

Julius-Maximilians-Universität Würzburg
Institut für Geographie und Geologie

Wirtschaftsgeographie

**Development and Outlook for Grocery
Retailing Internationalization in China:**

**Competition and Format Expansion
within a Geographical Context**

Inaugural-Dissertation zur Erlangung der
Doktorwürde der Philosophischen Fakultät I
der Bayerischen Julius-Maximilians-Universität Würzburg

vorgelegt von

Sina Hardaker, geb. Brunner

geb. 06. August 1985 in Erlenbach am Main

Würzburg, Mai 2015



1. Gutachterin: Professor Dr. Barbara Hahn
2. Gutachter: Professor Dr. Jürgen Rauh

“If you open the window for fresh air, you have to expect some flies to blow in.”

Deng Xiaoping

Acknowledgements

I am thankful to my supervising professor, Prof. Dr. Barbara Hahn of *Julius-Maximilian-Universität Würzburg*, who provided constructive criticism and friendly advice throughout the work. I would also like to express my gratitude to the second reviewer, Prof. Dr. Jürgen Rauh.

Certainly, this study would not have been possible within this framework without the interviewees' willingness to co-operate. Their time and expertise is highly appreciated.

Further I'd like to thank Mrs. Julia Breunig from the Geography Institute at the *Julius-Maximilian-Universität Würzburg* for her much appreciated help with the realisation of designed maps.

Further, I owe my gratitude to the *Bayerisches Hochschulzentrum für China-Forschung* in Bayreuth, who kindly supported my stay in China financially within the framework of a mobility scholarship.

Für meine Familie.

Sina Hardaker

May 2015

Abstract

Purpose – The purpose of this dissertation is to reveal the status quo of development of the grocery retailers' internationalization process in China as well as to model future trends, opportunities and challenges within a very competitive market. Using several, geographically distant cities as case studies, this paper focuses on the development and outlook of different store formats, along with the development of competition in this respect by explicitly treating China not as a single market. The study thereby analyses historical and geographical diffusion in regard to store formats. The impacts of the main factors of change are discussed.

Design/methodology/approach – The dissertation reviews extensively the literature of grocery retail internationalization with special focus on China. In addition, it draws on primary research in the form of a wide range of expert interviews. As China's 'supermarket revolution' is underway, an understanding of the local and foreign competition and the development of different store formats within different regions of China as well as their prospects, will be crucial to companies expanding into this area.

Findings – The study explains how grocery retailers have already entered the Chinese market with different store formats and how competition has and will further develop. In addition, the study reveals challenges and obstacles in regard to future market strategies, especially in regard to store formats and geographical regions.

Research limitations/implications – The study reveals the current landscape of the Chinese grocery retailing market and emphasizes important strategic pillars, modelling future implications and challenges for food retailers operating in China. Because China is a vast country this dissertation forms only a small part of the geographical evolution process in regard to store formats and competition.

Practical implications – Explores current understanding of the internationalization process in China by considering different format choices. Supplementary, the dissertation proposes an outlook of competition enlargement, prospects of format development and therewith strategic implications within different regions as well as a future research agenda.

Originality / value – Contributes to the understanding of the Chinese grocery retailing market. Furthermore, it is among the first to critically explore possible future developments in regard to store formats and competition within a geographical context in China.

Table of Contents

<i>List of Abbreviations</i>	<i>i</i>
<i>List of Tables</i>	<i>iv</i>
<i>List of Figures</i>	<i>v</i>
<i>List of Maps</i>	<i>vii</i>
<i>List of Appendices</i>	<i>viii</i>
1 Setting the Context: Food Retailing Internationalization and the People’s Republic of China	1
1.1 Problem Outline and Current State of Research	8
1.2 Research Questions, Aim and Objectives	15
1.3 Subject Classification	17
1.4 Approach	19
2 Theoretical Framework: From Emerging Markets, Hybrid Economies, Embedded Globalization and the Chinese Grocery Retailing Sector	21
2.1 Disambiguation of Terms	21
2.2 Internationalization of Food Retailing	25
2.2.1 <i>Grocery Retailing Internationalization into Emerging Markets</i>	26
2.2.2 <i>A Glimpse at the Motives for Internationalization</i>	29
2.2.3 <i>Feasible Challenges and Barriers</i>	31
2.3 Brief History of Economic Liberalization and Food Retailing in China	36
2.3.1 <i>The Foundation: Regional Development Policies and Economic Liberalization – from Mao to Deng</i>	37
2.3.2 <i>The Beginnings of Food Retailing in China: Transition from State Controlled to Breaking New Ground</i>	42
2.3.3 <i>The Influence of WTO entry: The Expansion of Modern Food Retailing</i>	50
2.3.4 <i>China’s Retail Sector in Transition: Enabling a Supermarket Revolution</i>	55
2.3.5 <i>Traditional Retail Systems versus Modern Retail Systems</i>	62
2.3.6 <i>Uneven Regional Development</i>	64
2.3.7 <i>Regional Variations</i>	67

2.4	The Concept of Retail Formats	68
2.4.1	<i>Different Types of Store Formats and their Development in Food Retailing</i>	70
2.4.2	<i>Competition of Grocery Retailing Formats</i>	75
2.4.3	<i>Format Change Patterns and Format Transfer Strategies</i>	78
2.4.4	<i>Drivers and Barriers to the Advancement of Modern Food Retailing</i>	82
2.4.5	<i>Consumer Shopping Behaviour and Format Choice</i>	85
3	The People's Republic of China and its Multiple Markets	88
3.1	Methodology: Multiple Case Study Approach.....	88
3.2	Triangulation	91
3.2.1	<i>In-depth Interviews</i>	92
3.2.2	<i>Justification of Research Design</i>	94
3.3	Food Retailing in China: Competition and its Store Formats	95
3.3.1	<i>Current Foreign and Domestic Players</i>	95
3.3.2	<i>Format Competition within the Chinese Grocery Retailing Industry</i>	108
3.3.3	<i>Geographical Development of Modern Food Retailing in China</i>	117
3.3.4	<i>Foreign Retail Chains Versus Domestic Retail Chains</i>	120
3.3.5	<i>Current Trends within the Chinese Grocery Retailing Industry</i>	125
3.4	Extended PEST Analysis: China as one Market?	126
3.4.1	<i>General Political Analysis</i>	128
3.4.2	<i>General Economic Analysis</i>	130
3.4.3	<i>Meet the Chinese Consumer 2020</i>	134
3.4.4	<i>Social Analysis</i>	137
3.4.5	<i>General Technological and Infrastructural Analysis</i>	139
3.5	Selection of Cases	140
4	Case Studies, Data Analysis and Discussion	142
4.1	The Myth of a China Market.....	142
4.1.1	<i>Case I: Shanghai</i>	146
4.1.2	<i>Case II: Chongqing</i>	149
4.1.3	<i>Case III: Urumqi</i>	151

4.1.4	<i>Case IV: Hohhot</i>	153
4.1.5	<i>Different Stages of Modern Retailing and Internationalization in China</i>	154
4.2	Development and Evolvement of Store Formats	157
4.2.1	<i>The Hypermarket Concept</i>	157
4.2.2	<i>Where has the Conventional Supermarket Gone?</i>	160
4.2.3	<i>The Convenience Store – Saturation or Format Modification?</i>	161
4.2.4	<i>Wet Markets – The End is Near?</i>	164
4.2.5	<i>The Discount Format</i>	166
4.2.6	<i>E-Commerce</i>	169
4.3	Challenges and Opportunities within the Chinese Market.....	170
4.3.1	<i>Location, Location, Location</i>	172
4.3.2	<i>Localization, Localization, Localization</i>	175
4.3.3	<i>Advantages of Local Players</i>	177
4.3.4	<i>Joint Ventures – Blessing or Curse?</i>	179
4.3.5	<i>The Chinese Consumer and Trust</i>	180
4.4	The Adjustment of Retail Formats	182
4.4.1	<i>Diversification: Multi-Format</i>	186
4.4.2	<i>Face-Lift instead of Expansion?</i>	189
4.4.3	<i>The Outlook of Food Retailing Systems and Consumption: Lower Tier Cities as the New Frontier?</i>	191
4.5	The Changing Role of International Players	192
4.6	A Retail Hierarchy in the Making?	197
5	Discussion and Implications	200
5.1	Final Discussion and Summary of Findings	201
5.2	Practical Implications and Outlook	204
6	Limitations and Future Research.....	211
	Bibliography	214
	Appendices	270

List of Abbreviations

A A F C	Agriculture and Agri-Food Canada
B E R	Bohai Economic Rim
B R I C	Brazil, Russia, India, China
C A G R	Compound Annual Growth Rate
C + C	Cash and Carry
C C E Z	Chengdu-Chongqing Economic Zone
C C F A	China Chain Store and Franchise Association
C C O I C	China Chamber of International Commerce
C C P	Chinese Communist Party
C C P I T	China Council for the Promotion of International Trade
C E O	Chief Executive Officer
C J V	Cooperative Joint Venture
C M I	<i>Consumer Market Insight</i>
C P I	Consumer Price Inflation
C R E	<i>China Resource Enterprise, Ltd.</i>
C R V	<i>China Resource Vanguard Co., Ltd.</i>
D Z C	<i>‘dàxíng zǒnghé chāoshì’</i> (‘large, comprehensive supermarket’)
E D L P	Everyday Low Price
E J V	Equity Joint Venture
E T D Z	Economic and Technological Development Zones
F D I	Foreign Direct Investment
F E C	Foreign Exchange Certificate
F M C G	Fast Moving Consumer Goods
F T C	Foreign Trade Corporation
F T Z	Free Trade Zone

G A I N	Global Agricultural Information Network
G D P	Gross Domestic Product
G R D I	Global Retail Development Index
G T A I	Germany Trade and Invest
H I L O	High-Low Promotional Price
H K T D C	Hong Kong Trade Development Council
I G D	Institute of Grocery Distribution
J S C	Joint Stock Company
J V	Joint Venture
L D C	Less Developed Countries
M & A	Mergers and Acquisitions
M N C	Multinational Company
M O F C O M	Ministry of Commerce People's Republic of China
N G S	<i>Shanghai Nonggongshang Supermarket Co., Ltd.</i>
N N S R F C	New National Standard of Retail Format Classification
O C C	Open Coastal City
O C E A	Open Coastal Economic Area
P E S T	Political, Economic, Social, Technological
P P I	Producer Price Inflation
P P P	Purchasing Power Parity
P R C	People's Republic of China
P R D	Pearl River Delta
P R O M O	Promotional Pricing
R M B	<i>Rénmínbì</i> , 元 or ¥ (Chinese Yuan)
R O I	Return on Investment
S A I C	State Administration for Industry and Commerce
S A R	Special Administrative Region

S E Z	Special Economic Zone
S I R E	Strategic International Retail Expansion
S K U	Stock Keeping Unit
S O E	State-Owned Enterprise
S S S A	Self-Service Stores Association
S Z I T I C	Shenzhen International Trust & Investment Co.
T N C	Transnational Corporations
U K	United Kingdom
U S A	United States of America
U S C S	United States Commercial Service
U S S R	Union of Soviet Socialist Republics
W D S	Western Development Strategy
W F O E	Wholly Foreign-Owned Enterprise
W T O	World Trade Organization
Y O Y	Year-On-Year
Y R D	Yangtze River Delta

List of Tables

<i>Table 1</i>	Countries Ranked by Size of Economy	1
<i>Table 2</i>	International Sales of the Top 10 Retail Companies.....	4
<i>Table 3</i>	Top 10 Retailers Internationalization	25
<i>Table 4</i>	Foreign Supermarket Firms in China	47
<i>Table 5</i>	The Development of Supermarkets in China	54
<i>Table 6</i>	The Liberalization of the Grocery Retail Industry in China	59
<i>Table 7</i>	Selected Characteristics of Store-Based Formats in Grocery Retailing ...	74
<i>Table 8</i>	Top 10 Hypermarkets and Supermarkets Operators by Sales	96
<i>Table 9</i>	National Standard of China: Classification of Retail Formats	110
<i>Table 10</i>	Top 10 Convenience Store Operators by Number of Stores	114
<i>Table 11</i>	Leading Domestic and Multinational Food Retailers	121
<i>Table 12</i>	Foreign Retail Chains among the Top 100s in China	124
<i>Table 13</i>	Annual Disposable Income of Urban Households.....	134

List of Figures

<i>Figure 1</i>	China's Grocery Retail Market Size	2
<i>Figure 2</i>	Outline and Methodical Approach	20
<i>Figure 3</i>	Continuum of Institutional Voids and Market Definitions	24
<i>Figure 4</i>	The GRDI Window-of-Opportunity Analysis	29
<i>Figure 5</i>	Motives of Internationalization	31
<i>Figure 6</i>	Challenges of Internationalization	35
<i>Figure 7</i>	Size of Employment in Selected Sectors	39
<i>Figure 8</i>	FDI Inflows into China, 1983–2000	43
<i>Figure 9</i>	Timeline of Foreign Grocery Retailers Entering the Chinese Market	48
<i>Figure 10</i>	Broad Illustration of Development of China's Grocery Retailing Sector .	53
<i>Figure 11</i>	Options for Market Entry in the PRC	54
<i>Figure 12</i>	China's Packaged Food and Beverage Market	56
<i>Figure 13</i>	Four Dimensions of the Economic Transition Process for China	58
<i>Figure 14</i>	Foreign Enterprise Types in the PRC	61
<i>Figure 15</i>	Emerging Markets and a Mix of Retailing	63
<i>Figure 16</i>	FDI Flows into China by Region	65
<i>Figure 17</i>	Factors Determining Regional Variations	67
<i>Figure 18</i>	Three Components of Retail Know - How.....	69
<i>Figure 19</i>	Positioning in Food Retailing Formats	76
<i>Figure 20</i>	Four Basic Types of International Retailing	81
<i>Figure 21</i>	The Wheel of Retailing	83
<i>Figure 22</i>	Conceptual Framework	87
<i>Figure 23</i>	Triangulation of Research	92
<i>Figure 24</i>	Retail Format Sales for Edible Grocery by Channel Type in China	109
<i>Figure 25</i>	China's Hypermarket and Superstore Leaders, 2006 – 2016	111
<i>Figure 26</i>	Modern Trade Prevalence in Higher-Tier Cities	117
<i>Figure 27</i>	China's Driving Economy	132
<i>Figure 28</i>	Expected Spending by 2020	136
<i>Figure 29</i>	Change in Income Distribution from 2000 until 2020	136
<i>Figure 30</i>	Stages of Retailing Development in the PRC	155

<i>Figure 31</i>	Evolving Market Share of Top 5 Hypermarket Players	158
<i>Figure 32</i>	Tier by Tier: Where the Growth is Coming From	191

List of Maps

<i>Map 1</i>	The PRC's 34 Provincial Level Administrative Divisions	7
<i>Map 2</i>	Early Phases of Post-Mao Regional Policy with SEZs	41
<i>Map 3</i>	Foreign Grocery Retailers Entry Locations	49
<i>Map 4</i>	China's GDP by Province	66
<i>Map 5</i>	GDP Growth Rate per Province	131
<i>Map 6</i>	Four Selected Cases: Shanghai, Chongqing, Urumqi, and Hohhot	141
<i>Map 7</i>	Urban Clusters and their City Hubs	144

List of Appendices

<i>Appendix 1</i>	Total Retail Sales of Consumer Goods	270
<i>Appendix 2</i>	Classification of City Tiers	271
<i>Appendix 3</i>	Distribution Channels in the Centrally Planned Economy.....	272
<i>Appendix 4</i>	Selected Conditions for Retail JVs	273
<i>Appendix 5</i>	Retail Format Sales for Edible Grocery by Channel Type	274
<i>Appendix 6</i>	Overview of Experts Interviewed	275
<i>Appendix 7</i>	Interview Guideline	276
<i>Appendix 8</i>	Overview of Hypermarkets and Superstores in China	277
<i>Appendix 9</i>	Overview of Supermarkets and Neighbourhood Stores in China	278
<i>Appendix 10</i>	Sales Growth and Store Number Growth for Hypermarkets and Supermarkets	279
<i>Appendix 11</i>	Overview Convenience Stores and Forecourt Stores in China	280
<i>Appendix 12</i>	Overview of Discount Stores in China	281
<i>Appendix 13</i>	Overview of Cash and Carry Stores in the PRC	281
<i>Appendix 14</i>	Overview of E-Commerce within the Grocery Retailing Industry	281
<i>Appendix 15</i>	Selected Overview of Grocery Retailers' Store Location	282
<i>Appendix 16</i>	Geographical Distribution of Overseas-Invested Retail Enterprises ...	283
<i>Appendix 17</i>	Packaged Food Sales in China by Category – Historic and Forecast ..	284
<i>Appendix 18</i>	Comparing Transactions Costs in Emerging and Developed Countries	285
<i>Appendix 19</i>	Minimum Wage Levels	286
<i>Appendix 20</i>	Urban and Rural Incomes	287

1 Setting the Context: Food Retailing Internationalization and the People's Republic of China

With a potential market of roughly 1.4 billion consumers, an economy growing consistently at around 7 - 8 % per year and a predicted swelling of the middle-classⁱ to more than 50 % of the population in 2020, the People's Republic of China (PRC or subsequently China) seems to display unprecedented opportunities (MAI AND ZHAN, 2004: 57; GAMBLE, 2011a: 1; HAMILTON & PETROVIC, 2011: 21; SETH & RANDALL, 2011: 29; WANG, 2011: 169; ATSMON & MAGNI, 2012: 2,3; MAGNI & POH, 2013: 1). The country has undergone a 'retail revolution', becoming a pivotal and competitive consumer market, while the uniqueness of the Chinese market has attracted the interest of economists, sociologists, historians, politicians and opinion leaders of all kinds (FARRELL, ET AL., 2006: 69; FORBES INSIGHTS, 2011: 2; ATSMON, ET AL., 2012: 5; DAVIS, 2013: 353; EUROMONITOR, 2013b: 12).

Rank	Country	GDP in millions of US\$	Growth in %
1	United States	16,244,600	2.8
2	China	8,227,103	7.8
3	Japan	5,959,718	1.9
4	Germany	3,428,131	0.7
5	France	2,612,878	0.0
6	United Kingdom	2,471,784	0.1
7	Brazil	2,252,664	0.9
8	Russian Federation	2,014,775	3.4
9	Italy	2,014,670	-2.5
10	India	1,841,710	3.2

Table 1 Countries Ranked by Size of Economy in 2012 (own illustration after WORLD BANK GROUP, 2013: 1; WORLD BANK GROUP, 2014a: 42; WORLD BANK GROUP, 2014b: online)

Table 1 reveals the countries ranked by size of economy. In 2007, China's gross domestic product (GDP) surpassed that of Germany's to become the third largest in the world, and in

ⁱ The middle-class is an ambiguous social classification, broadly reflecting the ability to afford an elevated standard of living. According to KHARAS (2010: 7), the "middle class usually enjoy stable housing, healthcare and educational opportunities (including college) for their children, reasonable retirement and job security, and discretionary income that can be spent on vacation and leisure pursuits." A range of US\$ 10 to US\$ 100 in purchasing power parity per capita per day is adopted to characterize middle class households; Therefore playing a special role in macro-economic considerations (KHARAS, 2010: 7-8).

2010, China overtook Japan as the world's second largest economy, challenging the dominant status of the United States of America (USA) with an estimated 7.5 % GDP growth in 2016 and the next three years to come (LIEFNER & WEI, 2014: 1; WORLD BANK GROUP, 2014a: 42). Managing to maintain high growth rates and rising consumer spending (e.g. in 2009), even when the USA and other major global economies were in deep recession, attracts global actors from all sectors who view the PRC as a thriving retail market (CHUANG, ET AL., 2011: 443). Rising household incomes have also played an essential role in the strong value sales of grocery retailers (EUROMONITOR INTERNATIONAL, 2013a: online). Overall, consumer spending per capita was US\$ 1,753 in 2011 and is forecasted to grow an additional 51 % to reach US\$ 2,640 by 2015. Of total expenditures, consumers spent 21 % on food and non-alcoholic beverage purchases. This is more than the 15 % share allocated to housing expenditure. With rising incomes, consumers are increasingly buying more grocery products as well as higher quality items (SENAUER & REARDON, 2011: 272; AGRICULTURE AND AGRI-FOOD CANADA, AAFC, 2013: 3). In 2012, THE GUARDIAN and BBC NEWS amongst others reported that “*China overtakes [surpasses] US as world's biggest grocery market*”, with food shopping in PRC worth £ 607 billion at the end of 2011, against America's £ 572 billion, and forecast to approach £ 1 trillion by 2015 according to the INSTITUTE OF GROCERY DISTRIBUTION (IGD) (2012: online). China's grocery retail market grew 57.1 % from 2006 to 2011, representing 38 % of total retailing value sales. An 8 % market growth in 2012 indicates the level estimated over the next years (EUROMONITOR INTERNATIONAL, 2013a: online). As displayed in *figure 1*, it is expected to reach a value of US\$ 707.2 billion by 2016, representing expected growth of 40.2 % from 2011 to 2016 (AAFC, 2013: 10).

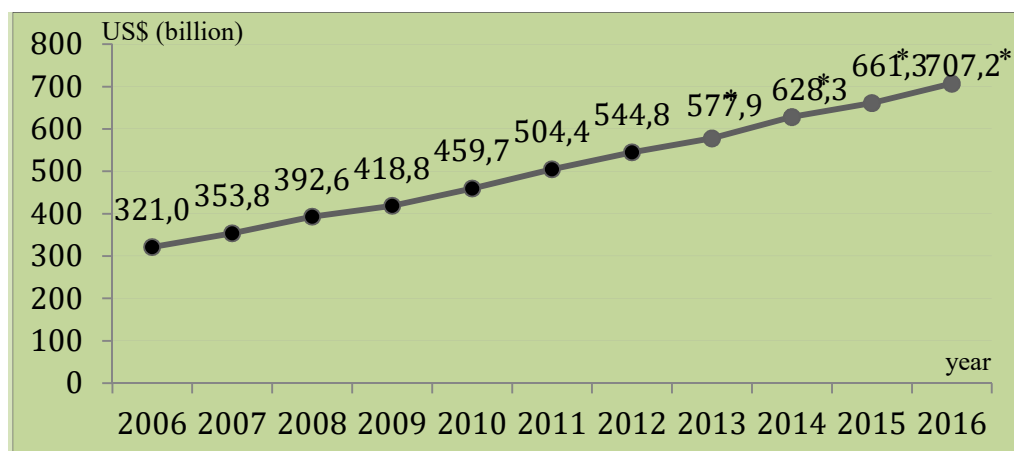


Figure 1 China's Grocery Retail Market Size by Value in US\$ billions (own illustration based on EUROMONITOR INTERNATIONAL, 2013a: online; AAFC, 2013: 10) * Forecast

IGD (2012: online) published even more optimistic numbers, estimating a compound annual growth rate (CAGR) for the Chinese grocery retail market at 10.9 %, more than double the CAGR of the US pendant. Recently, IGD (2015a: online) reported 12 % year-on-year (YOY) growth of China's total consumer goods retail sales, reaching US\$ 4.2 trillion according to Ministry of Commerce. While agreement in regard to high growth rates prevails, the valuation of China's food retailing sector is varying. See *Appendix 1* (p. 270) for an overview of retail sales from 2008 to 2012. Joanne Denney-Finch, chief executive at IGD, stated: “*China's grocery growth story is phenomenal. [...] This rapid expansion has been fuelled by three main factors: rapid economic growth, population and rising food inflation. Despite its various logistical and bureaucratic challenges, China is a crucial growth market for many of the world's largest grocery retailers*” (IGD, 2012: ONLINE). In regard to internationalization however, this tremendously growing sector is lagging behind. China's supermarket chains, with international players being almost absent, are still in their infancy (CONSUMER MARKET INSIGHT, CMI, 2005: 4; ZHEN, 2007: 97; SIEBERS, 2011: xv; CORSTJENS & LAL, 2012: 105). Given the importance of the sector and the number of companies involved, the internationalization process in food retailing generally has occurred much later than in the manufacturing industry (BURT, 1991: 487; VIDA, ET AL., 2000: 63; SCHMEKEL, 2004: 135; DAWSON & MUKOYAMA, 2006: 1; HUANG & STERNQUIST, 2007: 614; ZHEN, 2007: 4; TURBAN & WOLF, 2008: 3; WORTMANN, 2010: 65). Confirming CORSTJENS AND LAL'S (2012: 105) assertion that “[s]ome industries clearly can't travel across borders as well as others”, the grocery retail market is dominated by local players in most countries. However, grocery retailers often face very limited growth prospects in their home markets (GIELENS & DEKIMPE, 2002: 1; DAWSON & MUKOYAMA, 2014d: 6). Researchers and economists forecast an extensive potential for retailers through an accelerated development towards international grocery markets (BURT, 1991: 487; TURBAN & WOLF, 2008: 1; EUROMONITOR, 2013b: online). TRAILL (2006: 163), investigating the rapid global rise of supermarkets, suggests significant growth in countries opening up their market and increasing their GDP – both present factors within the Chinese market. Indeed, deregulation (DAWSON & MUKOYAMA, 2014d: 35) as well as supportive government policies, such as introducing modern retailing into rural areas, as well as ongoing urbanization contribute also to China's grocery retailing rise (EUROMONITOR INTERNATIONAL, 2013a: online). BURT, ET AL. (2005: 195) attest that food retailers hold a general assumption that what works at home works abroad. Internationalization is no panacea, however. Retailers have to face many barriers upon entry into a foreign market.

Internationalization in food retail proves to be especially difficult, as the customer has to be directly addressed with an overall supply, consisting of provision of goods and services on site (TURBAN & WOLF, 2008: 3; HUANG & STERNQUIST, 2007: 614). To a certain extent the food retailer has to become a substantial part of the community itself, in which it wants to do business. Misjudgment of markets can lead to unwanted consequences, as prominent examples of *Walmart* in Germany (SENIGE, 2004; CHRISTOPHERSON, 2007) and South-Korea (HALPETE, ET AL., 2008), *Ahold* in Latin America (WRIGLEY & CURRAH, 2003), *Ahold* (DEJONG, ET AL., 2005; PALMER & QUINN, 2007) and *Park and Shop* in China (GOLDMANN, 2001), *Aldi* in Greece (FOCUS, 2010; HANDELSBLATT, 2010), *Marks & Spencer* in Canada (ALEXANDER, 1997: 286), in the USA (BURT, ET AL., 2002) and Germany (ALEXANDER & QUINN, 2002: 119-120), as well as *Walmart* and *Carrefour* in Korea (YOUNG - SANG, 2011: 13) or *Tesco's 'Fresh & Easy'* in the USA (EUROMONITOR, 2013b: online) reveal. No grocery retailer currently operates simultaneously in all of the world's biggest markets (CORSTJENS & LAL, 2012: 106). Two of the top 10 retailers even operate exclusively within their home markets (both USA). *Table 2* compares the relative importance of the international activities conducted by the top 10 retailers worldwide in terms of total turnover. In only four cases does turnover outside of the domestic market exceed 50 % of total revenue.

Rank	Company	Country of Origin	Sales (in US\$ mio.)	Internat. Revenue as % Sales
1	Walmart Stores Inc.	USA	469	29,1
2	Tesco PLC	UK*	101	33,5
3	Costco Wholesale Op.	USA	99	27,6
4	Carrefour S.A.	France	99	54,0
5	The Kroger Co.	USA	97	0,0
6	Schwarz Group	Germany	87	57,7
7	Metro AG	Germany	86	61,6
8	Home Depot	USA	75	11,2
9	Aldi Group	Germany	79	59,2
10	Target Cooperation	USA	72	0,0

Table 2 International Sales of the Top 10 Retail Companies in 2012 (own illustration after DELOITTE, 2014: 20) * United Kingdom

Throughout BURT, ET AL.'S (2004; 2006) extensive studies on the historical internationalization of European food retailers, not a single reference to China has been made; inferring that the PRC grocery market has not played any international role before 1990. As a matter of fact, only in 1991, had the first supermarket opened in Shanghai

(STERNQUIST & CHEN, 2006: 243). Although ten million new consumers enter the huge Chinese grocery sector every year (FORBES INSIGHTS, 2011: 3), few Western foreign grocery retail chains such as *Walmart* (USA), *Carrefour* (France), *Tesco* (UK) and *Metro* (Germany) navigated their way into the market (SETH & RANDALL, 2011: 30-32; SIEBERS, 2011: 4; LIU, 2007: 398). Rivalry, especially from Chinese counterparts such as *China Resources* and *Lianhua* (DATAMONITOR, 2010: 21-23; MARKETLINE, 2013: 22-25), both operating 4,000 and 5,000 stores across Mainland China and Hong Kong, is strong. *China Resources* for instance, one of China's largest retailers holds a market share of 2.3 % of total grocery retailingⁱⁱ (DIAZ, ET AL., 2012: 3). Yet, the Chinese grocery retailing market remains highly fragmented (LU, 2010: 2; GOLDMAN, 1996: 2; WALL STREET JOURNAL, 2006: online; ZHEN, 2007: 96). ATSMON, ET AL. (2012: 14) speak of a strongly divided market, with the 50 largest retailers having a tenth of market share compared to that of the 50 largest US retailers. According to Yang Fan, a retail analyst at Euromonitor, "*nobody has a national footprint yet*" in a business where size and scale are paramount (WALL STREET JOURNAL, 2006: online). International activity by retailers is expected to rise significantly over the next decade (DAWSON, 2011: 2; DAWSON & MUKOYAMA, 2014b: 227). Nevertheless, for foreign retailers entering markets where traditional street or wet marketsⁱⁱⁱ

ⁱⁱ Compared to other markets, a high degree of saturation has taken place in Germany, for instance, where discounters such as *Aldi* and *Lidl* reveal a market presence with more than 15.000 branches and a combined market share of more than 42 % (TURBAN & WOLF, 2008: 2), while number one *Edeka Group* holds 25.5 % (STATISTA, 2014: online). Already back in 1991, TORDJMAN (1995: 29) reveals the market share of top five retailers in European markets, holding more than 40 % of combined market share in Germany, France, the Netherlands and the UK. More recently, ZENTES, ET AL. (2011: 2) pinpoint numbers as high as 70 % for Germany and France.

ⁱⁱⁱ A wet market generally refers to a fresh food market commonly found in Asian countries. It describes an open marketplace with stalls of food and other items for sales; it is a technical term used to differentiate fresh meat and produce markets from dry markets which sell durable goods like cloth and electronics. In regard to China, GOLDMAN (2000: 5) however, uses the term wet market alternately with 'non-staple food markets', describing them as "*large, enclosed, one- or two-story buildings. Space is divided among counter-service departments, each specializing in one fresh food line. Employees clean and sort vegetables, kill live chickens and fish, carve meat and prepare and serve cooked Chinese food items. The environment is crowded, dirty and noisy.*" GOLDMAN (2000: 5) uses the term 'street market' to describe a market in the open, where tiny stalls are operated by private sellers in contrast to wet markets, which are enclosed state-owned facilities (GOLDMAN, 1996: 6). The GLOBAL AGRICULTURAL INFORMATION NETWORK (GAIN, 2012: 11) arranges traditional markets into three general categories: wet markets, variety stores (xiàomàibù 商), and fruit stands.

still dominate, it is without doubt especially challenging (BAI, ET AL., 2006: 19), as local competition in form of wet markets and small convenience stores is strong (MARUYAMA & TRUNG, 2007: 21; REARDON, ET AL., 2007b: 407; DIAZ, ET AL., 2012: 3). Further factors such as general ascending costs, price controls, governmental bureaucracy and increasing online offers (LEBENSMITTELZEITUNG, 2013c: online) ascend the risks for international grocery chain investors. In regard to PRC, prices are not only rising in production, material and labor, but an increase in lending interest rates and financial costs is evident (FU, ET AL., 2012: 173). HANG AND GODLEY (2009: 383) speak of mounting costs of technology, highlighting the importance of firm proprietary strengths for supermarket retailers. In his outlook on China in 2015, Gordon Orr, director of McKinsey Asia, speaks of “*slower economic growth, greater volatility, and rising competition*”, when predicting the “*lowest annual income growth in China for at least a decade*” (MCKINSEY, 2014: online).

Nevertheless, the main focus of economic activity still remains on the biggest – so called first-tier cities^{iv} – which usually include Shanghai, Beijing, Guangzhou and Shenzhen, ‘*The Big 4*’, (CMI, 2005: 4; MAGNI & POH, 2013: 1). Focusing on areas of high population density, investment mainly took place along the East coast of the PRC, along the Bohai Economic Rim (BER)^v, Yangtze River Delta (YRD)^{vi} and Pearl River Delta (PRD)^{vii}

^{iv} While various criteria exist for defining a particular tier, the tiers of cities in China usually refer to key characteristics of the city, including its economic development, provincial GDP, advanced transportation systems and infrastructure, as well as historical and cultural significance.

^v The BER consists of 26 cities, which have a 20 % share of GDP (RMB 6,699 billion) and 10 % (136 million) of China’s population in 2009 (PWC, 2013: 165), including

- Beijing, Tianjin,
- Lianoning province: Dalian, Dandong, Yingkou, Panjin, Shenyang, Fuxin, Jinzhou, Huludao, Chaoyang,
- Hebei province: Shijiazhuang, Qinghuangdao, Chengde, Tangshan, Cangzhou, Xingtai, Langfang,
- Shangdong province: Qingdao, Yantai, Weihai, Jinan, Binzhou, Dongying, Zibo, Weifang.

^{vi} The YRD consists of 16 cities, which have an 18 % share of GDP (RMB 5,998 billion) and 6 % (85 million) of the PRC’s population in 2009 (PWC, 2013: 165), including

- Shanghai,
- Zhejiang province: Hangzhou, Ningbo, Jiaxing, Zhoushan, Shaoxing, Taizhou (in Zhejiang), Huzhou,
- Jiangsu province: Suzhou, Wuxi, Nanjing, Yangzhou, Nantong, Changzhou, Zhenjiang, Taizhou.

^{vii} The PRD consists of nine cities, which have a 9 % share of GDP (RMB 3,215 billion) and 2 % (30 million) of China’s population in 2009 (PWC, 2013: 165), including

- Guangdong province: Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Zhaoqing, Jiangmen, Zhongshan, Dongguan.

(DELOITTE, 2013a: 2; PwC, 2013: 165). China and its 34 provincial level administrative divisions (省)^{viii} with the first- and second-tier cities are revealed in *map 1*.



Map 1 The PRC's 34 Provincial Level Administrative Divisions and the Four First-Tier-Cities, namely Shanghai, Beijing, Shenzhen and Guangzhou (own design, realisation by Julia Breunig)

But also the central-western region has become more popular for investments, with Sichuan province and its cities Chengdu and Sichuan counting as eligible locations. Newly developing market areas are the focus of several economic articles (FORBES INSIGHTS, 2011; DELOITTE, 2013a), emphasizing that second-tier cities such as Tianjin, Chongqing,

^{viii} Provincial level administrative division is the highest-level Chinese administrative division. There are 34 such divisions, classified as

- 22 provinces,
- 4 municipalities (Beijing, Chongqing, Shanghai, and Tianjin),
- 5 autonomous regions (Xinjiang Uyghur, Inner Mongolia, Tibet, Ningxia, and Guangxi),
- 2 Special Administrative Regions (Hong Kong and Macau),
- and the claimed Taiwan Province.

Chengdu, Wuhan, Xiamen present huge opportunities (see *Appendix 2*, p. 271, for an overview of China's first-, second-, third- and fourth-tier city classifications). Eventually, researchers and economists often recommend to treat China as several markets due to the vast differences in economic and societal factors across the country (JIANG & PRATER, 2002: 785; LU, 2010: 27; QIU, 2011: 58; ATSMON & MAGNI, 2012: 8; IGD, 2012: online; MCKINSEY, 2012: 1) turning the word 'unexpected' into common nomenclature throughout economic research.

1.1 Problem Outline and Current State of Research

Despite a growing number of studies concerning the internationalization of food retailing (SALMON & TORDJMAN, 1989; DUPUIS & PRIME, 1996; STERNQUIST, 1997; BURT & CARRALERO-ENCINAS, 2000; BURT, ET AL., 2005; HUMPHREY, 2007; ALEXANDER & DOHERTY, 2010), a lack of understanding in regard to different formats of food retailing and their geographically dependent evolvement and development still exists. The current literature tends to relate to the retail industry in general or focuses upon the strategies (ROBINSON & CLARKE-HILL, 1995; COLLA, 2003; HUANG & STERNQUIST, 2007; TURBAN & WOLF, 2008) involved. A pivotal study on international retail research has been carried out by ALEXANDER AND DOHERTY (2010). Considering the development of research in international retailing over the last 20 years, the previous ten years of research have seen an emphasis on operational aspects such as market selection, market entry method and market divestment. ALEXANDER AND DOHERTY (2010: 933) call for a more in-depth understanding of the internationalization process with a more regional focus. Several studies have focused on the internationalization process in general (SALMON & TORDJMAN, 1989; HUANG & STERNQUIST, 2007) and within Europe (ALEXANDER, 1990; MYERS, 1995; MYERS & ALEXANDER, 1996; BELL, ET AL., 1998; BELL, 2000; BELL, 2001a; BELL, 2001b; BELL, 2001c; DAWSON, 2001; GIELENS & DEKIMPE, 2002; WORTMANN, 2003; COLLA, 2004; WORTMANN, 2010; WORTMANN, 2011; KADITI, 2013). Most of this work has drawn on established issues in international management and marketing, having set the emphasis on describing apparent success factors rather than investigating futuristic outlooks. Case

studies of certain companies such as *Tesco* (YAHAGI, 2003; PALMER, 2004; COE & LEE, 2006; LOWE & WRIGLEY, 2010; YOUNG-SANG, 2011), *Walmart* (COLLA & DEPUIS, 2002; DA ROCHA & DIB, 2002; GERHARD & HAHN, 2004; SENGE, 2004; FERNIE, ET AL., 2006; GRAFF, 2006; HAUSMAN & LEIBTAG, 2007; HALPETE, ET AL., 2008; BASKER & NOEL, 2009; PARUCHURI, ET AL., 2009; SCHMID, ET AL., 2009; BONANNO, 2010; ELLICKSON & GRIECO, 2013), *Aldi* (WORTMANN, 2004; ACKER, 2010), *Marks & Spencer* (MCGOLDRICK & BLAIR, 1995; JACKSON & SPARKS, 2005), *Ahold* (PALMER & QUINN, 2007) and *Carrefour* (DUPUIS, ET AL., 2006; KACZMAREK, 2009) or together (COLLA & DEPUIS, 2002; SWOBODA, ET AL., 2005; AOYAMA, 2007; UNIVERSITY OF FLORIDA, 2011) have been undertaken. Thus, few markets are as tantalizing to global players as the new consumer-driven Chinese market. The immense potential of the Chinese food retail market is witnessed through a wide range of economic, non-academic articles published in magazines such as DELOITTE (2009; 2012; 2013a; 2013b; 2013c; 2014), THE ECONOMIST (2000; 2014), FORBES INSIGHT (2011), and MCKINSEY (2006a; 2006b; 2009; 2011; 2012), which pose China's retail industry and related marketing aspects as a whole as a recurrent theme. They all forward useful, yet broad, business recommendations, failing to provide detailed information on single sectors and overlooking geographical differences. Those wishing to profit from China's retail boom however, must strategically overcome the geographic, cultural and economic diversity. With local firms becoming more successful, both local and foreign retailers have to respond to more complex consumer demands (DAWSON, 2011: xiii) and increasing levels of competition (TACCONELLI & WRIGLEY, 2009: 49-50). In their multiple case study on the PRC's retailing market, CAO AND PEDERZOLI (2013: 292) interviewed 18 foreign companies conducting business in China analysing their strategic responses to differing circumstances. Next to *Carrefour* and *Metro* managers, non-food retailers were also investigated. ZHEN (2007), without conducting primary research, undertook case studies on several domestic and foreign retailers, thereby analysing their strategies within the Chinese market. Concerning the Chinese food retailing market, the main focal point of academic research has been case studies, often focusing on certain companies such as *Walmart* (CAI, 1997; CHATURVEDI, 2006; MATUSITZ & LEANZA, 2009), *Carrefour* (ZHU YI, 2012), combined (CHUANG, ET AL., 2011), and *Marks and Spencer* (JACKSON & SPARKS, 2005), *Metro* (SCHMEKEL, 2004) or *7-Eleven* and *FamilyMart* (SATO, 2007); as well as on consumer responses and shopping behavior. Research on the relationship between consumer image congruence and retail store choice referring to Chinese consumers has been conducted by HE AND MUKHERJEE (2007: 443), offering valuable insights into

consumer behavior of Chinese students from a major Chinese university in the city of Guangzhou, Guangdong Province. Correspondingly, MAI AND ZHAN (2004: 59-60) focus on consumer behavior, providing an insight into shopping patterns of Chinese supermarket shoppers in Beijing. They reveal a strong increase in supermarket shopping; highlighting however, the continuing importance of traditional markets. An attempt of investigating the positioning points of successful retail enterprises in China is undertaken by FEI, ET AL. (2010: 163), highlighting the importance of clear positioning as the key to success. WANG, ET AL. (2010: 423) investigate Chinese consumers' international out-shopping motives from a culture perspective, while giving useful information on Chinese cultural environment. Other research concentrates on the dramatic change in food consumption patterns and eating and cooking behaviors. ZHAI, ET AL. (2014: 16) make observations of dietary shifts between 1991 (around the beginning of modern grocery retailing in the PRC) and 2011, prognosticating major growth in consumption of processed foods and beverages. VEECK (2003), VEECK, YU AND BURNS (2008) as well as WANG (2011) also researched consumer responses to changing food systems in urban China. TACCCONELLI AND WRIGLEY (2009) investigate three factors which are fundamental for the achievements of market competitiveness in China: supply networks, estate markets and consumer culture. UNCLES (2010: 69), examining retail change in China, calls for "*more in-depth interpretative studies to capture contextual nuances.*" Problems and prospects of supermarket development in China have been studied by LO, ET AL. back in 2001. They not only research the historical development of modern grocery retailing, but compare their findings with earlier (1985) findings regarding the hinderances of supermarket development. An exception is represented by BAI, ET AL. (2006), focusing on consumer choice of retail food store formats in Qingdao, located on the east coast of China. They deliver valuable insights into determinants of format choice and indirectly confirm the inclusion of wet markets in researching modern grocery retailing, inferring that traditional markets illustrate an essential niche of providing fresh produce. Yet, their research is constricted by its limited geographical scope. Answers to questions such as whether there are generic factors that enable the expansion of formats, as well as how a portfolio of format mixes across countries should be established and evaluated, are still required (DAWSON & MUKOYAMA, 2014b: 228). DAVIS (2013: 353-355) investigates key retail factors that affect Northwest Chinese consumers' shopping experiences, including inter alia store design, social environment and customer service. She concludes that northwest Chinese consumers have become more westernized. However, the exploratory nature of

the study, the small sample size of 18 in-depth interviews as well as the missing established link between key retail factors and formats reveal limitations. WANG AND ZHANG (2005: 43) similarly observe a retail style resembling that of contemporary Western economies, but simultaneously point out significant, characteristically Chinese differences within the Shanghai retail industry. Indeed, their valuable research highlights several pivotal changes within the Chinese grocery retailing industry, illuminating the PRC's retailing development from an economic-political perspective which the large majority of research on China fails to take account of. WANG AND ZHANG (2005: 55-56) describe Shanghai's new retail economy, drawing attention to changes in the structure of ownership, the development of indigenous retail chains as well as the diversification of retail formats. GOLDMAN (2000: 3) undertook a similar study, contributing valuable insights into Shanghai's supermarket development; however, he acknowledged that "*a systematic analysis should cover a number of cities and regions. However, time and resource limitations and the difficulties in establishing close co-operation with retailers and officials in each city led to a decision to focus on one city.*" While investigating one influencing factor of the grocery retailing industry, HANG AND GODLEY (2009: 383), in their cross-sectional analysis of the Chinese supermarket sector, focus on the psychic distance paradox (see *chapter 2.2.3*, p. 35). Comparing Chinese retailers with overseas and Western entrants, they reveal the advantage of psychic closeness in Chinese grocery retailing; nevertheless, they also highlight the reduced importance of the latter in regard to proprietary strengths in the supermarket format. In a similar approach, HINGLEY, ET AL. (2008: 5) compare two foreign and two local grocery retailers in regard to their competitiveness in the Chinese food retailing market, cautiously offering implications for the success and failure of different formats. However, as only four in-depth interviews were conducted, and consumer behavior as well as geographical coverage was not considered, results remain vague. CHUANG, ET AL. (2011), offering a brief synopsis on China's liberalization history, conducted a valuable case study on *Walmart* and *Carrefour*, two of the world's leading retailers, investigating their lack of success in establishing oligopolistic power in the PRC. Therewith, they not only highlight the importance of standardized business practices, but also the unique difficulties of the Chinese market. Research on impacts of the emergence of modern grocery retailing formats have been undertaken by HU, ET AL. (2004) in regard to the PRC's agricultural development as well as by STERNQUIST AND CHEN (2006: 234) in regard to retail food buyers' behavior and its retailer-supplier relationships in China. Although primary research is not submitted, LO, ET

AL. (2001: 66) investigate the advance of modern grocery retailing, discussing historical developments and ascribing multinational retailers a significant role in the technology transfer, while forecasting a fiercer competition between foreign and local retailers. COLLA AND DEPUIS (2009), and more recently JING (2013: 147), take on the competition aspect, while the latter refers to the importance of service competition strategy among large supermarket chains. An applaudable work on the evolution of store formats has been produced by WANG (2011: 169), who argues that “*factors such as political, economic and social-cultural environment, and perhaps more importantly, regulatory changes*” have to be taken into account when investigating the format landscape of Beijing. Although this research focuses only on one city and not solely on the grocery retailing sector, it offers nonetheless highly valuable insights. Nevertheless, scattered and insufficient research has been devoted to the development of store formats in a geographically wider context. In regard to general geographical coverage, almost all investigations concentrate on major cities such as Shanghai (GERMAN, ET AL., 1996; SAMUEL, ET AL., 1996; GOLDMAN & QIN, 1998; GOLDMAN, 2000; AU-YEUNG, 2003; HONG & CHAN, 2003; WANG & ZHANG, 2005; XIAO & KIM, 2009; SONG, 2011), Beijing (WANG & JONES, 2002; MAI & ZHAN, 2004; POWERS, 2005; CHAI, ET AL., 2007; HINGLEY, ET AL., 2008; WANG, 2011), Hong Kong (STEIEN, 1977; MCGOLDRICK & HO, 1992; GOLDMAN, ET AL., 2002; JACKSON & SPARKS, 2005) or Qingdao (BAI, ET AL., 2006; BAI, ET AL., 2008). The studies mentioned pertain predominately to the situation along the east coast of China. AU-YEUNG AND HENLEY (2003: 12) research the retail industry within the four first-tier cities Shanghai, Beijing, Shenzhen and Guangzhou. Only CUI AND LIU (2000), examining the diversity among Chinese consumers across seven regional markets and more recently DAVIS (2013), mentioned above, exploring Northwest Chinese consumers’ shopping experiences as well as FRANK, ET AL. (2014) and MARUYAMA AND WU (2014) represent notable exceptions. FRANK, ET AL. (2014: 203), examining regional differences in consumer preference structures across nine industries, use data from four regions, namely Shanghai, Beijing, Wuhan and Ürümqi. They generally predicate consumer preference differences between Southern and Northern Chinese as well as between Han Chinese, the main ethnic group consisting of 90 % of all people living in PRC, and Uyghur, an ethnic minority from northwest China. Within their research on consumers’ adoption of supermarkets, MARUYAMA AND WU (2014: 384) focus on Dalian, a second-tier city in northeastern China. ZHANG, ET AL. (2008: 377) study consumer behavior differences in coastal cities, such as Shanghai and Guangzhou, as well as the inland cities Chengdu and Harbin. It becomes

evident, that the large majority of geographical exceptions focus on consumer behavior, rather than retail formats and competition. WANG AND ZHANG (2005: 68), while exploring the transitional retail economy of Shanghai, criticize the inconclusive representation of their study, “*due to insufficient empirical studies of other urban centers*”, identifying only one other analysis conducted for Beijing showing similar experiences. GOLDMAN (2001: 222), in his appreciable piece of research exploring the transfer of retail formats into developing countries, significantly argues that “*[D]espite the importance of the format decision, we still lack a systematic analysis of the format transfer question*” and further acknowledges that “*[T]he literature has identified only two format transfer patterns: as is transfers and an adaption option. The latter lumps together all other transfer possibilities.*” In another piece of research, GOLDMAN, ET AL. (2002: 281) investigate barriers to the advancement of modern food retail formats in Hong Kong, thereby acknowledging the little impact of modern formats to take share of traditional formats. DAWSON AND MUKOYAMA (2014c: 3) criticize the fact that several studies fail to address differences in the development process between different countries and the conditions generating those differences. Furthermore, they review the failure to appreciate that differences in format are essential in the internationalization process of retailing. In regard to comprehending the history of the Chinese grocery retailing industry, there exist very few exceptions in trying to grasp a wider picture of the still ongoing ‘retail revolution’ in the PRC. BOWLES (1998) and GERMAN, ET AL. (1996) describe the state of food retailing mainly in the early 1990s, shortly after foreign participation in retailing was first permitted. WANG, ET AL. (2008) concentrate on the development of the retailing industry between 1981 and 2005, while LIU (2007) unfolds the Chinese retail sector after 2004. A more current and in-depth reproduction of Chinese food retailing sector was exercised by ZHAI, ET AL. (2014), as well as TACCCONELLI AND WRIGLEY (2009). The latter exclusively focus on the post - World Trade Organization (WTO) entry and summarize the difficulties in retracing the Chinese food retailing sector, naming the rapid changes, the highly heterogeneous retail environment, major differences in retail structures (see *chapter 2.3.3* , p. 50) across regions and highly fragmented data sources as the main factors. Furthermore, researchers as well as economists commonly criticize a lack of accessible and specific data. The UNITED STATES COMMERCIAL SERVICE (USCS) warns that “*[E]ntering this huge, complex market is especially challenging because access to current, geographically-detailed data about China’s numerous markets is limited*” (USCS, 2013: 27). In 2001, GOLDMAN (2001: 225) states that “*[N]o reliable list of foreign retailers in China exists nor is there agreement*

among experts regarding their numbers.” The GLOBAL AGRICULTURAL INFORMATION NETWORK (GAIN, 2012: 5) similarly reveals that *“official data does not attempt to pick up the smallest enterprises, and the usual concerns about data quality in a developing country are compounded by China's legacy of central planning.”* HUANG (2009: 9-10), similar to CHUANG, ET AL. (2011: 460) summarizes in his investigation of strategic management in Chinese firms, that *“the institutional settings in China have generated a great degree of complexity in the Chinese business environment”* and that *“the infrastructure for market research is still not well established in China”*, while *“[S]tatistical data and information are often not available or inaccurate.”*

Despite substantial research devoted to understanding the ‘retail revolution’ in China, significant gaps remain in our understanding in regard to its geography, format development and competition. Five main deficiencies of research can be summarized:

- I. Firstly, a general lack of reliable market research due to the Chinese markets’ vastness and difficult accessibility is often criticized.
- II. Secondly, studies conducted on the Chinese grocery retailing market focus almost exclusively on single cities along the east coast.
- III. Thirdly, studies predominantly focus on single grocery retailers or store formats.
- IV. Fourthly, with respect to China’s grocery retailer’s formats and their competition we know much less about the status quo and possible prospects in regard to the evolution or disappearance of store formats.
- V. Fifthly, research has concentrated on certain phases of the historical process and fails to take into account essential developments, specific to grocery retailing; therefore failing to deliver a comprehensive picture of China’s grocery ‘retailing revolution’.

1.2 Research Questions, Aim and Objectives

This dissertation analyses grocery retail trends in China, and particularly format development amongst retailing firms with a special focus on competition and its geography. The study thereby has several objectives. After briefly discussing motivations and barriers in regard to the internationalization of grocery retailers, a special focus is placed on the internationalization process in emerging and developing markets. Given the enormous potential market volume in China and the importance of the segment, it firstly aims to reconstruct and establish the historical development as well as general characteristics and patterns of the Chinese market in this sector including China's uneven regional development. Secondly, the concept of store formats is discussed, while characteristics of different store formats are revealed and transfer strategies illustrated. The study will then fully concentrate on the evolution and development of modern grocery chains and store formats as well as their geographical context in China; when a dataset recording international activity by local and foreign grocery retailers will be constructed from an extensive range of sources, including market research reports, corporate communications, trade press, web site and annual reports. The status quo of retailing formats and companies involved will be presented. Whilst substantial factors such as commercial policy, legislative environments, and consumers buying behavior have and will have a convergent effect on China's economy and accordingly upon its grocery retailing sector, this study continues with an initial extended PEST (political, economic, social, technology) analyses from an institutional perspective containing and tracing out influencing factors and trends. The velocity and complexity of the market in regard to the above mentioned dimensions merits a careful examination. Through this, the study aims to establish the characteristics and surrounding conditions involved within the grocery retailing sector in China. This provides a second part of the theoretical foundation. It further draws on extensive primary and secondary research such as standardized surveys, as well as observations and expert interviews in order to represent a critical but full picture of the current grocery retailing market and its prospects of store formats within different regions of China. This dissertation thereby explicitly acknowledges the fact that China cannot be treated as one market, applying a multiple case study approach. As proposed and suggested by several researchers and economists (SCHMITT, 1999: 73; JIANG & PRATER, 2002: 785; AU-YEUNG & HENLEY, 2003: 11; ZHANG, ET AL., 2008: 377; DELOITTE, 2009: 2; LU, 2010: 27; QIU,

2011: 18; ATSMON & MAGNI, 2012: 8; IGD, 2012: online; MCKINSEY, 2012: 2; PwC, 2013: 6; FRANK , ET AL., 2014: 203), the Chinese market is highly fragmented and diverse. The importance of location to retail companies has been discussed and affirmed extensively and represents one of the most studied areas within the retailing industry (SPIGGEL & SEEWALL, 1987; CLARKE, ET AL., 1997; ZENTES, ET AL., 2011). However, this piece of research focuses not on detailed aspects such as location decisions and techniques. Factors such as geographically differing markets in regard to store formats and competition will be the main focus. Afterwards the evaluated figures will be investigated in terms of possible store format opportunities and suitable regions. Therefore, this research is essential, as retailers respond to the consumer and competitive environment and also shape that environment when operating in it. Monitoring existing stores and therewith competition is crucial when taking a decision concerning market entry and expansion. As features of the retail environment, such as customer behavior and competitive structure, change rapidly and the Chinese market varies widely, this study is timely.

The distinct regional pathways towards grocery retail development have not yet received sufficient scholarly consideration. Paying attention to the historical and current features of China's grocery retailing market, however, is necessary to acknowledge the huge impact of and on the sector's players and the regions themselves. As changes in China's retail sector take place so frequently that most statistics are outdated shortly after their publication, this work's intention is to emphasize the pattern of change, particularly in historical and geographical terms in order to constitute factors of store format developments and competition. Due to the reasons mentioned above this thesis' main target is not to capture the latest counts of stores and amount of sales, but rather intends to answer the following questions and to derive practical implications which will be of interest to current and future players in the Chinese grocery retailing market:

- I. What does the historical liberalization of China's economy contribute to a better understanding of the current and future grocery retailing market?
- II. What are the unique characteristics of the Chinese grocery retailing market?
- III. How do development activities vary across regions and how do regional contexts shape the pathways of development and evolvement?
- IV. What roles do foreign and local companies play and how are they distributed?

The goals are fourfold:

- I. To contribute to filling the research gap through an analysis of China's grocery retailing sector in regard to its history and developments relating to geography and store formats.
- II. To better understand the forces of change which are responsible for the retail growth in PRC and to reveal distinctive Chinese characteristics.
- III. To examine the current and future role of several geographically varying regions across China in regard to the grocery retail industry.
- IV. To explore store formats and their presence pertaining to regional differences.

This thesis is significant both theoretically and empirically. It not only challenges the conventional wisdom of speaking of and treating China as one market. Further, this thesis argues for the uneven regional development and testifies to the roles of regions in the rise and in transformation of China in regard to grocery retailing. In doing so, it raises questions relating to future research and explores avenues for moving the field forward. Summarized, this thesis is timely and significant in terms of understanding the grocery retailing market development in the PRC. Finally, it provides a synopsis of lessons learned by firms currently operating in China as well as future trends in regard to the geographical development of the grocery retailing industry. It thereby seems to be the first study investigating the geographical format development of grocery retailers in China.

1.3 Subject Classification

As part of economic geography, geographical retail research employs a variety of approaches to many different subject matters, including but not limited to the location of vendors. Furthermore, the approach of this research is one of a highly interdisciplinary nature in order to facilitate a preferably comprehensive and holistic discussion of the topic. Grocery retailers are highly connected to their environment, as the customer has to be directly addressed with an overall supply, consisting of provision of goods and services on

site (WRIGLEY, ET AL., 2005: 437-438; TURBAN & WOLF, 2008: 3). To a certain extent, the food retailer itself has to become a substantial part of the community, in which it wants to do business. Therefore, this thesis includes the classification of this study within an economic, geographical, political and sociological context. Framed within the perspectives of economic geography, the strong political and cultural backgrounds represent unique dimensions when examining the internationalization of the grocery retailing industry of the PRC, thus representing an exceptional field of research. WRIGLEY AND LOWE (2002: 3) similarly acknowledge the hybrid and multi-dimensional approaches of economic geography, even positioning the so-called 'new retail geography' "*at the very heart of contemporary debate within critical human geography [...]*". Despite its cultural uniqueness, China identifies itself with former ex-Soviet nations, representing a special political background which implicitly needs to be considered when examining China's retail sector. The relatively young history of WTO membership and deregulation that followed is not yet at its end and has essential impacts on the economic growth of the country, leading to an uneven progress across the nation and therewith differing development and expansion of grocery retailers. Any understanding of the constant flux of regulations during the last years requires an appreciation of the institutional changes that have triggered it. Because the Eastern coast line of the most highly populated country on earth has been the forefront of China's reform and globalization, researchers have been and still are intrigued by the 'winning' city regions mainly located in the East, thus neglecting or rather almost forgetting the rest of China. The economic and geographic dimensions of the grocery retail industry are being reconfigured in radical ways; affecting the economies of cities, regions and whole nations. Especially since the mid-1990s, the curiosity of a wide range of other disciplines such as development studies and agricultural economies has been stimulated and elevated China to an increasingly popular field of research. As the interdisciplinary research agenda has emerged in response to the dramatic changes and rapid rise of the retailing industry, there has been a note-worthy shift towards a more comprehensive economic and institutional account of international retail activity. WEI (2007: 25) calls attention to a further strengthening of the argument that institutional change and economic development in general have strong geographical foundations, while WEI AND LIEFNER (2012: 103) generally argue that some theories are not applicable to the Chinese market and may need substantial adjustment. As both, local and foreign grocery retailers represent a substantial part of this investigation, similarities as well as differences need to be considered.

1.4 Approach

The dissertation proceeds as follows. Having set the context within the first chapter; *Chapter II* firstly provides a glance at the internationalization of retailing including motives and challenges with special regard to emerging and developing markets. Then the Chinese experience is situated within the broader global practice. Therewith the PRC's international retailing history is highlighted. Its early beginnings and transition, as well as such influences as entry into the WTO agreement, are discussed. The grocery retailing sector's historical development is thereby reconstructed within a political and geographical scope and their implications are discussed. The section offers the theoretical background of this study, further introducing the concept of store formats and its transfer strategies as well as trends.

Chapter III initially provides a comprehensive overview of current market segmentation, attempting to reconstruct the development and evolvement of store formats and detailed discussion of the key patterns, trends for foreign entry and overseas and local expansion into Chinese food retailing. The background is completed by an introduction to current store formats represented in China as well as local and foreign companies engaging with them and by applying a holistic PEST analysis concerning China in order to understand the political, economic, social and technological basis of this research. Auxiliary, the Chinese Consumer 2020 is introduced, playing a tremendous role in regard to the future direction of grocery retailing development. *Chapter III* then proceeds to engage in the methodology that is applied in this study. A multiple case study approach is adopted while four case studies are chosen in order to achieve a holistic and wide-ranging view of the phenomena investigated. The approach further acknowledges the given recommendation of several researchers and economists not to treat China as one market.

Chapter IV interprets details of data analysis for each individual case. Propositions will be evaluated within the framework of the case studies conducted and accordingly revised and re-examined when necessary.

Chapter V focuses on the discussion and implications of the results. Moreover, outcomes are related to the previous literature. It is emphasized at this point that this study contributes to the academic literature as well as to the retailing economy by providing valuable insights for grocers aiming to enter or to expand into China's food retail market in

regard to store formats and geographically differing challenges. The final section concludes by summarizing the dissertation's contribution to research and revealing managerial implications. The evaluated hypotheses concerning future trends, opportunities and challenges aim to indicate advanced research and to generate debate.

Lastly, limitations of this study are revealed in *chapter VI*,

Figure 2 schematically illustrates how this research is to proceed.

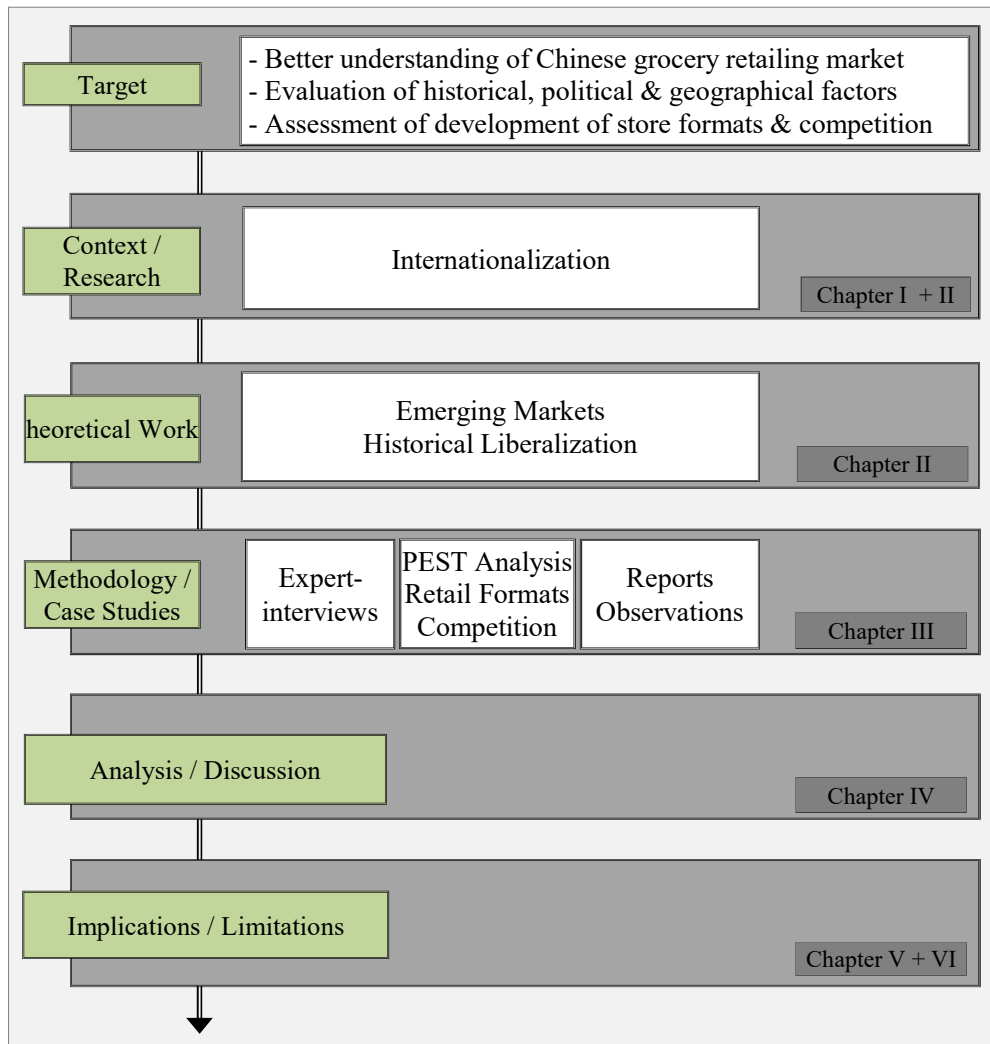


Figure 2 Outline and Methodical Approach (own illustration)

2 Theoretical Framework: From Emerging Markets, Hybrid Economies, Embedded Globalization and the Chinese Grocery Retailing Sector

2.1 Disambiguation of Terms

The term retailing has been defined in multiple ways. PETERSON AND BALASUBRAMANIAN (2002: 9) argue for the necessity “*to have a coherent and consistent definition of retailing*” when researching, explaining or predicting retailing phenomena. According to THAKUR (2012: 1) retailing “*consists of the sale of goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mail, in small or individual lots for direct consumption by the purchaser (...)*” while ZENTES, ET AL. (2011: 1) define it as the “*final step in the distribution of merchandise*”. Grocery retailing is chosen as the focus for this research as it is the largest sector of the retail industry, accounting for the bulk of retail sales. Food-based retailers themselves, such as *Walmart* and *Carrefour*, are commonly among the largest of retail companies (see *Table 2*, p. 4). For the purpose of this study the sale of food is defined as main-line grocery retailing. Thus, the international activities of retailers operating in specialty food sectors such as confectionary, butchery, frozen food, and fast food are not taken into account. FERNIE, ET AL. (2003: 6) correctly argue “*that the traditional categorizations of retail business are breaking down*”, depicting conventional grocery retailers moving into non-food lines in order to enhance low profit margins. A common observation is made that the volume of international activity in regard to grocery retailing is lower than one might expect and occurred much later than the manufacturing industry (VIDA, ET AL., 2000: 37; HUANG & STERNQUIST, 2007: 614; ZHEN, 2007: 3). Nevertheless, the internationalization of retailing has tremendously increased over the last 30 years and stimulated a significant volume of academic research. ALEXANDER (1997: 27), as well as AKEHURST AND ALEXANDER (1995b: 204) correctly acknowledge that the term ‘internationalization’ “*is as poorly defined and as it is understood.*” While DAWSON (1994: 267) highlights the existence of various forms of retail internationalization, he defines it, similar to MYERS (1995: 42-43), “[...] *as the operation, by a firm or alliance, of shops, or other forms of retail distribution, in more than one country.*” International retailing, as defined by ALEXANDER (1997: 36) is “*the management of retail operations in markets*

which are different from each other in their regulation, economic development, social conditions, cultural environment, and retail structures^{ix}” and “not simply an exercise in replicating a company’s fascia in other markets” (ALEXANDER, 1997: 277). DAWSON AND MUKOYAMA (2006: 31), similar to ALEXANDER (1995: 77) and DAWSON (2003b: 189-191), remark that “retail internationalisation is a process not a series of events”, while BURT (1991: 413) correspondingly notes that retail internationalization is not a linear, uninterrupted progression; but rather a process of a complex nature. DAWSON AND MUKOYAMA (2014d: 31) argue further that the internationalization process “can be conceptualized as one of structuration with the dynamic integration of structure and agency at multiple levels.” BURT, ET AL. (2005: 195) pose an essential question in regard to the internationalization of retailing companies: “what is it that the company is internationalising?” Three general categories of transfer can be distinguished: the transfer of retail concepts, of retail operations and of management functions (BURT, 1991: 487). ALEXANDER (1997: 37) similarly describes “the transfer of retail management technology or the establishment of international reading relationships which bring to a retail organization a level of international integration which establishes the retailer within the international environment in such a way as to transcend regulatory, economic, social and cultural, and retail structural boundaries.” As discussed in chapter 1.1 (p. 8-9), the internationalization process has opened up an extensive field of research out of which a number of themes have emerged (DUPUIS & PRIME, 1996; BURT & CARRALERO-ENCINAS, 2000; BURT, ET AL., 2005; ALEXANDER & DOHERTY, 2010; STERNQUIST, 1997; SALMON & TORDJMAN, 1989). AKEHURST AND ALEXANDER (1995a: 1) remark however, that the process “is not sufficiently understood.”

^{ix} Retail structure is defined as the “aggregate form retailing takes within a defined market”, and therewith defines the competitive environment in which the retailer operates (ALEXANDER, 1997: 36, 322). Differences in retail structures are in part product of regulatory, economic, social and cultural differences but also the historical competitive environment. ALEXANDER (1997: 37, 259) advises that the term is not always used compatibly in different countries. Retail structures therefore “have to be described in local terms or through the use of general operational, organizational, format or conceptual descriptions which are difficult to measure and will at times blur one into another.” It will be indicative of development in the respective market with measurement of enterprise density and market concentration. Retail structures, even within markets of similar economic and social conditions, can very likely differ considerably. MYERS AND ALEXANDER (2007: 13) in regard to their European research on retail structure draw the conclusion that “integration is occurring and that the blurring of national retail structures has reached a point where a European retail structure can begin to be identified.”

For this thesis the role of retail concepts is essential. The retail or store format is discussed in a variety of contexts. It is often defined from the perspective of demand, categorized by the needs of different types of consumers or shopping situations. In their research of the UK retailing industry, REYNOLDS, ET AL. (2007: 648) conclude that “*there was no single accepted definition*” of retail formats. According to ZENTES, ET AL. (2011: 2-3) a retail format “*represents a specific configuration of the retail marketing mix*”, such as store size, price offered and typical location, thus often forming “*the core of the retail strategy*”. DAWSON AND MUKOYAMA (2014a) investigated global portfolio strategy as a new strategic paradigm, concluding that retailers widening their geographical scope of operation often face markets with different consumer and commercial cultures. “*In essence, the format has been conceptualized as a generalized set of relationships that create a particular cost structure for the place of transaction*” (DAWSON & MUKOYAMA, 2014a: 39). The cost structure includes labour and physical space expenditures (including presentation, sale and rotation of an assortment). Thereby, different sets of cost represent different outputs of a business model, generating different sets of values for the customer. DAWSON AND MUKOYAMA (2014a: 40) further argue that a format, “*and the business model that underpins it, is the result of the prevailing society and the economic and political institutions that exist.*” This again may result in multi-format and multi-continent retailer networks. DAWSON AND MUKOYAMA (2014a) argue that through the development of multi-format^x approach additional market segments can be targeted. A multi-format approach can thereby simply be described as the operation of different retail formats. The concept of store formats is discussed in more detail in *chapter 2.4* (p. 68).

Retailing and the transfer of store formats play an increasing role in emerging markets, and emerging markets play an increasing role within the internationalization of retailers (ALEXANDER & DE LIRA E SILVA, 2002; DIAZ, ET AL., 2012; REARDON, ET AL., 2003; REARDON, ET AL., 2007b). Promoting the first mutual fund investment for developing countries, it was in 1981, that the term ‘emerging market’ was coined by economists at the International Finance Corporation (KHANNA & PALEPU, 2010: 3; SAKARYA, ET AL., 2007: 214), often replacing terms like ‘developing countries’ and ‘less developed countries’, it

^x French retailer *Carrefour* is a multi-format group, operating a wide range of formats, such as hypermarkets, convenience stores, supermarkets and discount stores, while “*the hypermarket has been the core format for Carrefour in almost every market in which it operates*” (DUPUIS, ET AL., 2006: 91). Further, *Tesco* operates five formats, ranging from small inner-city *Tesco Metros* to huge *Tesco Superstores* (DAWSON, ET AL., 2006: 176).

has been extensively used ever since. Thus, a lack of a commonly accepted definition is existent and terms are used interchangeably. Typical criteria to classify emerging markets include level of economic development (average GDP), the balance of agrarian and industrial/commercial activity, the pace of economic development (GDP growth rate), the system of market governance and the extent and stability of a free market system (SAKARYA, ET AL., 2007: 214; CAVUSGIL, ET AL., 2013: 1-4). Thus, not all developing countries can accurately be termed emerging economies. “A defining

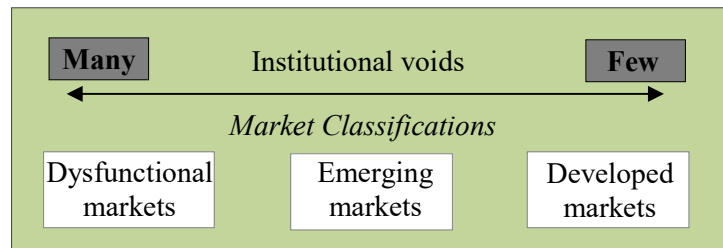


Figure 3 Continuum of Institutional Voids and Market Definitions (own illustration, after KHANNA AND PALEPU, 2010: 25)

“*A defining criterion*”, according to ENDERWICK (2007: 5) “*is that these economies are experiencing a positive momentum with concomitant change and development.*” The Financial Times Stock Index, the World Bank and Goldman Sachs, as well as dozens of organizations and companies often categorize emerging countries using slightly differing measurements. DUPUIS AND FOURNIOUX (2006: 60) identify three types of markets:

- (1) mature markets, which are characterized by a large degree of saturation and strong competition;
- (2) under-developed countries that do not offer sufficient incomes for their inhabitants; and therefore lack short-term development prospects; and
- (3) emerging economies, which offer progressive liberalization in regard to foreign direct investment (FDI) and strong economic growth.

According to KHANNA AND PALEPU (2010: 24), “*these markets are emerging as market participants work to find ways to bring buyers and sellers of all sorts together for productive exchange.*” This structural definition displays markets along a continuum, as revealed in *figure 3*, from entirely dysfunctional - with a plethora of institutional voids – to highly developed. The definition implies that every market, including ‘developed economies’ have some degree of ‘emerging’ built in. Agreement exists that the term ‘emerging country’ is applicable to China (CAVUSGIL, ET AL., 2013: 3).

2.2 Internationalization of Food Retailing

While the internationalization of the retail industry is not a new phenomenon (COE & LEE, 2006: 69), the breadth and speed of its expansion into new markets within the last decade is unprecedented. Internationalization of retailing has and will undoubtedly intensify (WANG & ZHANG, 2005: 44; DAWSON, 2011: xiii; DAWSON & MUKOYAMA, 2014b: 227).

Rank and Company	Origin	% internat. turnover		Number and Countries*
1 Walmart Stores Inc.	USA	29,1	26	Argentina, Botswana, Brazil, Canada, Chile, China , Costa Rica, El Salvador, England, Guatemala, Honduras, India, Japan, Lesotho, Mexico, Mozambique, Namibia, Nicaragua, Nigeria, Northern Ireland, Scotland, South Africa, Swaziland, Tanzania, Uganda, Wales, Zambia
2 Tesco PLC	UK	33,5	11	China , Czech Republic, Hungary, India, Ireland, Malaysia, Poland, Slovakia, South Korea, Thailand, Turkey
3 Costco Wholesale Op.	USA	27,6	3	Canada, Mexico, United States
4 Carrefour S.A.	France	54,0	34	Albania, Austria, Argentina, Bahrain, Belgium, Bulgaria, Brazil, China , Egypt, Georgia, India, Indonesia, Iran, Iraq, Italy, Japan, Jordan, Kuwait, Lebanon, Macedonia, Malaysia, Morocco, Oman, Pakistan, Portugal, Poland, Romania, Saudi Arabia, Spain, Taiwan, Turkey, United Arab Emirates, United Kingdom
5 The Kroger Co.	USA	0,0	0	/
6 Schwarz Group**	Germany	57,7	27	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom
7 Metro AG	Germany	61,6	27	Austria, Belgium, Bulgaria, China , Croatia, Czech Republic, Denmark, France, Greece, Hungary, India, Italy, Japan, Kazakhstan, Moldova, Netherlands, Pakistan, Poland, Portugal, Rumania, Russia, Serbia, Slovakia, Spain, Turkey, Ukraine, Vietnam
8 Home Depot	USA	11,2	5	Canada, China , Mexico, Puerto Rico, United Kingdom
9 Aldi Group	Germany	59,2	16	Australia, Austria, Belgium, Denmark, France, Hungary, Ireland, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland, United Kingdom, United States
10 Target Cooperation	USA	0,0	0	/

Table 3 Top 10 Retailers Internationalization with Number and Countries they are Operating in (end of 2013) (own illustration after DELOITTE, 2014: G12 and various companies' websites)

*Countries outside the home market **consisting of *Lidl* and *Kaufland*

In 2012, 63 % of the top 250 retailers worldwide undertook foreign operations and are on average present in ten countries, deriving around 24.3 % of their total retail revenue of US\$ 4.29 trillion from abroad (DELOITTE, 2014: G19). Recent data indicates that US retail companies represent 41 % of the top 200 retailers. Approximately one-third of these large retailers conduct business internationally, compared with half of Japanese and more than half of European retailers (VIDA, ET AL., 2000: 37). As mentioned in *chapter 1* (p. 3), the internationalization process within the grocery retailing industry occurred much later than in the manufacturing industry. In regard to the number of markets in which the major global retailers are operating, figures vary largely. More specifically, *table 3* (p. 25) illustrates the number and the countries in which the major grocery retailers are operating.

2.2.1 Grocery Retailing Internationalization into Emerging Markets

Companies in general prefer to enter markets that rank high in attractiveness, low in market risk and where they can enjoy a competitive advantage. Emerging markets play an increasingly tremendous role within the internationalization of grocery retailing and represent a frequently analyzed topic in the research literature (REARDON, ET AL., 2003; WEATHERSPOON & REARDON, 2003; COE & WRIGLEY, 2007: 341-344; REARDON, ET AL., 2007A; KACZMAREK, 2009; TACCONELLI & WRIGLEY, 2009; REINARTZ, ET AL., 2011: 53-54; SENAUER & REARDON, 2011; TANDON, ET AL., 2011: 327; ATSMON, ET AL., 2012; DIAZ, ET AL., 2012; LINGENFELDER & DÜERKOP, 2012; REARDON, ET AL., 2012; SWOBODA, 2012; SWOBODA, ET AL., 2012: 72; CAO & PEDERZOLI, 2013). COE (2004: 1571) for instance remarks on the expanding geographical scope of internationalization, highlighting regions such as Southeast Asia and Latin America. A number of reasons indicate the shift in international expansion. While some factors are related with previous experiences of the internationalization process, others are associated with the emerging markets themselves. Indeed, they often distinguish themselves through economic liberalization, rapid urbanization, less competitive markets and large emerging middle classes with increasing disposable incomes (SAKARYA, ET AL., 2007: 213; REARDON, ET AL., 2007b: 401-402; CAVUSGIL, ET AL., 2013: 2-3; SENAUER & REARDON, 2011: 282). The top 100 leading

companies in the developed world earn 36 % of total revenues from emerging markets, even though these markets represent only 17 % of global GDP (ATSMON, ET AL., 2012: 3), therewith underlining the argument for huge growth opportunities. ALEXANDER AND DE LIRA E SILVA (2002: 300) name geopolitical, economic and competitive conditions as further fundamental drivers of the changing directions of international expansion. In their research concerning the “*supermarket revolution^{xi} of developing countries*”, REARDON, ET AL. (2007: 407-408) as well as SENAUER AND REARDON (2011: 276-277) differentiate four waves of diffusion. The first wave lasting from the early to the mid-1990s took off in much of South America and East Asia, outside of China and Japan. The second wave (mid to late 1990s) occurred in Mexico, much of Southeast Asia, Southern-Central Europe and Central America; while the third wave (early 2000s) affected many of African countries, as well as Central and South America, India, Russia and China. From the mid-2000s, up to the time of writing, an emerging fourth wave is currently including poorer nations such as Cambodia, Bolivia and sub-Saharan African countries. Several studies of retail internationalization within emerging markets exist for Tunisia (AMINE & TANFOUS, 2012), Turkey and Morocco (CODRON, ET AL., 2004; APPEL, 2014), South Africa (D’HAESE & VAN HUYLENBROECK, 2005), Latin American countries such as for Chile (FAIGUENBAUM, ET AL., 2002; BIANCHI & ARNOLD, 2004; BIANCHI & OSTALE, 2006) and Mexico (REARDON, ET AL., 2007c), the East Asian region as a whole (LARKE, 2006), a variety of Asian countries such as Vietnam (HAGEN, 2002; MARUYAMA & TRUNG, 2007; FIGUIÉ & MOUSTIER, 2009; NGUYEN, ET AL., 2013), Indonesia (REARDON, ET AL., 2007b), Malaysia (HASSAN, ET AL., 2013), the Pacific rim region (REARDON, ET AL., 2005), as well as the four nations India (REARDON, ET AL., 2007a; REARDON & GULATI, 2008; WIGGERTHALE, 2009; REARDON & MINTEN, 2011; AKHTER & EQUBAL, 2012; THAKUR, 2012; VELAYUDHAN, 2014), Russia (LORENTZ & HILMOLA, 2008), Brazil (ALEXANDER & DE LIRA E SILVA, 2002)

^{xi} The term ‘supermarket revolution’ is generally used for companies operating in the food and groceries sector, as they are often simply referred to as supermarkets within the context of modern food retailing advancement. HUMPHREY (2007: 433) calls attention to the fact that “[T]his term is also used simultaneously to denote one retailing format among many. A number of different retailing formats are spreading in developing countries, ranging from hypermarkets, to supermarkets and convenience stores.” According to this thesis, similar to HUMPHREY (2007: 433), it is pivotal to differentiate and distinguish between different formats.

and China (CUI & LIU, 2000; CAO & PEDERZOLI, 2013), consolidated as BRIC^{xii} nations. According to AT. KEARNEY'S Global Retail Development IndexTM (GRDI)^{xiii}, developing markets remain an important source of growth. For instance in Georgia's capital Tbilisi only 20 % of grocery retail is in modern formats, whereas outside the capital it is only 8 %, therefore offering tremendous potential for international grocers. *Carrefour* opened its first shop in Georgia in 2012. Similar circumstances exist in Armenia, where *Carrefour* entered the market in 2013. In Russia, *Auchan* (currently operating 53 stores) plans to triple its amount of stores within five years. Very recently, German *Tengelmann* group announced plans to enter the Russian market with its discount format *Plus* in 2015 (LEBENSMITTELZEITUNG, 2014: online). Rightly, SEKLIUCKIENE (2013: 124) within her study of internationalization in emerging markets, emphasizes the role of the BRIC states. By 2015, all the BRIC nations will belong to the top five grocery markets, with India displacing Japan as the world's third largest grocery market by value (IGD, 2012: online). China very recently overtook the USA as the world's largest grocery retailing market (BBC NEWS, 2012; IGD, 2012; THE GUARDIAN, 2012); by 2028 India, where modern trade is currently estimated to only make up around 2 % of grocery sales, is forecasted to become the second largest grocery market (IGD, 2014d: online). At the time of writing, the leading global grocery retailers are entering and expanding within several emerging markets, representing major growth possibilities. *Walmart* pushes ahead with development in China and Mexico, while *Carrefour* plans to accelerate development in various markets such as Brazil and the Middle East, opening stores in Qatar and Kenya. *Tesco* plans its expansion in India; *Metro* is preparing for Russia and continuing its focus on China (IGD, 2014b: online). Conferring to AT. KEARNEY'S (2013: 2) GRDI, Brazil (69.5 score) ranks number one, with Chile (67.1), Uruguay (66.5) and China (66.1) following. Interestingly, market saturation is considerably low with 43.3 %, 18.7 %, 63.5 % and 34.3 % accordingly, whereas time pressure reveals the highest urgency for China (100 out of 100). *Figure 4*

^{xii} The term BRIC has been identified by Jim O'Neill of Goldman Sachs and includes: **B**razil, **R**ussia, **I**ndia and **C**hina. All four countries have fast growing economies and can potentially overtake the world's current largest economies (O'NEILL, 2001: 3-5); the BRICs currently constitute 42 % of the global population.

^{xiii} The GRDI ranks the top 30 developing countries for retail investment based on several macroeconomic and retail specific variables on a 0 – to – 100 – point scale – the higher the rank the more urgency there is to enter a country. Countries are selected from 200 developing nations based on criteria such as country risk, population and wealth. GRDI scores are based on four variables: (1) country and business risk; (2) market attractiveness; (3) market saturation; and (4) time pressure (AT. KEARNEY, 2013: 2)

illustrates the priority given to emerging markets. The BRIC states are all categorized as peaking or maturing markets, with China having developed itself from an opening retailing market to a maturing market within only ten years' time. In regard to emerging market attractiveness for retail strategies, China dropped from no. 1 in 2009 down to 6th in 2010, and back up to 2nd in 2014 in the GRDI (A.T. KEARNEY 2011: 2; A.T. KEARNEY, 2014a: 2).

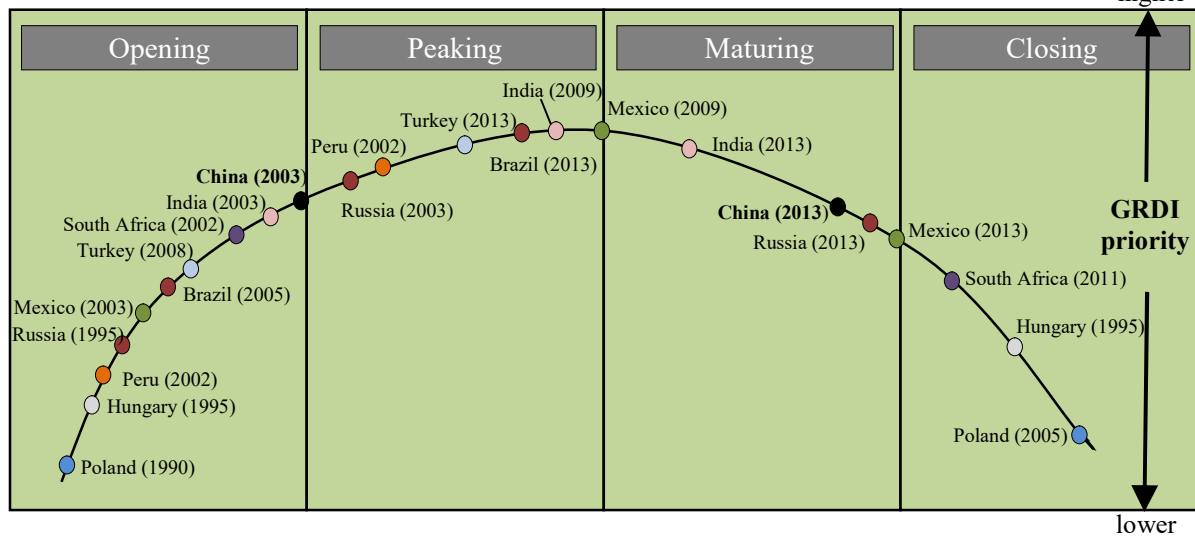


Figure 4 The GRDI Window-of-Opportunity Analysis (own illustration, adopted from A.T. KEARNEY, 2013: 12)

2.2.2 A Glimpse at the Motives for Internationalization

„In times of cut throat competition in the retail industry and saturation of domestic markets, retailers have been looking to expand internationally“ (HALPETE, ET AL., 2008: 701).

As the motives of retail internationalization have been extensively discussed from scholarly and economic perspectives (ALEXANDER, 1990; LAULAJAINENA, 1991; WILLIAMS, 1992; ALEXANDER, 1995; ALEXANDER, 1997; STERNQUIST, 1997; QUINN, 1999; VIDA, ET AL., 2000; ALEXANDER & QUINN, 2002; AU-YEUNG & HENLEY, 2003: 11; EVANS, ET AL., 2008; KULKE, 2008: 242-243; SEKLIUCKIENE, 2013), this thesis departs from another repetitive discussion and rather highlights motives for expanding into emerging countries, while providing an overview for the sake of completeness. The above quoted HALPETE ET

AL. (2008: 701), TREADGOLD (1990:5), SCHMEKEL (2004: 135), KULKE AND PÄTZOLD (2007: 7) as well as ALEXANDER (1997: 15) provide two of the most important motives for retailers to expand internationally. Firstly, as internationalization often represents a strategic decision based on the circumstances in the home market, saturation and thereby limited growth opportunities are one main reason. Secondly, fierce competition due to saturation and limited growth hinder prospects. As described in *chapter 2.2.1* (p. 27), with reference to the intensifying internationalization towards emerging and developing countries, there are a multitude of factors driving the decision to adopt foreign markets. Despite this new strategic focus on emerging countries, the primary driver of retail internationalization to be identified remains profit growth. The motivations of retail internationalization have been categorised in various ways. ALEXANDER (1995; 1997) differentiates between push and pull factors; ALEXANDER (1995; 1997) and WRIGLEY, ET AL. (2005) distinguish proactive and reactive motivations, while HUTCHINSON, ET AL. (2007), TORDJMAN (1995) as well as VIDA AND FAIRHURST (1998) make a distinction between internal and external drivers / factors. The above cited motives (saturation and fierce competition in the domestic markets) both can be classified as push / reactive drivers, generally connected to negative aspects of the home market. In contrast, pull / proactive drivers are relating to positive features of the foreign market. ALEXANDER (1997: 129) differentiates five categories of pull factors: political, economic, social, cultural and retail structure; ranging from stability of political systems to opportunities available within retail structure. Especially within the last 20 years, emerging markets often epitomize interesting and promising new expansion areas, thus representing strong pull / proactive drivers: lack of local investment capital, missing local competition, and fast growing consumer potential are often highlighted as benefits (KACZMAREK, 2009: 11-14; LINGENFELDER & DÜERKOP, 2012: 63-65). GOLDMAN (2001: 222) similarly describes the drive of opportunities represented in developing countries, such as high growth rates, an evolving middle-class, and the effectiveness of local competition. HOLLANDER (1970: 109) clearly notes that “[T]here is no point going abroad, no matter how attractive the tax, the antitrust, or customer exemption privileges may appear to be, unless potential customers are available.” REARDON, ET AL. (2007b: 402) categorize higher returns, positive demand-side factors as well as relatively light competition as pull factors. Accordingly, planning restrictions on retail locations and low margins in domestic markets are revealed as push factors. *Figure 5* (p. 31) summarizes the above collected motivators, highlighting factors that predominantly derive in emerging markets. According to MOORE, ET AL. (2000: 923) revisiting and

discussing repeatedly the motivations behind retail internationalization is essential as it “[. . .] resides in the fact that it assists in the recognition that the various authors’ interpretations of these motivations were, in many instances, bound and influenced by the prevailing trading conditions of the time.” A striking argument that can also be applied to barriers.

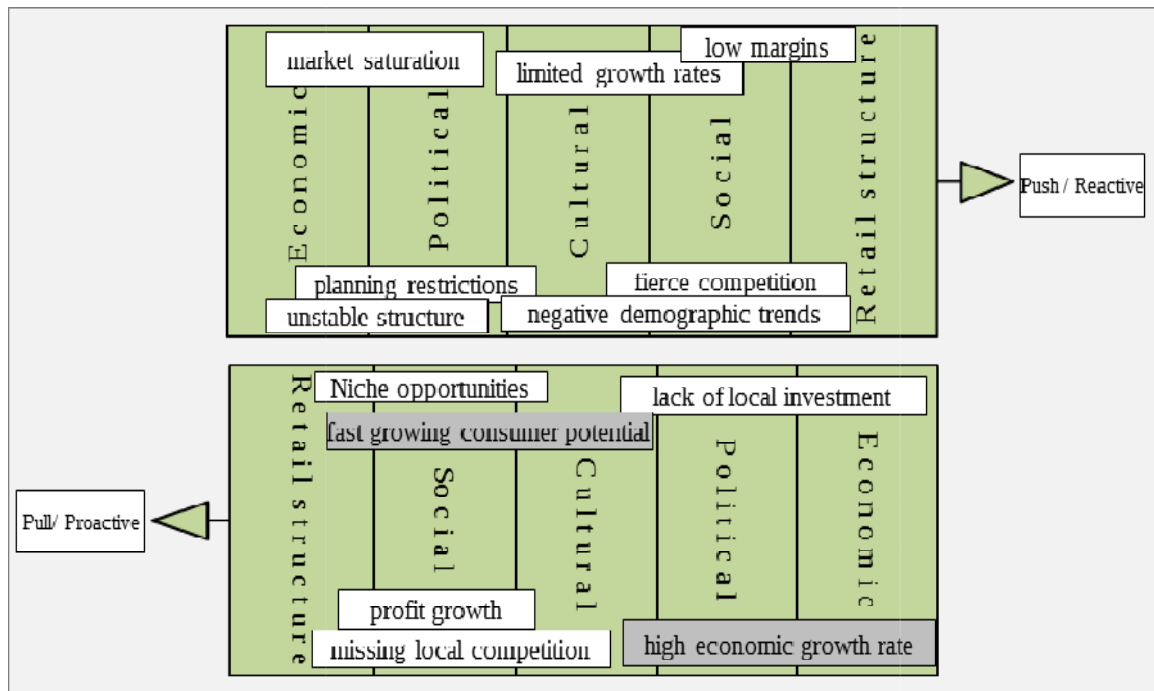


Figure 5 Motives of Internationalization (own illustration, after ALEXANDER, 1997: 129; VIDA AND FAIRHUST, 1998: 143-145; GOLDMAN, 2001: 222; HUTCHINSON, ET AL., 2007: 96-97; REARDON, ET AL., 2007b: 402; HALPETE, ET AL., 2008: 701-704)

2.2.3 Feasible Challenges and Barriers

Despite the motives and opportunities mentioned within the two prior chapters, grocery retailers frequently report major difficulties in realizing the potential offered by entering new markets. Very often, the format’s market share remains relatively small compared to the host countries. In some cases companies have to concede their ultimate failure, having to leave the market entirely. This phenomenon primarily occurred with the first attempts of internationalization and has created an immense body of academic literature discussing international retail divestments (ALEXANDER & QUINN, 2002; BURT, 2002; BURT, ET AL.,

2004; PALMER, 2004; ALEXANDER, ET AL., 2005; PALMER & QUINN, 2007). The landscape of emerging markets remains deeply striated by institutional legacies. This thesis follows TACCCONELLI AND WRIGLEY (2009: 54) in arguing that “(...) *what distinguishes retail TNCs* (transnational corporations – author’s note) *is the exceptionally high levels of territorial embeddedness* ^{xiv} *that they must achieve in host countries to obtain organizational legitimacy in the markets.*” Therefore, the challenges described within this chapter are essential factors within the internationalization process of grocery retailers. Precondition is the allowance of foreign retail investment. Some countries, such as the Philippines (ALEXANDER, 1997: 13) and India for instance currently even ban foreign retail investment to a large extent (HUANG & STERNQUIST, 2007: 619; TIKEKAR, 2013: 13-17), therewith hindering internationalization. Politics, such as the Indian election in May 2014 and its outcome make further liberalisation of the FDI regulations in the near future unlikely, preventing retailers to enter the market or encouraging existing grocers to limit their operations. In this regard *Carrefour* has announced its intention to close its Indian stores in September 2014 (IGD, 2014a: online). Often transactions cost play an important role, as time required to enforce a contract or to register property is considerably higher than in developed home markets (KHANNA & PALEPU, 2010: 18); thus often discouraging companies to locate. VIDA, ET AL. (2000: 37) mention high cultural specificity of traditional retailing, the presence of trade barriers, and foreign operation restrictions as main challenges within the internationalization process. Further three dimensions which are also applicable to define as challenges are regularly revealed within the literature. Firstly, a high responsiveness to local circumstances, such as differing cultural tastes and regulations must be achieved (TURBAN & WOLF, 2008: 3; GOLDMAN, ET AL., 2002: 283; ZHEN, 2007: 9). Secondly, as grocery retailers tend to source the vast majority of their products from the host market they are serving, they automatically become intertwined with the local supply and logistics infrastructure, having to cope with their imperfection (TACCCONELLI & WRIGLEY, 2009: 64; WRIGLEY & CURRAH, 2003: 233). Therefore, inconsistencies of local suppliers in regard to quality represent a major risk. Thirdly, the immense capital

^{xiv} POLANYI (1957) first gave distinction to the term ‘embeddedness’, which is based on the assumption that economic activities are embedded in spatial systems of social relations. GRANOVETTER (1985: 487) argues that “[A]ctors (in this case companies, or retailers – author’s note) *do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations.*”

investment in form of store base, distribution and logistics infrastructure make grocery retailers sensitive and vulnerable in regard to property markets and regulatory systems (TACCCONELLI & WRIGLEY, 2009: 51, 54). HUTCHINSON, ET AL. (2006) identify five barriers when investigating the internationalization process from the perspective of small and medium enterprises: (1) complexity of international markets, (2) lack of market information, (3) financial commitment, as well as (4) difficulties in brand control and (5) limited management resources. Especially within emerging markets, a series of problems exist, often not relevant for the home markets due to differing political and cultural conditions. SAKARYA, ET AL. (2007: 209-211) reveal further potential risks in regard to turbulent change, cultural differences and poorly developed infrastructure. REINARTZ, ET AL. (2011: 59) illustrate challenges in less developed markets in more detail; differentiating

- consumer based challenges (e.g. high disparity in income levels),
- legal based challenges (e.g. unstable governments),
- industry based challenges (e.g. unorganized retailing environment),
- supplier related (e.g. lack of infrastructure) and
- technological related challenges (e.g. consumers without bank accounts).

GOLDMAN, ET AL. (2002: 281-283) in regard to Asian countries, such as Hong Kong, South Korea or Thailand as well as VORLEY, ET. AL (2007) providing several examples such as Mexico and India, describe a huge challenge in terms of enticing consumers to switch from traditional wet markets and smaller stores to modern supermarket chains due to low valuation of the modern retail format. Several studies revealed similar conclusions, such as GOLDMANN AND HINO (2005), as well as GOLDMANN, ET AL. (1999). It is still argued whether this failure from the sight of modern supermarkets is of cultural or economic nature. BIANCHI AND MENA (2004: 495) in their analysis of Chile reveal that strong local competition has hindered the internationalization of the market with huge foreign players withdrawing or not even entering the latter. An often unnoticed barrier is the wrong choice of store format; a fact that is acknowledged by GOLDMAN (2001: 222), arguing that “[T]he failure of international expansion plans is often format related.” In Tunisia where opposition to the organized retailing is becoming an increasing problem, AMINE AND TANFOUS (2012) highlight non-organized individual initiatives of avoidance and defection from hypermarkets in the emerging countries. This is a main challenge faced when introducing retail formats that are deemed not to be congruent with local cultural value. Similar observations are made in India, where FRANZ (2010) reveals how resistance against

innovations and shifts in market shares can critically alter investment conditions in the field of retail. A study on Vietnam revealed that poor consumers depend on a diversified network of formal and informal outlets to ensure food accessibility, credit opportunities and low prices. Due to material constraints such as price and transport, poor consumers purchase very little from supermarkets although they have a high opinion of supermarkets and in particular of the quality of the products sold (FIGUIÉ & MOUSTIER, 2009: 216). WRIGLEY AND CURRAH (2003) investigating Dutch *Royal Ahold* expansion into Latin America, offer a picture of grocery retailer multinationals facing distinctive organizational challenges as they attempt to transfer internal and inter-firm practices to markedly different institutional environments. Another key issue in internationalization is the need to adapt to cultural characteristics, which can represent a major challenge. In their study of the seemingly culturally similar markets of the United States and Canada, O'GRADY AND LANE (1997) reveal that culture has presented an overlooked barrier to Canadian firms operating in the USA. In regard to the grocery retailing industry national differences in consumer tastes play an essential role. Nevertheless, the argument can be questioned, as retailers can undertake a significant amount of local buying, thereby adopting to local tastes and consumption habits. BURT (1991: 492) in addition, remarks on the necessity to adapt to regional differences in consumer tastes even within home markets. KOGUT AND SINGH (1988: 422) define cultural distance as “*the degree of difference in cultural norms between countries*”. Cultural distance involves a variety of differences in a country’s legal system, administrative practices, consumption habits and working styles that increase an international retailer’s cost of integration (HOFSTEDE, 1980). Two opposing theories attempt to explain the attitude and behavior within varying countries: On the one hand the convergence theory claims that industrialized countries share identical behaviours, while differing culturally from each other; conversely, the divergence theory asserts that individual attitude will remain different although the economy and society tend to become consistent among countries (XU-PRIOUR & CLIQUET, 2013: 706-707). MYERS AND ALEXANDER (2007: 15) revealed that approximately two-thirds of moves by western players are within other markets in their region. As revealed within previous research, markets which are perceived as psychically distant from the home market are more likely to be entered with entry strategy that requires less financial commitment and lower levels of sole control. EVANS, ET AL. (2008: 52) explain this verdict with organizations perceiving greater risks in markets that are psychically distant.

In regard to the Chinese grocery retailing sector, the range of problematic dimensions is far reaching. From infrastructural to legal-political and organizational-technological barriers, the Chinese market in particular represents a difficult market, thus justifying a labelling of the market as one with “*unique barriers*” (FORBES INSIGHTS, 2011: 2). Adapting to local consumer cultures is especially difficult due to considerable economic and sociocultural differences across China (TACCCONELLI & WRIGLEY, 2009: 62). Furthermore, *guanxi* (关系)^{xv} plays an essential role within the Chinese business culture (DUNFEE & WARREN, 2001; JIANG & PRATER, 2002: 786-787; AU-YEUNG & HENLEY, 2003: 16; ENDERWICK, 2007: 68-69). As *guanxi* represents a unique characteristic of the Chinese business culture, a separate section is devoted to the subject (see *chapter 3.4.4*, p. 120). Psychic distance^{xvi} due to cultural differences remains a widely cited and well supported challenge (ENDERWICK, 2007: 89; ZENTES, ET AL., 2011: 162-163; WANG, 2003: 114, 125; EVANS & MAVONDO, 2002). EVANS AND BRIDSON (2005: 74), investigating the effect of psychic distance on retail offer standardization and adaptation, reveal that perceived differences in market structure, business practices and language prompted retailers to adapt their offer in foreign markets. Consequently, additional costs resulting from its lack of familiarity of the local business environment have to be faced. With specific regard to China its vast geography challenges distribution systems and other logistical matters (JINGLUN, 2003: 155f). *Figure 6* summarizes the above composed challenges, equivalent to the motives, highlighting factors that predominantly derive in emerging markets.

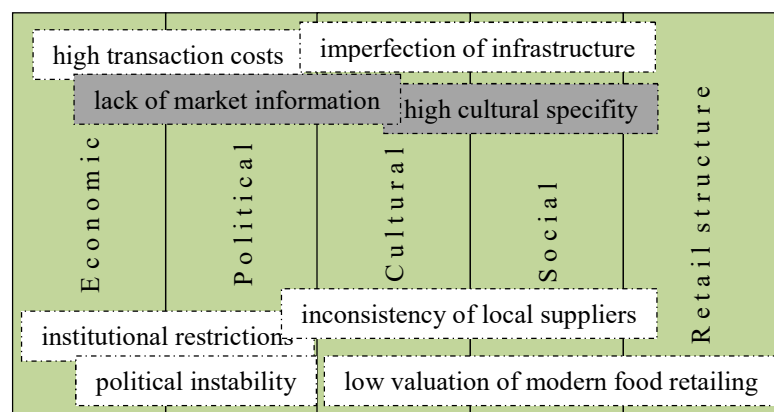


Figure 6 Challenges of Internationalization (own illustration)

^{xv} *Guanxi*, which literally means relationship (connections *Xi* among strategically important positions *Guan*), describes a unique and, in comparison to Western business culture, very different Chinese business logic. This prioritizes known and trustworthy connections when doing business (HUANG, 2009: 7). JIANG AND PRATER (2002: 8) even argue that new companies “*have to make[s] themselves known to Chinese companies before any business can take place.*” Connections with government officials apply similar.

^{xvi} EVANS AND BRIDSON (2005: 70) define psychic distance as “*the distance between the home market and a foreign market resulting from the perception and understanding of cultural and business differences.*”

2.3 Brief History of Economic Liberalization and Food Retailing in China

Taking a look at the evolvement and development of China's food retailing industry is essential with the purpose of examining and highlighting certain aspects of development in order to predict future outlooks. JIANG AND PRATER (2002: 3) investigating the distribution and logistics development in China, advance in a similar line of action, stating that "[b]efore we know where China's distribution system is and where it is going to go we must determine where it has been in the past." In regard to China's retailing development, WANG AND ZHANG (2005: 42) note that "significant changes have not been documented in the existing literature." Generally there have been only few attempts in order to restore the historical route of China's recent retail industry. As already observed by TACCCONELLI AND WRIGLEY (2009: 56-57), providing an overview of the restructuring of the Chinese retail market, proves to be difficult due to several reasons:

- An highly heterogeneous retail environment is present, with major differences in retail structures across regions.
- Highly fragmented data sources, as a result of the historically low status attributed to retailing by the Chinese government.
- Rapid changes occurring in the market, with official data failing to keep pace.

It is argued in this work that the evolvement and development of Chinese food retailing is ongoing; however, in some areas of China still in its infancy. Considering the progress of the food retailing industry and the evolvement of store formats is essential when projecting the future developments within the PRC.

2.3.1 The Foundation: Regional Development Policies and Economic Liberalization – from Mao to Deng

“Before 1978, private economies were perceived as seedbeds for capitalism, and policies were designed to eliminate them.” (HAN & PANNELL, 1999: 275)

When the PRC was formed in 1949, its population was 541.67 million people (GERMAN, ET AL., 1996: 1); it was operating as planned economy, and most of the industries, including retailing, were monopolized by state government (HO & LEIGH, 1994: online; SCHMITT, 1999: 77-78; WANG & ZHANG, 2005: 42-43; TACCONELLI & WRIGLEY, 2009: 55; SENAUER & REARDON, 2011: 277). China was plagued by chaos, depression and high inequalities with a handful of Ministry of Foreign Trade controlled corporations^{xvii} vested with the responsibility to carry out very exacting quantitative guidelines regarding import and export plans (CHENG, 2005: 21-22; JINGLUN, 2003: 155-157). In 1978, China’s foreign trade hovered around US\$ 21 billion, placing the country as a marginal global trade player at best (BRANSTETTER & LARDY, 2006: 3). With private business ownership prohibited and retail marketplaces eliminated, China’s retail sector was reduced to a *“simple yet rigid distribution system”* (WANG & ZHANG, 2005: 42). At that time retail chains were nonexistent. Only four department stores, which were opened at the beginning of the 20th century (between 1917 – 1936) in the very same road, existed in Shanghai (HANG & GODLEY, 2009: 389-390), as well as few in Hong Kong^{xviii} (MCGOLDRICK & HO, 1992: 62), mainly serving foreign visitors and offering non-food items. Compared to other contemporary markets, such as the USA, Apple (1972) describes the American ‘Postwar Growth’ of supermarkets between 1946 and the beginning of the 1970s; dating back to *“the ‘Revolutionary’ Birth of the Supermarket”* between 1930 and 1935 (APPLE, 1972: 40). In China at that time, three main types of retail stores were existent (ZHEN, 2007: 70): (1) Department stores (*bǎihuò* 百货) (multi-story for wholesaler and retailer), (2)

^{xvii} In 1956 the last private trading companies were nationalized and foreign trade was monopolized under the state. Six Foreign Trade Corporations (FTCs) had been established by the mid-1950s, each responsible for a specific trading sector. Numbers of FTCs were fluctuating; at the beginning of Deng’s reform policies in 1978, twelve FTCs were in charge (CHENG, 2005: 54).

^{xviii} At that time Hong Kong was still a British colony. Handed over to the PRC on 1 July 1997, it became its first Special Administrative Region, under the principle of ‘one country, two systems’. The other special region, Macau, attained that status when Portugal handed it over in December 1999.

Neighborhood general stores (*záhuòdiàn* 杂货店), as well as (3) Convenience stores (*zǎowǎnménshì* 早晚门市). The country's production and distribution at that time were conducted exclusively by the state government, and strictly controlled by the three-tier-system^{xix} (see *Appendix 3*, p. 272 for an illustration of the distribution channels in the centrally planned economy before 1978). This mode of distribution increased operational costs due to the complete absence of market forces and operated on the basis of resource allocation (*fēnpèi* 分配) rather than market demands (JIANG & PRATER, 2002: 783-784). Soon after Mao Zedong's death in 1976, the mismanagement and the inefficiency of state-owned enterprises (SOE) was seen as hindrance to the economic growth of the PRC and the role of the private sector was redefined through a wide range of growth supporting policies (DAVIS, 2000: 1-4). Consequently, from 1978 onwards under Deng Xiaoping, a series of steps were taken in order to deregulate the retailing sector, thus revealing significant differences in regard to economic policies between the Maoist Era (1949 - 76)^{xx} and the Dengist Era (1977 – 1992)^{xxi} especially in regard to economic policies. BRESLIN (2003: 5) terms the phase after 1978 as “*reforming away from socialism*”, while WHYTE (2012: 229) labels it a “*step-by-step dismantling of China's system of centrally planned socialism*”.

^{xix} Tier-1-distributors were located in Beijing, Shanghai, Tianjin, and Guangzhou; Tier-2-distributors operated as wholesalers in the provincial capitals and medium-sized cities; Tier-3-distributors consisted of wholesalers in smaller cities and towns; providing basic logistics services. Products were distributed by the Ministry of Commerce (MOFCOM) according to the “*need and equal availability*” (JINGLUN, 2003: 158). Although consisting of around one million retail stores (allocation outlets), needs of approximately one billion people were never met due to shortages of goods (ZHEN, 2007: 69).

^{xx} Mao Era refers to the leading Chinese politician in the 20th century Mao Zedong (*1893 - † 1976), who was the Chinese Communist Party's (CCP) Chairman (1943–1976), Leader of the Central government (1949–1954) and President of PRC (1954–1959). His tenure entailed the social revolution carried out by the CCP after 1949 (with Deng as one of his leading lieutenants), which was aimed at transforming China from a very unequal, petty capitalist society into a centrally planned socialist economy modeled after the Soviet Union. That transition was completed by 1956. The Cultural Revolution launched in 1966 added new radical elements to China's Soviet-inspired organizational template (WHYTE, 2012: 230).

^{xxi} Dengist Era refers to the tenure of politician Deng Xiaoping (*1904 - † 1997), who as reformist leader of the PRC led the country towards a market economy. Without ever officially holding office as the Head of Government or General Secretary of the CCP, he nonetheless was the ‘paramount leader’ of the PRC from 1978 to 1992. Deng is credited with beginning the reform process, turning China into what it terms a Socialist Market Economy (JINGLUN, 2003: 1-4).

Although an increasing interest in FDI was apparent after US President Nixon's visit in 1972, actual investment didn't take place, as restrictions on FDI and a ban on external financing of FDI projects still existed. In 1979, policies dramatically changed and primarily provided a basic framework for foreign firms to operate Joint Ventures (JVs)^{xxii} (BRANSTETTER & LARDY, 2006: 6, 11-12). HAN AND

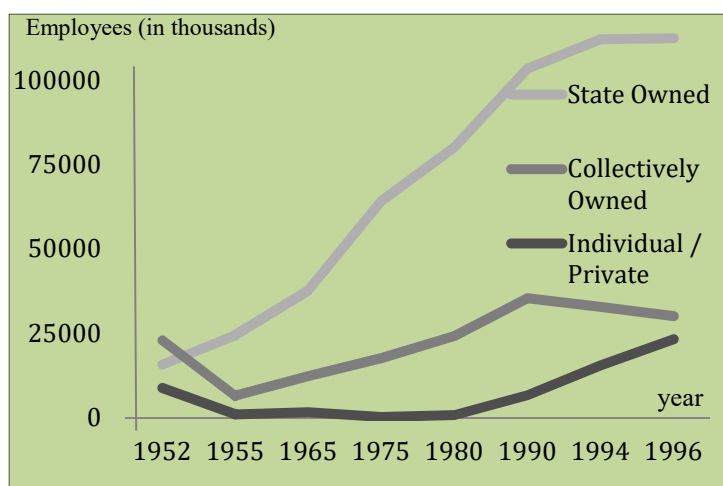


Figure 7 Size of Employment in Selected Sectors (own illustration, data from NATIONAL BUREAU OF STATISTICS OF CHINA, 1997: 84-85)

PANNELL (1999: 276) divide China's re-emerging private sector into three different stages. Within the first ten years after the Mao Era, from 1978 to 1988, the number of persons employed in the urban private sector doubled within the first year, after the State Council endorsed a report from the Bureau of Industrial and Commercial Administration to permit restoration and development of individual businesses, in turn the People's Bank of China allowed people to apply for loans. At the end of this first stage, the number of people working in the private sector was 44 times higher. Figure 7 illustrates the size of employment in the different divisions between 1952 and 1996, distinguishing between state-owned, collectively owned and private sector. The second stage, starting in 1988 with the CCP calling for economic readjustment, focused on the elimination of private sector's wrong doings such as tax evasions and poor welfare entitlements for employees. This development demonstrates a very contrasting picture to the conjunctures during the 1950s and the Cultural Revolution (1966 - 1976), when "owners of private businesses were classified as parasites and were put at the bottom of the social hierarchy, with diminished political and economic opportunities [.]" and "[O]wning a private establishment was risky"

^{xxii} JVs refer to agreements where two or more owners create a separate entity by contributing equity. A new identity with a specific purpose is created (ROBINSON & CLARKE-HILL, 1995: 133-135). In order to drive decisions, a majority controlling stake is needed. While finding appropriate partners proves difficult, benefits from local knowledge are to used accomplish this task (DUPUIS & FOURNIOUX, 2006: 61-62; ALEXANDER, 1997: 287). JV agreements, which are most prevalently between an overseas and a local company, "are probably the most common form of market entry mode in retailing" (DUPUIS, ET AL., 2006).

(HAN & PANNELL, 1999: 278). In 1980, four special economic zones (SEZ)^{xxiii} were initiated, namely Shenzhen, Shantou, Zhuhai in Guangdong Province, and Xiamen in Fujian Province; followed by 14 additional open coastal cities (OCCs) in 1984, namely Beihai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yantai, and Zhanjiang (see *Map 2*, p. 41), where economic and technological development zones (ETDZ) were established as production, trade and foreign investment centres (BRANSTETTER & LARDY, 2006: 11-12; LIEFNER & WEI, 2014: 4-5). Hainan Island was elevated to provincial status and designated the fifth SEZ in 1988 (GERMAN, ET AL., 1996: 7). The scope of the permitted operations in the OCCs is very similar to that of the SEZs. In 1985, PRC decided to further expand the open coastal areas out-spreading the entire section of the country into an open coastal belt, adding the Shandong and Liaoning peninsulas in 1988, further extending the Open Coastal Economic Area (OCEA) to more than 260 cities and counties. These economic zones serve as a mechanism for opening China's market to the outside world and as an example for guiding the strategic economic development of the entire country. In 1988, Hainan, until then capital of the Guangdong province, obtained the same status (FAN, 1997: 624). In general, several different economic zones were established, including SEZs, OCCs, ETDZs, OECAs, Pudong New Development Area and Free Trade Zones (FTZs) (GERMAN, ET AL., 1996: 7-10). Foreign firms were offered preferential tax and administrative treatment and given an unusually free hand in their operations. However, the Chinese trading sector had especially profited from the reforms. From the initial twelve firms directly controlled by the Ministry of Foreign Trade, the number stretched to around 800 companies by 1985 and to approximately 35,000 by 2001; meaning that by the mid-1980s, China operated a dualistic trade regime: a very open one for foreign firms and domestic enterprises engaging in export processing, and a far more restrictive trade regime for all other enterprises (BRANSTETTER & LARDY, 2006: 6; BRESLIN, 2003: 4-5). A fact that is often disregarded is

^{xxiii} A SEZ is a geographical region that is designed to export goods and provide employment. SEZs may be exempt from laws regarding taxes, quotas, FDI-bans, labour laws and other restrictive laws in order to produce the goods manufactured in the SEZ at a globally competitive price. According to United Nations Centre of Transnational Corporations there are around 22 differing definitions which can be connected to the term SEZ (CHENG, 2005: 2). Concretely, the SEZs have been established to: (1) attract foreign investment in all sectors of the economy including retail industry; (2) keep pace with the trends and activities of international markets; (3) expand export trade, and; (4) facilitate participation in the international business and technological cooperation (GERMAN, ET AL., 1996: 7).

the existence and importance of interprovincial protectionism in China. A number of studies have documented the existence and addressed the importance of this issue (WEDEMAN, 2003: 17-20). YOUNG (2000: 1128) goes as far as to suggest that China's internal market has become substantially *less* integrated over the reform period, as local governments have sought to shield local producers from competitors based elsewhere in China. *Map 2* illustrates the early phases of post-Mao regional policy with SEZs and the OECAs marked over time.



Map 2 Early Phases of Post-Mao Regional Policy with SEZs (own design, on the basis of FAN, 1997: 624, realization by Julia Breunig)

2.3.2 The Beginnings of Food Retailing in China: Transition from State Controlled to Breaking New Ground

“China will never go in for privatization, though it supports the development of a private economic sector.” Vice Premier Li Lanqing (cited in BEIJING REVIEW 1996: 16)

Maintaining a food rationing system^{xxiv} until the early 1990s, China’s food retailing landscape was mainly shaped by small fresh markets, selling limited amounts of produce and animal-sourced foods (VEECK, 2000: 1-2; BAI, ET AL., 2006: 3; ZHAI, ET AL., 2014: 16). Before the above mentioned new policy (see *chapter 2.3.1*, p. 37), BOWLES (1998: 30) defined the Chinese retail sector as dominated by state-owned department stores on the one hand, and small neighbourhood stores at the other. With the disappearance of the rationing system, state controlled stores closed down and made way for a modern food system that was beginning to take shape (ZHAI, ET AL., 2014: 16-17). STERNQUIST AND CHEN (2006: 243) argue that 1991 marks the introduction of modern retailing in China, when the first supermarket had opened in Shanghai, whereas GERMAN, ET AL. (1996: 13), LO, ET AL. (2001: 69) and ZHEN (2007: 73) claim 1981 as start, when the Guangzhou Friendship Store^{xxv} (a department store) was opened. It was indeed around the same time as the opening (*kāifàng*) of the SEZs took place; supermarket technology was first introduced mainly to serve visiting overseas customers. Only during the 1990s due to economic growth had the supermarket’s focus shifted to local customers (LO, ET AL., 2001: 68-71). GERMAN, ET AL. (1996: 13-15) divide the Chinese supermarket development from 1981 until 1995 into five major stages: introduction, decline, reintroduction, adjustment and steady growth. However, the introduction of supermarkets did occur much later as for instance in the USA, where the first supermarket opened in 1929 in response to the severe economic downturn known as the Great Depression (APPLE, 1972: 40-41). In regard to

^{xxiv} The Chinese government exercised complete control over the Chinese food system by controlling agricultural activity and rationing most staple products, such as oil, rice, meat, and bread; therewith even dictating consumer choices to a large degree (VEECK, 2000: 109).

^{xxv} Friendship Stores were special stores for foreigners and existed until 1994. Merchandise in these stores could only be purchased with Foreign Exchange Certificates (FEC). The same was applicable for foreign hotels and gift shops, which also sold merchandise only in FECs (STERNQUIST & QIAO, 1995: 21).

China, a lack of agreement exists as to how to define supermarkets and when they first appeared. GERMAN, ET AL. (1996: 12) refer to self-service stores and reveal a distinctive difference between early supermarkets in the USA, where food was sold at low prices. In China, the first supermarkets targeted solely wealthy consumers, offering a wide variety of products in clean, neat stores, rather than offering low prices. As described above, individuals were permitted entry into the distribution system as early as the late 1970s, thereby heralding retail liberalization. Nevertheless, major reforms were not implemented until the early 1990s, clearing the path for the transition from state-enterprises into private or stock companies, the creation of domestic retail chains and the opening to foreign retailers. In 1990, stock markets in Shanghai and then Shenzhen were opened, allowing both state and private firms to gain access to equity funding. Another major urban reform was the mass privatization of

housing around that time (STERNQUIST & QIAO, 1995: 21; WHYTE, 2012: 232). Although not directly influencing the retailing sector, it is argued in this thesis that the reforms mentioned paved the way for suitable circumstances to prevail in order to allow the development of a modern retailing sector. Since 1992, the government has

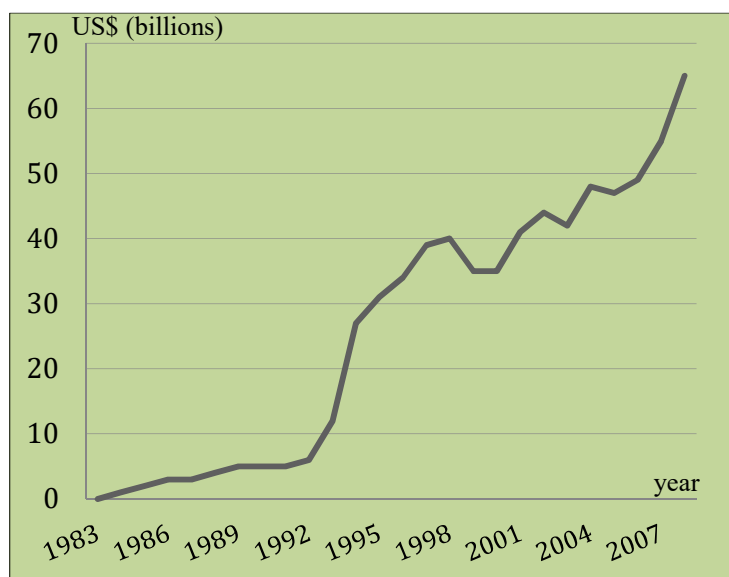


Figure 8 FDI Inflows into China, 1983–2000 (own illustration, after CHEN, 2007: 134)

established many more SEZs including 52 high-tech industrial development zones, 18 open provincial or regional capital cities, eleven state tourism and holiday zones, and 13 open border towns. These zones are authorized to extend preferential policies on par with the OCCs. Deng Xiaoping instructed the government to emphasize economic development as the core of its agenda, rather than to debate whether China's direction of modernization follows capitalism or socialism. His instruction was officially reflected in the report of the 14th Congress of the Chinese Communist Party (CCP), in which the goal to establish a socialist market economy (CHUANG, ET AL., 2011: 446) was set. These further liberalizations were also apparent within the development of FDI, which is revealed within the strong increase from 1992 onwards in *Figure 8*. The 15th Communist Party Congress in

1997 marked a new political and economic phase, introducing the Ninth Five-Year-Plan^{xxvi}. One-and-a-half years later, in 1999, for the first time guarantees that acknowledged the private sector were written into the state constitution (THE ECONOMIST, 2000: online). According to REARDON, ET AL. (2007b: 403), who differentiate three waves of supermarket modernization in developing countries, China represents a third-wave country (latest wave), where the supermarket revolution ‘take-off’ started only in the late 1990s or early 2000s, reaching about 10 – 20 % of national food retail sales by 2003 to 2004.

In 1984, *Hutchison Whampoa*, a Hong Kong based firm, opened their first *ParkNShop* supermarket in Shenzhen (operating 22 stores in Shenzhen by the end of 1994). Six years later, another Hong Kong based company; *red chip China Resources* launched its first supermarket in the very same city. However, China's economy experienced rapid growth in the beginning of 1990s (1990: + 4.1 % GDP; 1991: + 8.2 %; 1992: + 13.4 %). This thesis argues that the key starting point of the grocery retailing sector dates to 1992, mainly since several policy changes were insituted by the Chinese government. Under favourable economic conditions, the grocery retailing industry experienced major growth from 1991 onwards (referred to as the third ‘reintroduction’ stage by GERMAN, ET AL. (1996: 16), with new supermarkets in Shanghai opening every other day. In July 1992, the State Council of the PRC made ‘the Written Instructions Concerning Issues if Utilizing Foreign Capital in Commercial Retailing Sectors’ (CHUANG, ET AL., 2011: 446); meaning that from 1992 onwards, international retailers were allowed to enter the market under State Council provisional regulations; however, only by holding a non-controlling stake in a JV with a local company (BOWLES, 1998: 30; QIU & ZHAO, 2011: 22; DAVIS, 2013: 353; WANG, 2003: 122; GOLDMAN, 2000: 2; WANG, ET AL., 2008: 12). See *Appendix 4* (p. 273) for an overview of selected conditions for retail JVs. Several major foreign retailers including *Yaohan*, *Carrefour*, *Makro*, and others have set up JV operations in SEZ, mainly Guangzhou and Shanghai (GERMAN, ET AL., 1996: 21). According to HANG AND GODLEY (2009: 392), the first of foreign supermarket chains to enter China was *Parkson*, the retail division of the *Malaysian Lion Group*, in 1994. With the establishment of SEZ the long-

^{xxvi} Neither law nor regulation, Five-Year-Plans of the PRC are a series of social and economic development initiatives, serving as a road map of government priorities and interests (PWC, 2013: 17). The CCP plays a leading role in establishing the foundations and principles of Chinese communism, mapping strategies for economic development, setting growth targets, and launching reforms. The name of the 11th five-year program (2006 - 2010) was changed to ‘guideline’ instead of ‘plan’. Currently, the 12th Five-Year-Plan (2011 – 2015) is in operation.

protected retail sector was opened up to overseas investment, with foreign grocery retailers gaining permission to conduct business on the Chinese market. However, the author shares HO AND LEIGH (1994: 32) argument that China's retail sector cannot truly be considered open at this time, because no foreign-financed enterprises are allowed to go further inland into regions outside of the SEZs. HINGLEY, ET AL. (2008: 4) similarly conclude that "*a series of restrictions hampered the pace of their (international retailers – author's note) development and expansion.*" Nevertheless, foreign grocery retailers entered the Chinese market, introducing new formats and new techniques (WANG & ZHANG, 2005: 58; HINGLEY, ET AL., 2008: 4-5). According to BOWLES (1998: 31), foreign capital was mainly attracted by three main retail channels. While the first of these, upscale department stores, had had a minimal effect on food retailing, modern supermarkets and hypermarkets represent the second and third retailing channels. Although foreign retailers without state approval were not eligible for state-instituted preferential treatments, tax reform made it possible for local governments to offer their own incentives to attract foreign retailers (WANG, 2003: 120-122). The government of Shanghai made significant changes in 1993, only one year after the creation of favourable state deregulation, including the announcement of the end of the ration coupons and the launching of a comprehensive ownership reform of state- and collectively-owned retail companies. While small retail stores were either sold or contracted to private operators, large and medium-sized enterprises (around 700 of them) were granted business decision-making autonomy and 19 joint-stock companies established (WANG & ZHANG, 2005: 53). Nevertheless, GERMAN ET AL. (1996: 12) describe that „*[T]he self-service supermarket is truly a new concept to the Chinese consumer.*” A so-called readjustment stage in 1993 primarily reveals consequences due to growing competition, forcing small retailers to withdraw due to unsuccessful positioning or deficient location. In response, several actions to encourage the development of modern grocery retailing^{xxvii} were taken by the China Chamber of

^{xxvii} Major guidelines established by the CCOIC in order to encourage modern grocery retailing include:

- (1) Targeting ordinary people with low prices in order to increase living standards;
- (2) New residential areas or highly populated areas as new locations;
- (3) New stores at least 500 square meters in size;
- (4) New stores with at least 2,500 different stock keeping units (SKU);
- (5) New stores to carry fresh produce (fruits and vegetables);
- (6) New stores to have refrigerators and freezers for frozen products;
- (7) Encouragement of computerized systems and chain-like management development.

International Commerce (CCOIC), also known as China Council for the Promotion of International Trade (CCPIT), which founded the Self-Service Stores Association (SSSA). In 1994, *Dairy Farm*, *Yaohan Liancheng* and *Guangnan Holdings* joined the scene, opening up supermarkets in a number of big cities, such as Shanghai and Beijing. The Shanghai City Government in particular, introduced incentives for the supermarket industry; thus fostering modern grocery retailing. Chinese retailers such as *Hualian* and *Lianhua* further developed the chain store format^{xxviii}, both operating around 25 stores each. Between 1994 and 1996, the number of small independent stores in major cities augmented by 38 % (BOWLES, 1998: 30), having been almost completely absent beforehand. Despite the restrictions, the number of stores funded by foreign investors had jumped from 872 (nearly zero percent increase to the previous year) to 2,785 by 1996. French *Carrefour*, the first Western grocery retailer, opened the first hypermarket in the whole of China in 1995 (HANG & GODLEY, 2009: 393), it rapidly became market leader in Chinese hypermarkets, coming into fierce competition with *Nielsen* which had 49 hypermarkets by the end of 1996. Chinese *Hualian* had formed a number of JVs with foreign investors, again concentrated in Shanghai. In the same year, another global player, American *Walmart*, opened its first supercentre and *Sam's Club* in Shenzhen. In 1996, JVs with Japanese and Thai partners allowed the opening of 50 24-hour convenience stores in Shanghai, with 500 more stores planned over the next five years to come. With competition becoming fierce and the retail sector demanding modernization, the state government withdrew its support for obsolete formats such as department stores, shifting its attention to new retail formats (WANG & ZHANG, 2005: 939). According to the CHINA STATISTICAL YEARBOOK (1997), an estimated 13 million small independent stores existed in 1996, representing a 15 % increase within two years and accounting for a third of retail sales compared to a fifth in 1992. The highly fragmented nature of the Chinese food retailing sector is one explanation for the absence of a higher number of large foreign grocery retailers. While *Table 4*

^{xxviii} The Ministry of Internal Trade issued the 'Notice on the Issuance of Opinions on the Business Scope of Chain Store' in 1997, determining that in order to be defined as chain store, a number of at least ten stores selling the same goods with a centralized management and a single distribution purchase have to fulfilled. Three forms of chain stores were distinguished (ZHEN, 2007: 76):

- (1) Direct chain operation: all stores operated by one parent company.
- (2) Voluntary chain: independently run stores with legal person status, however, all managed and supplied by a chain store operator.
- (3) Franchise chain: the chain stores operator's trademark, products and technology are used under licence by a master licensee who owns and operates the chain.

provides an overview of a range of the most important grocery retailers in 1996, it becomes evident that several foreign retailers such as *Carrefour*, *Makro* and *Walmart* entered the Chinese market at a relatively early stage. However, a primary foreign challenger for Hong Kong based supermarket groups was Dutch *Ahold*, entering the market in 1997 with the opening of 21 stores and heavily investing in its *TOPS* chain. Out of the increasing number of evolving domestic chains, with only localized presence and an average of 14 stores, two of the current major chains emerged. *Hualian* (the National Integrated Company of *Hualian Commercial Buildings Group*) and *Lianhua* (*Lianhua Supermarket Company Ltd.*), between them operated around 155 self-service stores throughout China in 1997 (51 in Beijing, around 20 in Shanghai), mainly serving foreigners or Chinese returning from abroad. However, the above mentioned unofficial mandate of local governments grew to such an extent that in 1997 an urgent clarification of their authority to issue JVs was published. One year later, 277 JVs were scrutinized on the grounds of insufficient legality. 41 were revoked and disbanded, 42 were granted state approval and 194 were told to reorganize without closing and to await future approval. According to WANG (2003: 124) this “was interpreted as a signal of loosening state control in the Chinese retail economy. It shows that the state government quietly allowed most of them to exist.”

Company	Country of Origin	Cities in China	No. of Stores
<i>Carrefour</i>	France	Shanghai	1
<i>China Resource</i>	Hong Kong	Shenzhen, Guangzhou	21
<i>Daiei</i>	Japan	Tianjin	1
<i>Jusco</i>	Japan	Shanghai, Qingdao	2
<i>Makro</i>	Netherlands	Guangzhou	1
<i>Metro</i>	Germany	Shanghai	1
<i>NTUC Fair Price</i>	Singapore	Beijing	1
<i>Park-N-Shop</i>	Hong Kong	Shenzhen, Guangzhou, Shanghai	25
<i>Parksons</i>	Malaysia	Beijing	1
<i>7-Eleven</i>	Hong Kong	Shenzhen	22
<i>Walmart</i>	USA	Shenzhen	2
<i>Watson's</i>	Hong Kong	Beijing, Shanghai, Guangzhou	6
<i>Wellcome</i>	Hong Kong	Shenzhen, Beijing	6
<i>Yaohan</i>	Japan	Beijing	10

Table 4 Foreign Supermarket Firms in China, 1996 (own illustration, various sources)

The second stage, as described by GERMAN, ET AL. (1996: 14-15) contained a drop in supermarkets. According to the OFFICE OF FINANCE AND TRADE OF SHANGHAI CITY GOVERNMENT, the decline derived from (1) lack of product availability, (2) Chinese

shopping habits (tendency to shop in wet markets), (3) lack of professional management skills, (4) inappropriate positioning strategy, targeting the limited group of high income consumers, as well as (5) the PRC's obscure and weak economic structure in general. Later in 1998, further changes were introduced by the state government, opening up the retailing sector also outside the SEZs in all provincial capitals and cities that are independent of their provinces and economy (cited in WANG & ZHANG, 2005: 53).

Despite the growing interest in the Chinese retail market, it didn't play a significant role until the beginning of 2000s. This is indirectly proven by several pieces of research, such as BURT'S (2006) extensive study on the historical internationalization of European food retailers between 1950 and 1990, which revealed that up until the 90's China played no role at all. A comparable project conducted by TREADGOLD (1990) came to a similar conclusion, failing to include the PRC. In his study of international divestment activities of European grocery retailers, BURT, ET AL. (2004: 486) elaborated that between 1970 and 2004, 64 European based food retailers have exited international activities, while 121 country withdrawals have been noted from 55 different international destinations during the last decade, without any reference to China. But also within BURT'S (1995) research of geographical trends in regard to destination of investment, China remains unmentioned. However, it wasn't until 2004 when China's transition began. According to the Ministry of Domestic Trade, 28 Sino-foreign retail JV had been approved by the end of 2000 (JINGLUN, 2003). However, retail JVs in eleven cities were subjected to highly restrictive terms.

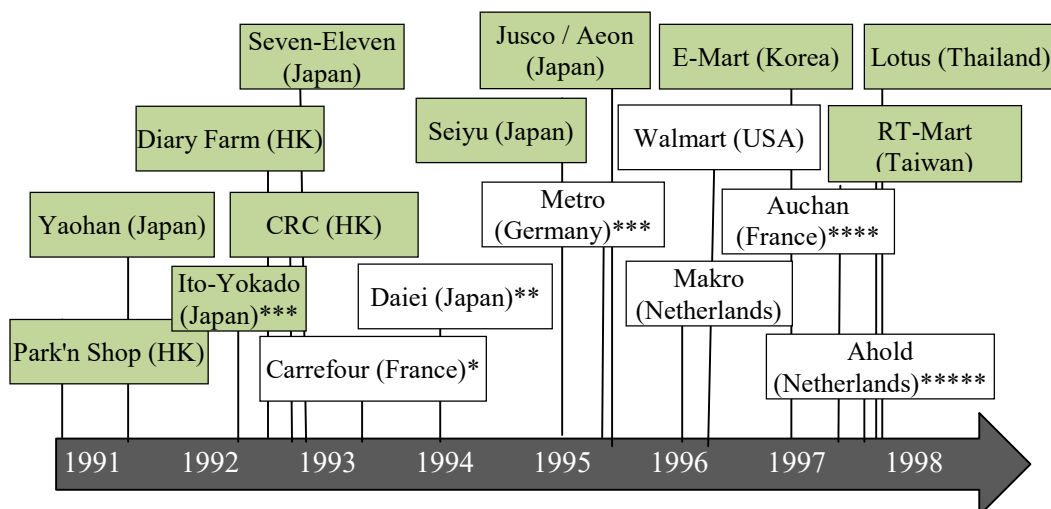


Figure 9 Timeline of Foreign Grocery Retailers Entering the Chinese Market until 2000 (own illustration; various sources)

*/** First store in 1995

***First store in 1996

****First store in 1998

*****Exit in 1999

Regulations issued by the former Ministry of Internal Trade, prohibited such JVs from selling wholesale or acting as import-export agents, stipulating that inventory consist of no more than 30 % imported goods. When evaluating the cities of entry for many foreign retailers, it becomes obvious that SEZs were preferred in several cases, such as by *Yaohan*, *ParkNShop* and *Walmart*. *Figure 9* (p. 48) illustrates the market entry of foreign grocery retailers into the Chinese market up to 2000. Several sources claim different dates for the entry of foreign grocery retailers. There seems to be discordance in regard to dates when registration was received by local government. In the above *figure 9*, retailers were included if the opening date of the first store in China occurred in a different year than the actual registration. However, disagreement still exists in respect to registration years, as a comparison of JINGLUN (2003: 165) and AU-YEUNG (2003: 144) reveals: in six cases dates vary up to four years, as in the instance of *Makro* (Netherlands); thereby exposing a lack of reliable market research as discussed in *chapter 1.1* (p. 13). *Map 3* illustrates the location of headquarters of the above contemplated grocery retailers, allowing an explicit conclusion to be drawn regarding the geographical distribution within the internationalization process in the PRC. Headquarters are all concentrated along the east coast of China, mainly in Shanghai, where first stores (see *Table 4*, p. 47) were opened. It is however highly remarkable, as already acknowledged by ZHEN (2007: 87) that despite the Chinese State Council being the only authority to approve FDI in Chinese retailing, “Chinese local governments often over-stepped their power and approved a lot of foreign investment [...]; they opened the industry further than the central government permitted for their own interest.”



Map 3 Foreign Grocery Retailers Entry Locations until 2000 (own illustration)

2.3.3 The Influence of WTO entry: The Expansion of Modern Food Retailing

“WTO membership will prove as momentous a step as Deng Xiaoping's 'opening to the world' in late 1978.” (THE ECONOMIST, 2000: online)

A significant portion of the Chinese liberalization measures as described above were essentially part of China's WTO accession process. The long negotiation process towards WTO membership began in 1987 (WALMSLEY & HERTEL, 2001: 1019; BRESLIN, 2003: 3), with economic liberalization used as a way to gain credibility with its negotiation partners. In 1999, within the scope of its key final bilateral negotiations with the USA, China agreed to additional market access commitments and incorporated them into China's final WTO accession package (BRANSTETTER & LARDY, 2006: 20-22). The negotiations were thus influenced by a type of dualism. On the one hand, domestic producers were meant to be protected; on the other, exporters were to be promoted. Deng Xiaoping described the scenario as follows: *“If you open the window for fresh air, you have to expect some flies to blow in”* (cited in CHENG, 2005: 525). The domestic ‘embedded socialist compromise’ was threatened by the process for WTO entry, as globalization was resisted where it was perceived to be ‘damaging’ and promoted where beneficial (BRESLIN, 2003: 4-5).

A new chapter began, with researchers and economists both agreeing on the far-reaching significance for the Chinese economy and the rest of the world (WEN, 2000: 432; HONG & CHAN, 2003; TAYLOR, 2003: 187; CHENG, 2005). YANG (2000: 438-439) highlighting the enormous gap between China's current political regulations and the WTO policy at the time, further acknowledges the dual track approach which establishes different rules for different players such as domestic and foreign businesses. On the 11th of December 2001, China became the 143rd member of the WTO after 15 years of negotiations; requiring China to remove all remaining trade barriers and to open its retail market completely within five years (WANG & ZHANG, 2005: 53). China gradually continued removing market access barriers for foreign enterprises, moving away from heavy restrictions on foreign investment (LU, 2010: 17-18). The WTO accession not only involved the elimination of quantitative restrictions, but the increasing access to China's markets for foreign companies and foreign investment through the reduction of trade barriers (WALMSLEY &

HERTEL, 2001: 1019-1020). WEN (2000: 433) highlights the significance of China's accession into the WTO, describing it as one of the most important occasions of the last century. Possible effects and outlooks of China's WTO membership are heavily discussed in the scholarly and economic literature (RICHTER, 2000; WEN, 2000; YANG, 2000; WALMSLEY & HERTEL, 2001; BRESLIN, 2003; IANCHOVICHINA & WALMSLEY, 2003; AGARWAL & WU, 2004; ANTKIEWICZ & WHALLEY, 2005; CHENG, 2005; WHALLEY, 2005; WANG, 2007; TACCCONELLI & WRIGLEY, 2009). General assumptions, especially within non-food retail sector specific discussions were generated, such as for the automobile (HARWIT, 2001) and apparel sector (YEUNG & MOK, 2004). HARWIT (2001: 670), before China's accession to the WTO, and assuming that PRC was to join sometime in the year 2001, foresaw important challenges to the auto industry, alluding to the urgent need for domestic manufacturers to improve their product in the face of strong foreign competition. Forecasts for the Chinese textile industry are less pessimistic, predicting a 'win-loss' situation for Chinese enterprises (YEUNG & MOK, 2004: 937). RICHTER (2000: 426) follows up on the question of how the entrance will affect Western firms, highlighting future opportunities such as the acquisition of Chinese enterprises. Put in a nutshell, IANCHOVICHINA AND WALMSLEY (2003: 2-3) argue that "[T]he complexity of the anticipated changes in China, the lack of clarity as to what the counterfactual is, and the uncertainty associated with the policy response in China and elsewhere make the task of assessing the impact of China's WTO accession (...) a challenging one." However, China did not allow full liberalization until 2005, opting instead to gradually implement agreements up until 2005. Four years after the official WTO-entry the formal restrictions for foreign companies were finally lifted (WALMSLEY & HERTEL, 2001: 1020 JIANG & PRATER, 2002: 793; AU-YEUNG, 2003: 152). Up until 2004 the only possible mode to enter China's market was as a JV (SIEBERS, 2011: 1). Importantly, by 11th December 2004, the PRC government issued the Administrative Measure for Foreign Investment in Commercial Sectors, which primarily allowed foreign investors to establish retail enterprises without geographic limitations (LIU, 2007: 398; WANG, 2007: 326; HINGLEY, ET AL., 2008: 7; CHUANG, ET AL., 2011: 446; ZHU YI, 2012: 134; DAVIS, 2013: 354). In 2005, 1,027 retailers won permission from MOFCOM to do business in China, tripling the combined total of permissions over the previous twelve years (TACCCONELLI & WRIGLEY, 2009: 59). Although it is often argued that despite removing geographic and ownership restrictions, China still places some limitations on foreign retailers. The 2009 Administrative Measures for Foreign Enterprises or Individuals Establishing Partnership

