriers for foreign retailers to enter

and develop in China, the constraints for both domestic and foreign retailers to enter and expand in Chinese retail market became smaller. More and more powerful domestic and foreign retailers will enter and expand in this market. According to Zhuang et al. (2003), in China, some of the individual retailers, with accumulated capital, will develop into private enterprises. Previously, individual retailers once were the major force driving Chinese traditional retail structure to change. Table 2 shows there was a large number of individuals were surging into free markets and the free markets boomed, as a result of immediate lowered entry barriers. Individual retailers gained a market share of xx% in 2012, which is increased from xx% in 1997. This is mainly due to the more rapid increase in number of outlets, personnel, and retail sales. Nowadays, many individual retailers have already become competitors in China retail industry, and there are still large numbers of individuals waiting to join this potential industry. According to Zhuang et al. (2003), those individuals are mainly composed of farmers who reside in the suburbs or come from the remote countryside, laid-off workers caused by the reform of state-owned enterprises, and unemployed graduates. Such employment situation, which reported at about 7 % unemployment rate in cities, and low entry barriers may encourage more individuals to enter retailing industry. However, small entry barriers, on the other hand, discourage potential entry to this industry. A report from A. T. Kearney, had found that the attractiveness of Chinese retail market in 2006 showed a downward trend (www.chinabgao.com). As Besanko et al (2003) suggested expectations about post-entry competition are also important. As more and more retailers enter this market, it is inevitably to consider that

there is fierce competition, and market is gradually become more saturated. However, from Chinese retail market's overall growth trend, many experts conclude that there is still huge potential for further development and opportunities for investment. According to China State Information Centre, the retail market in China will maintain an annual growth rate of 8% to 10%. Although there is potential for increasing number of retailers in China, however, unlike in the early years, entry barrier is becoming higher because of sizeable economies of scale and large capital requirements to compete with large scale and powerful retailers. Moreover, existing retailers in this industry will strongly struggle efforts of new entrants to gain a market foothold. Chinese traditional markets including wet markets and street markets, both are considered to be substitutes of retailing stores in Chinese retail market. Wet markets are characterized as large and enclosed, and space is divided among counter-service departments; whereas street markets sell fresh food in the open by private sellers with tiny stalls. The environments of both are dirty, crowded and noisy. The competitive advantages of wet markets and street markets are lying in fresher food and cheaper price. Therefore, in the early days, these wet markets and street markets are strong substitutes of retailing stores. With the improvement of people's living standards, a cozy shopping environment, with wide variety of products and outstanding services provided by retailing stores are attracting more and more customers. Smaller grocery stores are also substitutes for large scale retailers, but grocery stores are higher priced relatives the performance and services they deliver to buyers. Zhuang et al. (2003) mentioned that distribution channels tend to be shorter and this reflecting

the attempts of retailers and producers with each other more directly. However, the boundary between retailing and wholesaling has become blurred as it has been broken by private wholesalers in wholesale markets. Wholesalers are more often penetrating the retailers' domain, developing some new retail formats such as warehouse retailers. In the early years, Wal-Mart and Carrefour had introduced warehouse retailing into China major cities including Shanghai, Beijing, Guangzhou, and Shenzhen (Zhuang et al. 2003). As this trend is becoming more prominent, wholesalers most likely to use their inherent advantages as suppliers, who will build more warehouse-style retail stores, threatening retailers. In addition, sales on Internet and television also considered to be substitutes of retailing stores in China. Sales on Internet and television are becoming more and more popular, and also had become most of consumers shopping habits nowadays. Advanced technology enables the online and television shopping transactions to be gradually fast and safe. Furthermore, online and television shopping are considered to be timely, cost sufficient and efficiency. Combined with the increasingly fast pace of lifestyle Chinese society, the demand of online and television shopping is increasing. In 2001, the Internet retail sales had hit RMB 1200 billion that is more than one third of the traditional retailing format with sales of RMB3230. 6 billion (euromonitor. com). There is no doubt that online and television retailing posing great challenges and threat to traditional brick-and-mortar retailing stores. Both Chinese traditional market and modern online and television retailing reap the market demand in this retail industry. However, online shopping will complement and can boost the demand for brick-and-mortar retailing stores. The presence of

retailing company on websites will increase the exposure of the retailer, and give the potential customers a full introduction of this retailer. In China, especially after China joined the WTO, relationships between retailers and suppliers have become increasingly important (www1. chinadaily. com. cn). With the great development potential of retailing industry, the retailing stores have become the most important distribution channels. Manufacturers are the most important suppliers for retailers. Specifically to China situation, there are consisting large numbers of medium and small suppliers. The keen competition often makes the fittest to survive. Whereupon, the suppliers have weak power over retailers. Moreover, with the further and fast development of retail industry, many retailers are becoming larger in terms of their operating scales and hence their purchasing scales. Consequently, those retailers are account for a big proportion of suppliers' total sales, and continuous high volume purchases are crucial for the well-being of suppliers. As a result, this will lead the suppliers to a position with low bargaining power. In addition, revaluation of RMB, exporting prices and exporting volume have great impact on suppliers' bargaining power. The revaluation of RMB leads to the decreased China's competitive advantages on exporting prices. Before that, Chinese manufacturers have significant competitive advantages in exporting. However, recently, in facing such a tough situation, manufacturers have to seek domestic retailing channels to distribute their goods and services. According to Zhuang et al. (2003), in order to get into a store, some producers in China offer retailers with consignment basis arrangement, retailers are not required to pay for goods until the retailers sells the products. Accordingly, retailers would benefit in terms of their

bargaining power as well as the prices and quantities these suppliers provide. Therefore, it is probably safe to argue that the suppliers of Chinese retail industry have low bargaining power, and they only posing little threat to the profit of retail industry. Similar to suppliers, buyers can bargain away some of retailers' profits. Although the price is fixed in most store-based retail operations, but buyers have a form of bargaining power as they can choose to buy at this store or to buy from a competitor's store. The customers' power depends on factors such as the number of alternative retailers available to choose from. (Source Zhuang et al. 2003)As there is sustained growth of GDP in China, citizens' household incomes are rising, and therefore this further stimulates citizen's consumption level. With the rapid economic growth, the Chinese consumption level is expected to grow continuously. This enables Chinese retail industry to enter a good stage of development. With the increasing of their income levels, more and more people are seeking for a better lifestyle. The increase of car ownership and improved transportation links enable people to travel to and shop in farther retailing stores. In addition, because of the lower import duties and tariffs after China joined WTO, sales of high quality consumption goods have started rising among small market since more and more middle-class income citizens are able to afford the spending on those high quality products (China Country Report, 2002). Moreover, in tandem with suppliers losing bargaining power relative to retailers, recently, the buyers' bargaining power has been increasing. According to Zhuang et al. (2003), there are changes in retail industry such as, commodity supply moving from shortage to excess to meet buyers' demand; from few outlets to many outlets; from small operational

stores to large scale; and also service attitude from cold to warm. This tendency is most likely to be continuing. Of course, the one who is the best, most efficiently, and be able to satisfying buyers' needs, will be likely to be the winner in the retail industry in the coming date. Domestic retailers are anxious to take advantage of the country's growing consumer base. Since the economy reformation in China, the number of competitors in Chinese retail industry is increasing rapidly. Especially after China officially became a member of WTO, the foreign retailers enter China market as well as expand in China in a significant fast pace. Most retailers are having substantial excess capacity and customers often have low switching costs in this retail market. According to Besanko et al (2003), these characteristics of retail market have triggered heated price competition. As a result, the Chinese retail market meets the criteria for fierce internal rivalry. With a few number of international retail giants and also large domestic retailers, the competition in China retail industry is inevitably fierce and sharp. However, in recent years, the openness policies become more relax and flexible, more and more foreign retailers landed in China. Most of them have completed their strategic layout of their stores over China perfectly. Therefore, although some of the domestic retailers have occupied the leading position, they are still face severe challenges. It is estimated that in the next few years, 60% of Chinese retail market will be owned by 3-5 world-class retail giants, and 30% will be owned by Chinese national retail giants, and the rest of 10% will be owned by regional retail giants. According to Zhuang et al. (2003), general stores also posting competition to large scale retailers. General store is defined as a store located mainly in small towns and villages, with a limited

but varied stock of merchandise ranging from foodstuffs to manufactured goods.

Chapter 4: Findings and Discussions

4. 1 Expansion Opportunities in China Retail Market

From the research based on the secondary data I had conducted, there are appearances of opportunities for foreign retailers to continue their expansion of retail business in China.

Support from Chinese government

A government policy called " nonggaichao" initiated in 2003, was aimed at converting wet markets into supermarkets. As a consequence, the wet markets were auctioned to supermarkets chains. In order to improve incomes for rural residents, the Ministry of Commerce initiated the " Nong Chao Dui Jie Programme" (or called Linking Farmers to Supermarkets Programme) in 2008. This is to strengthen the links between farmers and retailers via direct procurement, and consequently cut out middlemen, benefit farmers and local consumers, and help boost the value sales growth of retailers. Though direct procurement from farmers, many grocery retailers are able to obtain and increasing the portion of fresh products (including vegetables and fruits) in their total product portfolio. The " Nong Chao Dui Jie Programme" has in line with the local consumers' preference for fresh products that are cheaper. This had benefited not only farmers but also helped boost the value sales growth of retailers (Euromonitor International 2013). According to the Figure in page xx, as shown in the above, the per capita net income of rural households was increased by 13. 5 %, reached 7,

917 yuan in year 2012. However, after deducted the factors of price increase, the real increase over the year 2011 was 10.7%. This was 0.7 percentage point lower than that in the previous year. On the other hand, the Figure in page xx, as shown in the above, the per capita disposable income of urban households was 24,565 yuan, rose by 12.6%, but the real increase was 9.6% after deducting price factors. It was also reported at 1.2 percentage points higher than that in the year 2011. Increasing income is another major driving force behind the retail sector's future growth. Rural households and low-income urban households have higher marginal propensity to consume, bringing more apparent benefit to the retail sector (Platinum Asia, 2012). The 12th Five-Year plan stated that the urbanisation level is forecasted to rise to 65% within the next 10 years. According to the Figure in page xx as shown in the above, China's urbanisation level in 2011 was 51.3%, implying that China has a greater population residing in urban areas than in rural areas for the first time in history. On-going urbanisation in China is mainly driven by population migration from rural to urban areas. Therefore the consumption driven by enhanced urbanisation would act as a strong stimulant to the overall retail sector.

Demand for product quality & food safety

Chinese culture has an increased focus on quality of life and therefore shopping environment and quality of services provided retailers. Foreign retailers enjoy a credible reputation in Western countries due to their product safety and quality, and services quality. This makes Chinese buyers more comfortable to shop in foreign retail stores.

Economic growth and rising incomes in China Tier 2 cities have made expanding to these markets much more attractive than it was in the past. Nowadays, the increase in consumer spending power in these cities is creating a trend that consumers are now giving higher attention regarding to the issues of product safety and food safety. There is a rapid growth in consumers demanding for higher quality products. In particular, cities such as Tianjin, Nanjing, Suzhou and Hangzhou all offer strong retailing opportunities. Generally, foreign retailers are benefit from their reputation in offering better quality products than most of the local retailers.

In food products, especially fresh food, hypermarket retailers benefit from better hygiene controls and a higher volume flow rate, and are thus able to ensure better food safety for consumers. As such, an increasing number of Chinese consumers visit hypermarkets instead of independent food stores for grocery shopping. The proportion of grocery products in hypermarkets continues to increase, rising from 54% in 2005 to 60% in 2009.

As a result, hypermarkets are trying to provide more food categories in order to meet the demands of consumers. Among them, fresh produce has become an attractive section to draw in Chinese consumers.

