

# China's High-End



## Retail Emporium

► Walmart is remaking its Sam's Clubs to offer foreign goods aimed at aspirational consumers

► "To Chinese shoppers, 'imported' is a badge for premium"

In the U.S., **Walmart Stores'** members-only warehouse chain, Sam's Club, offers a wide array of products, from bulk groceries to patio furniture, at discounted prices in cavernous, no-frills stores where goods are stacked on metal shelves. Walmart is doing the same thing in China but with some pricey twists, including \$3,200 Zojirushi rice cookers and \$295,000 diamond rings.

Over the past two years, the retailer has repositioned the 14 Sam's Clubs in the country to offer more expensive products. Shoppers can pick up \$500 Dyson hair dryers, \$1,700 bottles of 1995 Château Lafite Rothschild red wine, and \$7,000 high-tech massage chairs, in addition to imported pistachios and desserts conjured up by Michelin-rated chefs. There's even a

\$4,100 Laurastar ironing system that comes with four hours of in-home instruction. Unlike its small business focus in America, Sam's Club on the mainland is all about catering to the whims and preferences of an emerging middle and upper class willing to spend more for premium items.

"Our member is a very aspirational shopper," says Andrew Miles, chief operating officer of Sam's Club in China. "Their desire is for a better life and to show their wealth to their family and friends, to show that they are a smart, savvy shopper. That's the ambition we want to fill."

Walmart sees big potential in China: Its Sam's Club in Shenzhen, a fast-growing urban center in the south-east, is the chain's best-performing outlet globally. Walmart, which posted

\$482 billion in revenue for its fiscal year ended Jan. 31, doesn't break out China sales, but it says the growth of clubs there is among its fastest globally. Chinese memberships now number 1.8 million and are growing 10 percent to 12 percent annually.

In addition to rolling out a premium product lineup, the retailer almost doubled its annual membership fee in April, to 260 yuan (\$40), to attract more upscale shoppers, those earning at least \$25,000 in yearly household income, roughly three times the nation's average in 2014. Miles says members remaining after the fee increase spent 8 percent more on average per visit.

"Sam's Club's potential in China is greater than anywhere," says Walmart Chief Executive Officer Doug McMillon. Members "want a fine bottle of

◀ wine, they want a great fresh-food experience, they want a 4k television,” he says, referring to the latest high-resolution technology. “Even a \$15,000 price point can be a great value for what you are getting.”

That upmarket tack—from a Samsung curved TV for \$26,000 to a 61-bottle collection of Médoc wines, complete with its own cooler, for \$14,472—capitalizes on a Chinese bias toward imports. They see them as higher-quality and safer after domestic suppliers experienced some recent well-publicized food-safety concerns. “I don’t have to go through online channels to get foreign brands now,” says He Lihui, a 35-year-old sales executive who was shopping at the Shenzhen Sam’s Club for Wonderful brand pistachios from the U.S. and waffles made with European ingredients.

Sam’s Club’s own brands, such as its Member’s Mark private-label oatmeal and kitchen towels, or the Asda brand developed for Walmart stores in Britain, aren’t perceived as high-end in their home markets, according to Jack Chuang, OC&C Strategy Consultants’ Greater China partner. But Sam’s Club has been pitching the foreign provenance of its house-branded items and selling them for less than what imports generally cost in China. “What they’ve done in China is a rebranding exercise using the fact that to Chinese shoppers, ‘imported’ is a badge for premium,” he says.

Walmart aims to more than double the number of Sam’s Clubs there to 35 in three years, and it’s built an entire mall with a 1,900-car parking lot for a 5,000-square-meter (54,000-square-foot) store in Zhuhai, near the casino island of Macau. The investment in the new mall, which has leased space to **Starbucks**, **Uniqlo**, and

other big brands, became necessary because other potential retail sites lacked adequate parking. Similar projects with malls anchored by Sam’s Clubs are planned in Jiangxi and Guizhou provinces.

Sam’s Club’s success is in sharp contrast to the performance at the 412 Walmart-branded stores on the mainland, where McMillon says sales are flat. Big brick-and-mortar retailers such as Walmart and France’s **Carrefour** have struggled as Chinese consumers increasingly turn to e-commerce platforms for electronics and other non-perishable goods, both of which are high-margin categories at Walmart’s large stores in China, says Wai-Chan Chan, a senior partner in the Asia-Pacific retail and consumer practice at consultant Oliver Wyman.

In an attempt to remedy that, Walmart on Oct. 20 announced a distribution partnership with **JD.com**, China’s second-largest e-commerce company after **Alibaba Group**. Customers can now order Walmart items from around the world through a store on JD.com; they’re delivered using the e-commerce company’s sprawling fulfillment system, which reaches homes in 90 percent of the country. Already, customers living near 20 Walmarts can get purchases delivered within two hours; more stores will be added later.

Sam’s Club has also opened a flashy online storefront on JD.com, making its items available to nonmembers for the first time, albeit at a 10 percent premium. “We’re indifferent as to the format,” McMillon says. “Our job is to make sure that we are there to serve customers however they want to be served.” One bonus from boosting online access: Sam’s Club can use the geographic data from e-commerce

Costco opened a store on Alibaba’s Tmall online platform last year, a move OC&C’s Chuang describes as “dipping their toes into the water.” For now, Sam’s Club has the pool—and the growth—to itself. —*Bloomberg News*

**The bottom line** Sam’s Club in China, whose membership is growing at 10 percent to 12 percent annually, is repositioning itself to sell pricier goods.



A Sam's Club shopper in Tianjin

sales to identify where it should set up warehouses next, says Walmart China’s senior vice president for e-commerce, Ben Hassing.

Sam’s Club has no major club rivals in China. Its biggest American competitor, **Costco Wholesale**, doesn’t operate brick-and-mortar stores there. That could change: