ANALYSIS

The world's second-largest retail market has been a magnet for international retailers but, as many have discovered to their cost, it can prove tough to crack, writes **Ben Cooper**

The secrets to reta

China is a tempting growth proposition for many retailers but they need to take a savvy approach when it comes to expanding there. It is a country of immense proportions. To travel between its two largest cities is to travel the same distance as between the UK and Italy.

It is home to the second-largest retail market in the world, the largest population and a burgeoning consumer base with an appetite for shopping almost unprecedented in global retail.

That means the country has been a magnet for international retailers.

Some of the world's biggest names – including Walmart, Walgreens Boots Alliance, Inditex, Carrefour – have put big money behind their Chinese operations during the past decade, while others are just getting going.

But a number of retailers, ranging from Kingfisher to Tesco, have already found to their cost that China can be a tough retail nut to crack.

Demographics, climate, regional differences, marketing, pricing, real estate – all are different; sometimes subtly, sometimes wildly from what many companies are familiar with, and can present big challenges.

David Roth, EMEA and Asia chief executive of global retail consultancy The Store WPP, observes: "In such a massive market there are phenomenal opportunities for retailers, but you can lose a lot of money as well."

Subtle differences

So what are the keys to success in this giant of the global economy, and how can retailers succeed as they take the big leap into the great unknown?

James Rogers, managing director of Shanghai-based retail consultancy CR Retail, says: "There are so many nuances that retailers have to understand. They need to get a clear understanding of the demographics and different consumer behaviour. Brands need to understand from day one, even if they have had success in overseas markets, that will not mean they are going to succeed in China."

One seemingly obvious difference, but one which former M&S boss Lord Rose admits the retailer initially overlooked, is body shape and size. To satisfy the typically smaller frame of the Chinese consumer means going back to square one with clothing design, not simply exporting goods. Back in 2009, Rose was frank: the retailer needed better "basic shopkeeping" and "better market research".

That may be good advice for any market but Rogers says it is particularly important when entering a country such as China, in which an overseas brand may not be well known.

"People won't buy simply because of a brand," he says. "A lot of people come in with a blanket approach and they are the ones that fail. You have to do due diligence and identify markets clearly."

Another key difference lies in the pace of change. Even compared to Europe and the US, where the rise of digital technology is transforming retail, the speed of such change in China is dizzying. While British consumers got used to shopping first on desktop computers and then on mobile devices, China's new middle class has effectively skipped a stage.

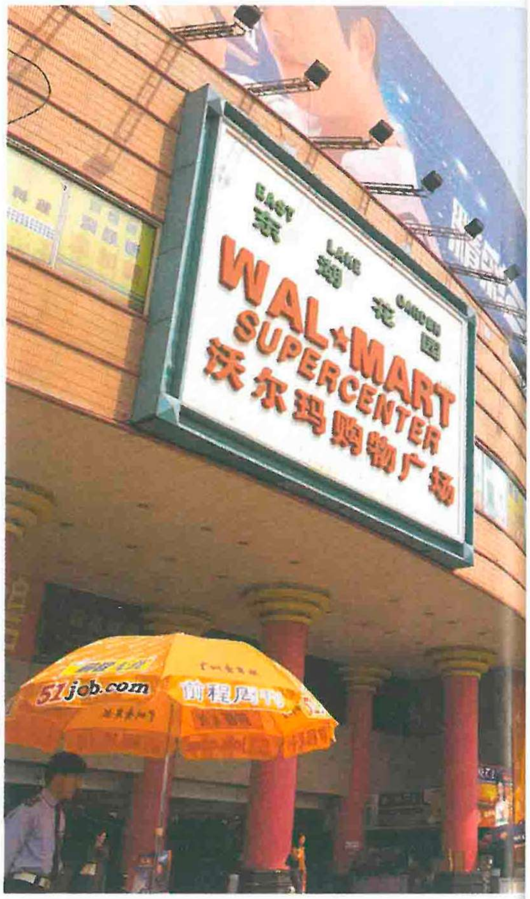
Nick Miles, head analyst at IGD's Asia-Pacific office, says it is essential that retailers keep up.

He says: "You have to understand that there are different stages of development happening within China. In some ways that market has moved differently through and beyond certain stages, such as in online retailing. M-commerce has already become more important than ecommerce."

The rise of technology is epitomised by one of the biggest success stories of the past decade: Chinese etail giant Alibaba, which has made waves in its own market and whose British retail partners include Marks & Spencer and Sainsbury's.

The extent to which it has changed the landscape is clear in Singles' Day, which it has turned into a consumer extravaganza. In one 90-minute period last year, Alibaba made $5bn (£3.77) in sales, and over 24 hours $14.3bn.

One of the keys to Alibaba's success, says group managing director for the UK, Ireland and Nordics Amee Chande, lies in the way it



has used social media for marketing, and kept up with the pace of change. She says it is a lesson that any retailer looking to crack the market needs to understand from the start: "To support your business plan, determine your marketing investment and social media plan.

"Social media and mobile marketing are two key areas to focus your efforts on, as many Chinese consumers shop using their mobile phones and rely on social media for reviews, shopping advice and deals.

"Another key to success is flexibility and agility. Chinese online shopping trends change rapidly and you must be willing to adapt to these changing trends."

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Amee Chande, Alibaba

Local understanding

There are some things, however, that do not change in retailing. The importance of location is one, and much research and planning is essential in a market such as China.

The big tier-one cities of Beijing, Shanghai, Guangzhou and Shenzhen have inevitably drawn the most interest but within these

il sucess in China

Walmart revamped its Chinese business through a tie-up with JD.com (left). Tesco's foray in China didn't go to plan (right and below) and it was forced to form a joint venture in 2014

markets there are huge variances and, says Miles, already retailers both domestic and international have learnt to be a bit more circumspect than in the early days.

He observes: "We think retailers will start to do more tempered growth and scaled-down development programmes, and focus on quality of sites rather than quantity.

"They're starting to develop a better understanding of what works and what doesn't in terms of a real-estate strategy. The key to that is having a good relationship with a local partner or a local property developer."

Another useful approach in China, says Miles, is to emulate domestic brands that do not always think nationally because they don't need to. He says: "International retailers can learn from this and focus on regions. Some regions are the same size as a country in Europe. You don't necessarily need to be a national player – you can be a regional player in China."

Teaming up

Meanwhile, partnerships are not just smart when it comes to finding the right stores.

When in June, Walmart disclosed it was entering into a deal with Chinese ecommerce giant JD.com, a spokesman said the tie-up "vastly expands our reach to a much broader set of customers in China and provides a physical network for delivery".

Roth says the deal sums up a fundamental rule of retailing in China. "You have to tap into an existing supply chain," he says. "JD.com owns and controls its entire operations from the supply chain to the warehousing, the stock and the delivery. It's very important to be able to do business with a company that can offer that end-to-end operation."

And while a fear of over-regulation has put off some international companies from operating in China, things are changing, says Alibaba's Chande.

She says: "Cross-border ecommerce has taken off in China over the past two years and recent legislation from the Chinese government to regulate this flow of trade, in the form of tax increases and tighter customs treatment of business-to-consumer cross-border ecommerce, has some retailers and brands concerned.

"But they needn't be. The Chinese government wants to encourage more cross-border trade and these guidelines have been put in place to ensure this trend continues."

China's growing GDP, expanding middle class and a young generation totally up with modern shopping trends are all potentially manna to retailers.

But with big opportunities come big challenges. For retailers seeking success there it is essential to look beneath the surface. To be successful in China means, above all, to be adaptable.