Although China faced a decelerating in economy in 2012, but the retailing market remained vigorous with double-digit current value growth. In 2008, the Chinese (central) government began to emphasis on and encouraging domestic demand, aiming to boost China economy through stimulus packages has been translated into dynamic retailing market movement. This has resulted in a favorable macro environment for the overall retailing in China, as showed in the previous table, retailing experienced a current value CAGR of 12. 5 % between 2007 and 2012, and its current value grow at 13. 3 % in 2012. This growth also contributed by rising household income in China. Specifically, the income of the Chinese workforce is steadily increasing each year. This indicates that Chinese people are gaining more buying power. Urbanization is perhaps the single most inescapable reality of China's current economic development. With the strong and sustainable development of China' s macro economy, the urbanization process continued its stable growth. From the analysis of economic environment in China, Euromonitor International predicted that there will be nearly 400 million new urban residents (an increase from 47% of the total population to more than 64%), which exceed the population of the United States. It is the rapid rise of 'second-tier' cities that changing the urban landscape. Hypermarkets can greatly benefit from the urbanization trend. Urban residents are more willing to buy branded daily necessities from well-known hypermarkets, supermarkets and shop in department stores, rather than purchase products

through traditional markets such as independent small grocery stores (mandarin called ' xiao mai bu') or wet markets. Consequently, foreign-funded hypermarkets and supermarkets, particularly well-known names such as Carrefour, Wal-Mart and Tesco, have recorded higher value growth than independent small grocers. Since the retail in sector in China is highly fragmented, many local retail chains are now tending to focusing on a particular city or province. Similarly, in addition to less-developed urban centres and less-competitive urban centres, foreign retailers also aggressively pursuing expansion strategies in China and setting their sights on rural areas. As the bargaining power of suppliers is relatively low compared with retailers, this help retailers in ensuring the supply for products to market and reduce price fluctuation. While the allure of tapping into the Chinese consumer base is clear, however, the challenges involved in establishing and growing a retailing enterprise there can be significant. Although China central government has more severe checks for opening of retail stores, however, some local governments and officials do not spare to go against the wishes of the central government, blind attract investment, and even does not consider the country's industrial security in order to pursuit performance. All levels of government work each for them, and lack of coordinated system, so that create chaotic situation in opening of the retail. Sieber (2012) pointed out an example, Heivado was failed to expand and its second store was forced to close due to political disagreement between national and local government leading to the failure in co-operation with local partner. There is a wide disparities in the pace and nature of development throughout the country. The retail landscapes within cities are

also constantly evolving. Given the context of this complex socioeconomic environment, differences in transport, infrastructure, economic levels, living levels, and demographics, all roll out across different city tiers. Specifically to human resources, labor is abundant and inexpensive overall, but sophisticated management talent is in short supply and increasingly expensive. China may have world-class deep water port facilities for exports, but internal distribution and logistics capabilities are woefully underdeveloped. With few national logistics providers, most retailers and their suppliers must rely on a patchwork of regional and small scale distribution networks or must make costly investments in building out their own infrastructure. In fact, many foreign retailers in China faces serious problems in logistics and distribution. The first is China's infrastructure. While more efficient than most developing countries, there are still plenty of bottlenecks. Some of these are physical, relating to roads, ports, and so on. Others are attitudinal as many Chinese suppliers have a hard time adjusting to the rigorous standards of modern supply chain management. A final bottleneck is one of scale: Wal-Mart's operations in China are not yet large enough to reap efficiencies from its logistics system (Harvard Business Review, 2007). Another major threat for foreign retailers' expansion in China is that the concern for 'Guanxi', or relation building. This is highly important in order to become competitive in China retail market. Nevertheless, 'Guanxi' takes a long time and a lot of effort to build necessary relations. Foreign retailer should understand that regional variations also matter for smaller cities. Tier-2 cities have become much less homogenous as they have developed, and smaller cities from different tiers in the same region will

likely have much more in common than same-tier cities in different regions. Culture, dialect, cuisine, and climate all have implications for foreign retailers because they influence consumers' responsiveness to advertising, product preference and acceptance, price and quality sensitivity, and shopping behavior. For example, consumers in eastern China prefer entertaining and aspirational advertisements, whereas those in southern China prefer concise ads that explain product benefits. Not all regions have the same media and retail infrastructure, level and nature of competition, and exposure to a company's brand. These are important factors to consider before entering a new regional market. The excessive competition situation makes retail operate in low profits or even without profits. In the cut-throat competition of Chinese retail market, price war is always regarded as a trump to vanquish the enemy for most firms, as far as depreciation; the names are numerous, such as: points accumulation, discount sales, return sales, buy and rewards and so on. In the Xi Dan shopping festival between 28th of December and 6th of November in 2005, Zhong You Corporation has the activity of " buy 200 get 216 coupon", while Xi Dan Shopping Mall, " Buy 150 get 168 coupon". Modern retail, although growing fast, still has to compete with traditional retail. The excessive competition situation makes retail operate in low profits or even without profits. The entire retail is in a low level of profits. In recent years, the rapid expansion of the commercial network is greater than the growth of the total sales amount that the competition is rapidly intensified. The commerce enterprises enter 31 into the comprehensive meager profit times that the average gross profit is around 17% while the average net profit is less than 2% (the average profit rate of top 500 retailing

enterprises in China is only 1.47% and the average profit rate of top 100 enterprises is only 2.56%). However, the gross profit rate of the large foreign transnational retailing enterprises is generally around 10% but has 3%-4% of the net profit (Jin, 2004). China's retail market still has the great difference with the foreign retail leaders no matter in sales amount, growth speed or the net profit rate aspect, etc. It can be seen from that, the excessive competition and the fierce domestic competitions all leads to the reducing profitability of the local retailer and comparative weak ability of making profits. China's smaller cities are unfamiliar territory for many international consumer goods companies, which often face competition from Chinese counterparts that already know these markets well. Small cities have been serving as incubators for Chinese companies before they expand into larger markets. Such companies are skilled at identifying spaces in the market, experimenting, and learning and adapting as they go. In the cut-throat competition of Chinese retail market, price war is always regarded as a trump to vanquish the enemy for most firms, as far as depreciation; the names are numerous, such as: points accumulation, discount sales, return sales, buy and rewards and so on. Retail price war was started form 1990s, it continued for over ten years. In 1992, the famous " Zhengzhou commercial war" was started from the price war of Chinese retail and end up with the bankrupt of the famous department store " Asia" in Zhengzhou. But the price war of Chinese retail has not stopped, the heated competition is continued. In the Xi Dan shopping festival between 28th of December and 6th of November in 2005, Zhong You Corporation has the activity of " buy 200 get 216 coupon", Xi Dan Shopping Mall, " Buy 150 get 168 coupon", commercial

war raise one after another in Beijing. These malignant competitions are the certain results of excessive competition in Chinese retail (Chen, 2008). Modern retail, although growing fast, still has to compete with traditional retail. If it is to truly dominate, it needs to enhance its benefits, such as convenience and hygiene, without sacrificing the reasons for which traditional retailing is so popular, namely price and produce. As from the literature review and findings presented in this report, it had showing that China offer the most attractive investment destinations for foreign retailers to continue their expansion into other geographical areas in China. This is because of the rising incomes and expanding market size in China. Moreover, China is not a single unified market but is a collection of local markets. Each local market has different market demand, consumer behaviors, competition levels, and market access conditions. To successfully expanding retail businesses in China requires detailed market research and careful planning. Chinese regulations are often vaguely worded, arbitrarily enforced and opaque. As mention in this report, the business licensing processes in China is complexities and market access has a certain degree of constraints. Hence, foreign retailers must be patient when expanding their businesses in China since the regulatory challenges may cause delays. However, there are some policies have benefited retailing businesses expansions through lowering market entry thresholds, encouraging certain business formats, and government's efforts in boosting domestic consumptions. Foreign retailers should have clear understanding on China policy developments, align their strategies with the government priorities as far as possible, and take opportunities and full advantages of government

programs. In addition to understand the rules and regulations, and government policies in China, foreign retailers should also deal with local government strategically. According to Sieber (2012), in most circumstances, local government policies are far more important than the central government policies for the retail operations in China. Positive local government help attract a foreign retailer to expand into a particular region. Conversely, obstructive or non-supportive local government policies can deny a foreign retailer to expand elsewhere. According to Sieber (2012), Wal-Mart was incapable to open its first store in Shanghai, in East China, because of the lack of the local government support, therefore the company opened its first store in Shenzhen, in South China, in 1996 (Chuang et al. 2012) , instead. Since Wal-Mart has had powerful support from Shenzhen local government, and hence it has expanded greatly in the surrounding areas. Establish a business network is imperative for a foreign retailer to expand more rapidly. In China, local government policies are idiosyncratic among the different cities and regions (Siebers 2012). Business networking can helps foreign retailers to have more in-depth understanding of local culture and to deal more effectively with local government. A better understanding of the social relationships between partners would greatly benefit foreign retailers in developing long-term, mutually successful dealing with local governments and suppliers. Besides, foreign retailers should also work with the leading brands in each category to deliver better category management and increase the rate of sales. When retailers increase listing fees by adding SKUs—often low-selling items—the proliferation of brands on the shelf can confuse shoppers and ultimately have a detrimental impact on retailers’

performance. Foreign retailers that do not deal with and do not involve themselves in 'guanxi' networking are seen as just maintaining fair competition by the local government, one fit example is Wal-Mart, because they are not officially supposed to use networking parties to promote their business (Sieber 2012). Significant business and cultural differences do exist between China and other more developed markets. Foreign retailers have had difficulties in understanding central and local government policies, business networking, and social and cultural issues in the local areas in which they are operating (Sieber 2012). Foreign retailers should adopt localization strategy and made incremental efforts to train a local management team, empower local Chinese managers in decision-making about the expansion process, and learn to collaborate with local partners. There are two ways the foreign retailers use to retain their customer orientation to expand in the Chinese market. First, they are selling the right products to retain their customer. Foreign retailers have move the "wet market" into their supermarkets to meet the Chinese customers demand for products such as fresh and live fish (Sieber 2012). Because of cultural differences across the country, there is no doubt that customers in different parts of China have distinctive preferences in products and tastes. To be successful, foreign retailers should adapt their policies with offering a combination of standard and regional products in different stores across China. Secondly, foreign retailers should recognize the importance of adapting to the Chinese ways of providing customer service (Sieber 2012). One great example is from Wal-Mart. They recognized the habit of Chinese consumers who prefer to shop more frequently and buy smaller quantities,

so the Wal-Mart's first stop in Shanghai provides up to 50 small specially designed check-outs, therefore customers can be served efficiently. With the increasingly competitive retailing environment, more and more retailers are adopting customer-centric strategy in the review period, aiming to facilitate consumers' shopping experience. In making efforts to enhance customers' shopping experience, retailers should strengthen the logistics system and enriching their product portfolios (Euromonitor Business 2013). To cater to the local consumer preference for fresh produce, grocery retailers have to increase the proportion of such products in the total portfolio. Foreign retailers should putting more efforts into enlarging fresh section, catering to the tastes and demands of local consumers. The local government is also encouraging supermarket chains to create fresh' supermarkets, expanding the floor space dedicated to fresh products from less than 1/3 to over 1/2. Over 300 stores in Shanghai have finished the change. And sales of fresh produce are gradually increasing. Supermarkets throughout the region (including Suguo, a unit of CRV) appear to be moving in this direction, but are being slowed by problems in sourcing large quantities of quality product. This could also indicate trend away from low cost, traditional —wet markets|| which are often unable to match hygiene standards of supermarket/hypermarket chains. However wet markets still dominate sales of those fruits and vegetables. In addition, foreign retailers should also source products directly from producing areas to ensure freshness and quality. Foreign retailers should constantly optimizing the merchandise mix in their outlets to cater to consumers' changing needs (Euromonitor International 2013). As car ownership is low in China, Carrefour located all its

stores in the centre of cities on bus routes, with ample of parking lots and waiting areas for taxis, bicycles and also three wheel cycles. On the contrary, Wal-Mart did not choose good locations as they located Wal-Mart stores outside the city centre, and were not served by convenient transport systems. This is because Wal-Mart assumed the Chinese would follow Western shopping styles. Wal-Mart eventually adjusted its location strategies by 2005 and started to located new stores in walking streets. most hypermarkets in China offer free shuttle bus service to nearby communities and to affluent suburban residential areas. Recently, Wal-Mart has shown some sensitivity to local customer demographic differences (Chuang, Donegan & Ganon 2012). Wal-Mart sells a wide variety of take-out meals in its Beijing, Chaoyang store, in order to accommodate its young professional customers. Conversely, Wal-Mart focuses on fresh products in its Haidian district store as the customers are older and habituated to preparing home cooked meals.