Enterprises in China permitted in the beginning of March 2010 foreign investment and individuals to establish partnership retail enterprises (LU, 2010: 17). Until recently, applying for approval of licensing was undertaken solely by the central government. Having firstly obtained a business licence from MOFCOM, registration approval had to be obtained from the State Administration for Industry and Commerce (SAIC)^{xxix}. As the central government agencies MOFCOM and SAIC have gradually devolved the licensing authority to local governments, the licensing process has been simplified for some foreign retailers (LU, 2010: 18). Shifting more authority to the provincial commerce branches and capping the licence application review period at three months, regardless of size. These changes brought large advantages for foreign retail giants such as *Walmart* expanding in China. As part of its efforts to meet WTO requirements, China was eventually required to withdraw from involvement in the retail sector, firstly demoting the Ministry of Interior Trade (the ministry in charge of retailing) to a bureau, before eliminating the Ministry entirely (WANG & ZHANG, 2005: 53). In regard to the distribution sector, by 2005 the following easements were admitted: the allowance to distribute products within their own warehousing and delivery facilities; the opening up of logistics services to foreign companies and the removal of the constraints on foreign equity (JIANG & PRATER, 2002: 796). The increasing attractiveness of China to foreign companies due to the easing of restrictions is acknowledged by several researchers (JIANG & PRATER, 2002: 796-797). The countries acceptance into the WTO is without doubt an endorsement of its entry into the global economy, having encouraged international retail chains to recognize China as a key market. The three largest supermarket chains in Shanghai, *Lianhua*, *Hualian* and *Shanghai Nonggongshang Supermarket (NGS)* increased their number of stores by 89, 77 and 10 respectively within only one year (2002 – 2003), making up 88 % of the total supermarket sales in Shanghai (WANG & ZHANG, 2005: 62). Nevertheless, the WTO also smoothed the way for much fiercer competition (LIU, 2007: 399), forcing more than 200 retail enterprises to shut down between 2005 and 2007 (TACCCONELLI & WRIGLEY, 2009: 59). In 2007, a Walmart manager stated that “[t]here were many restrictions for us before China joined the WTO; even after, the government still puts us in a difficult position” (HINGLEY, ET AL., 2008: 20). Capturing only 20 % of the total grocery sales nationwide, more than 50,000 supermarkets were in operation in 2007. The share of sales in major urban centres reached

^{xxix} Domestic retailers can obtain licences from SAIC directly, without receiving prior approval from MOFCOM.

up to 50 % (HAMILTON & PETROVIC, 2011: 21). In summary, BRANDSTETTER AND LARDY (2006: 30) correctly recognize a tendency for studies to overestimate the impact of WTO membership, “because many were based on conditions that existed in the mid-1990s, and did not take into account the dramatic acceleration of reform in the years immediately preceding China’s WTO entry”. Profiling the landscape of the post-WTO-entry Chinese grocery retailing market, it can be concluded that the liberalization of the Chinese market is without doubt an important factor in the so-called ‘retail revolution’ in China, with the general pace of development in internationalization increasing tremendously in the 2000s (DAWSON & MUKOYAMA, 2014d: 7). Limits on the number of stores, rules confining retailers to large cities, and regulations capping the foreigners' stake in local ventures at 65 % had been abolished (BLOOMBERG BUSINESSWEEK, 2005: 67). Small stores that resemble a combination of convenience stores and grocery stores are now found in almost every Chinese town and village. This is also the time period when a major growth of supermarkets in China began (ZHAI, ET AL., 2014: 17). Nevertheless, it is argued that it cannot be regarded as the only crucial aspect. This argument is in agreement with SHA AND LI’S (1992: 72) summary of environmental factors positively attributing to the advancement of supermarket development before the WTO entry, such as increase in income, change of family structure, government support, and technological development as well as a new breed of entrepreneurs and consumers. Institutional changes in the field of culture and norms also contributed to the changing retail environment. As shown in *Figure 10*, the overview illustrates that the majority of market entrance into the Chinese grocery retailing market took place well before the WTO entrance. It is therefore argued that the number of different major foreign players did not increase significantly; however, their presence within the PRC in regard to store numbers and geographical scope grew markedly.

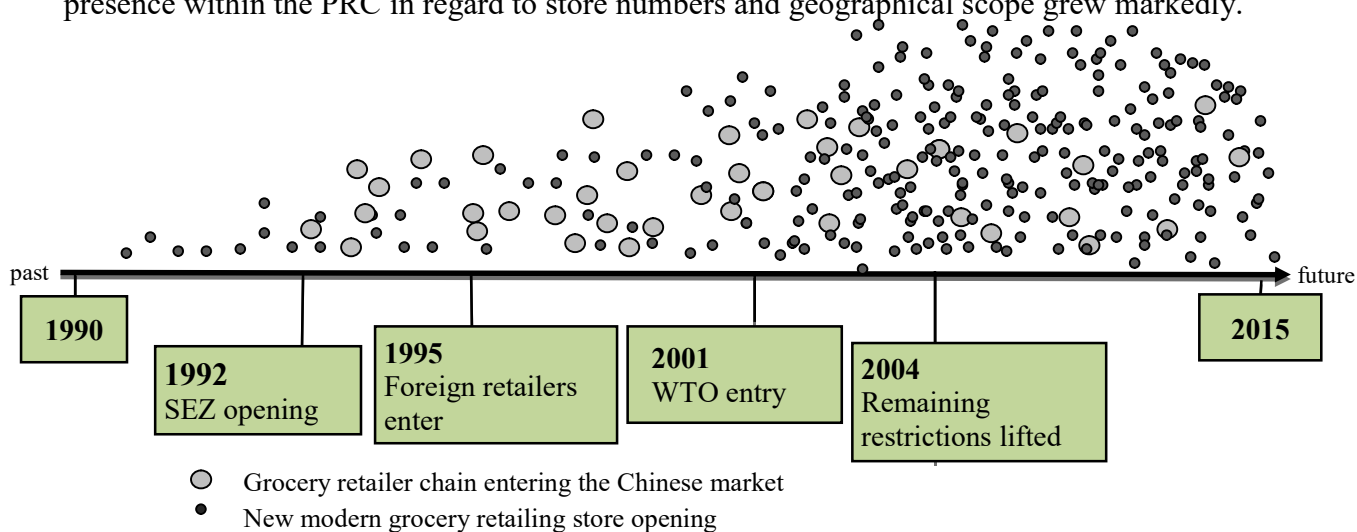


Figure 10 Broad Illustration of Development of China’s Grocery Retailing Sector (own illustration)

Year	Stores		Sales		Annual increase (%)
	Number	Annual increase (%)	Billions of US\$	Annual increase (%)	
1994	2500	0	0,38		0
1995	6000	140	0,96		167
1996	10000	66,7	3,61		275
1997	15000	50	5,06		40
1998	21000	40	12,05		138
1999	26000	23,8	18,07		50
2000	32000	23,1	26,51		47
2001	40500	26,6	37,11		40
2002	53100	31,1	55,13		49

Table 5 The Development of Supermarkets in China (own illustration after HU, ET AL., 2004: 561)

Table 5 displays the number and sales of supermarkets in the PRC from 1992 until 2002, supporting this observation. The liberalization process and especially WTO-entry have acted as a major spur for the expansion of grocery retailers. Undoubtedly, due to trade and investment liberalization under the WTO, greater competition between

Chinese and foreign firms was facilitated (LO, ET AL., 2001: 71; AGARWAL & WU, 2004: 297; WANG, ET AL., 2010: 436). From 1995 – 2004, during the ten years preceding liberalization, *Carrefour* for example opened 53 stores, compared to 54 within the three years following the full WTO-entry from 2005 to 2007. *Walmart* opened 57 stores, ten stores more than the grocery retailer had opened up in the pre-liberalization period (TACCCONELLI & WRIGLEY, 2009: 59). According to JINGLUN from 2003, there were more than 51,000 supermarkets in China. A further major transformation regarding the international entry strategies of foreign retailers was encouraged by the changing policies. With the above discussed reforms, foreign grocery retailers gradually received a higher level of

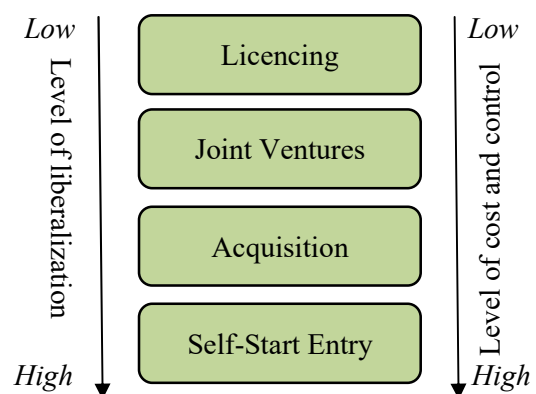


Figure 11 Options for Market Entry in the PRC over Time (own modified illustration after MCGOLDRICK, 1995: 8)

control of their operations. While licensing (at the beginning of China’s liberalization process) requires the least capital investment, it did not allow the parenting company to own equity in the venture. With the option of forming a JV with Chinese counterparts (primarily not owning more than 50 %), foreign retailers were able to reduce cost and risk of entry by working with a partner familiar with the PRC, thus consequentially accepting equity and control limits. Only with allowance of acquisition (quick entry at high cost) and self-start entry (building up the retailing chain from scratch) was full ownership of the business possible, as revealed in *Figure 11*.

2.3.4 China's Retail Sector in Transition: Enabling a Supermarket Revolution

"Reform is China's second revolution." Deng Xiaoping (cited in HARDING, 1987: I)

As noted in the foregoing chapter, the WTO membership further opened the door to foreign retailers. The expansion of foreign retailers proceeded at a much faster pace than it did prior to WTO entry. China underwent many transitions in its economic system, social structure, and consumption habits within the 1990s. Several articles, such as JIANG AND PRATER'S (2002) *"Distribution and Logistics Development in China: the Revolution has begun"*, CHAOS AND MYERS'S (1998) *"China's Consumer Revolution"*, HANSER'S (2005) *"Made in PRC: China's Consumer Revolution"*, TAYLOR'S (2003) *"China's Consumer Revolution"* and WANG'S (2011) *"Understanding the 'Retail Revolution' in Urban China"* emphasize this development. Indeed, the relationship between domestic protectionism and gradual conformity to international neo-liberal norms represents an 'embedded socialist' compromise by the PRC. The entrance of individual retailers into the distribution system in cities and urban areas, the abandonment of the state's monopoly in procurement of commodities and the relaxation of fixed prices (WANG & ZHANG, 2005: 52), all contributed towards a liberal grocery retailing sector in China. These steps *"greatly boosted the initiative to increase production, variety, and quality, which in turn improved the supply of consumer goods in retail stores"* (WANG & ZHANG, 2005: 52), which is also reflected in the rate of modern grocery retailing expansion, which *"in China has been nothing short of phenomenal"*, increasing from 0 % in the 1990s to almost 70 % in 2010 (SENAUER & REARDON, 2011: 279). Since the launch of the reforms in 1978, the PRC's prevailing development policies *"have changed from socialism and self-reliance to open-door-policies and comparative advantages"* (CHENG, 2005: 515-518; LIEFNER & WEI, 2014: 4). BERKOWITZ AND DEJONG (2001: 1, 12) who investigated the relationship of entrepreneurship and post-socialist growth in Russia, and DRTINA (1995: 200-203) who researched the internationalization of retailing in the Czech and Slovak Republics, draw similar conclusions for several post-socialist economies such as Poland and China; the robust economic growth enjoyed is attributable in large part to the substantial, entrepreneurial development they have experienced post-liberalization. Nevertheless, the

example of PRC is unique due to its market attractiveness of 1.4 billion consumers and high attraction of FDI (CHENG, 2005: 368). China's transition is often conceptualized as a triple process of globalization, decentralization and marketization. Therewith, WEI, ET AL. (2010: 266-267) summarize and describe three fundamental changes since the late 1970s: decentralization to local states, transition from a planned to a market-orientated economy, and the transformation to an open economy, whereas FDI has undoubtedly played a tremendous role within the rapid growth and structural change (BUCKLEY , ET AL., 2007: 143; WEI, ET AL., 2010: 280-281; WEI & LIEFNER, 2012: 1, 6). The development brought several diverse challenges with it, as revealed by LO, ET AL. (2001: 71-73). Their findings indicate a shift from technology transfer related problems in the 1980s to obstacles mainly associated with competition and management issues in the 1990s. JIANG AND PRATER (2000: 5) describe that "[...] China's distribution systems lie somewhere between a rigid planned structure and a free market system." POWERS (2005: 10) acknowledges the straight development from small groceries and department stores to hypermarket warehouse formats, somehow by-passing the traditional interim step of larger supermarkets. In the last

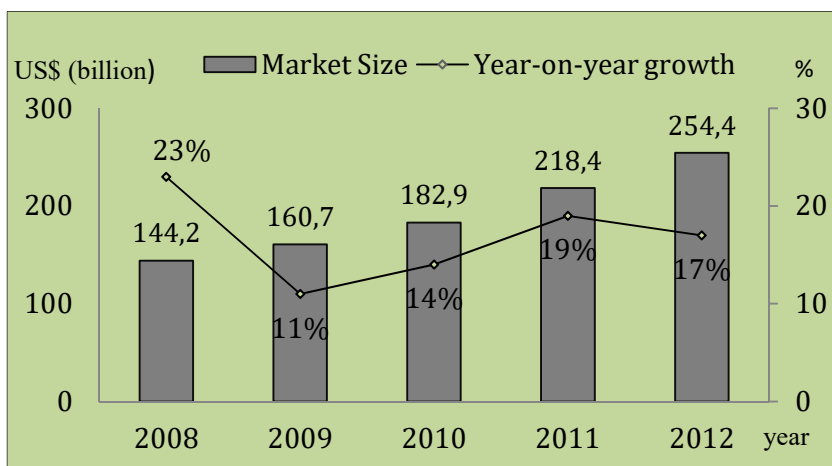


Figure 12 China's Packaged Food and Beverage Market, 2012 (own illustration after Euromonitor International, quoted in HONG KONG TRADE DEVELOPMENT COUNCIL (HKTDC) RESEARCH, 2013: online)

few years most rural communities have added a small supermarket or convenience store, initiating a revolution also outside the bigger cities. ZHAI, ET AL. (2014: 15) expect the grocery retailing landscape to be completely dominated by modern packaged

food and modern retailers; an assumption that is critically assessed within this thesis. In their comprehensive study of the dynamics of the Chinese diet and the role of urban cities, they reveal the reciprocative influence of changing food consumption patterns and the development of modern food retailing, both further discussed in *chapter 2.4.4* (p. 82). As outlined in *Figure 12*, the market size of the PRC's packaged food and beverage market illustrates the above titled 'revolution', revealing significant growth during the last years.

As explained in the previous chapters the liberalization of China's economy enabled this market to develop and to continue to grow. Similarly, “[T]he economic transition in the Czech Republic in the 1990s radically changed the structure and development of the entire retail sector” (SIMOVÁ, 2010: 79). FIGUIÉ AND MOUSTIER’S (2009: 210) investigation in Vietnam reveals comparable conclusions, disclosing similarities with the Chinese market, such as a communist background, a food ration system until 1986, and strong economic growth as well as a boom in household consumption. China, Vietnam and the Czech Republic are to be considered transitional^{xxx / xxxi}. In fact, the retail sector in the 2000s has been characterized by intensive development and a growing market share of the international retail chains in those countries. Nevertheless, drawing conclusions from the Czech market in order to measure the Chinese one is difficult and deceptive, as in contrast to China, the Czech economy was hindered by economic stagnation and recession. China as a post-socialist state has and still is undergoing significant economic policy changes. BRADSHAW (1996) theorized a model of four dimensions of economic transition. While

^{xxx} Countries undergoing an economic transition from a planned to a market economy are often referred to as transitional (SIN, ET AL., 2004: 57). BATRA (1999: 5-8) suggests the following ‘baseline conditions’ for transitional economies, which include:

- (1) Low consumer incomes by Western standards;
- (2) High rates of inflation and low labor costs;
- (3) The presence of a ‘dual economy’ structure (China’s coastal vs. inland income gap);
- (4) A traditional reliance on high levels of indirect taxation for public finance and bureaucratic obstacles;
- (5) Geographical disparities;
- (6) A historic tendency for marketers to be ‘sellers markets’;
- (7) Protectionism;
- (8) Limited availability of marketing information;
- (9) Fragmented and long distribution channels;
- (10) Inadequate infrastructures;
- (11) Existence of a ‘grey market’;
- (12) Labor disputes and difficult labor laws; as well as
- (13) Challenging local political and regulatory environment, such as the ‘guanxi’ system in China.

^{xxxii} One essential difference between China and former Union of Soviet Socialist Republics (USSR) as well as erstwhile socialist countries has to be alluded. They approached the development of a market economy in contrasting ways. While in the former USSR the political system was changed first, the PRC primarily altered the economic system towards a free market before leaving the political security of a communist/socialist system (STERNQUIST & QIAO, 1995: 27-28).

originally not retail specific, the extended model considers the essential steps throughout Chinese history, as discussed in the previous chapters. All four dimensions have no particular sequence and often take place simultaneously (WANG & ZHANG, 2005: 45). WANG AND ZHANG (2005: 45-47) avail themselves of the framework for their examination of the retail transformation in Shanghai.

In regard to the grocery retailing sector, the four dimensions can be interpreted as follows:

I. *Macroeconomic stabilization*: While planned economies are typically characterized by a shortage of consumer goods, macroeconomic stabilization refers to the need to bring into balance the level of monetary income with the supply of goods, and the difference between government expenditures and revenues. During transition, the supply of consumer goods has to be improved as well as the implementation of controlled wage increases.

II. *Liberalization*: Governmental restrictions on economic activities (on price control in particular) are removed gradually in order to filter out inefficiencies and create more efficient enterprises.

III. *Privatization*: Closely related to liberalization, a private sector is created by legalizing private economic actors.

IV. *Internationalization*: Opening up the domestic economy to the world through obtaining capital, technology, managerial know-how and high-quality consumer goods in form of FDI. According to WANG AND ZHANG (2005: 46), “foreign investors play a catalytic role in the economic transition process for the post-socialist states.”

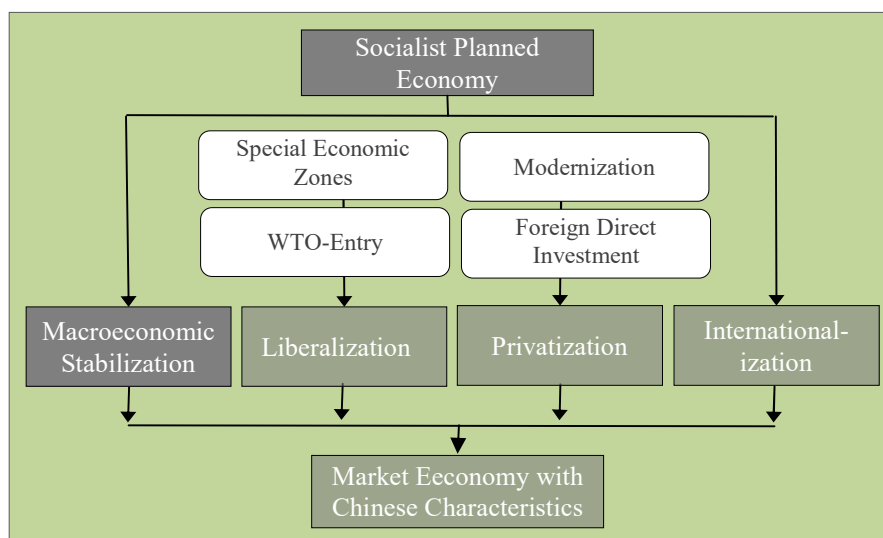


Figure 13 Four Dimensions of the Economic Transition Process for China (own extended illustration, adopted from BRADSHAW, 1999: 267 and WANG AND ZHANG, 2005: 45)

HAN AND PANNELL (1999: 272) emphasize the aspect of privatization as the significant component of China's economic reform and restructuring. The dramatic change in the role of the state however, differs widely from one socialist country to the other. In regard to China, MA (2002: 1545-1547) emphasizes that China's economic transformation encouraged unpredictable consequences as there was no intention on China's part to achieve Western capitalism, rather China wanted to achieve a new form of socialism with Chinese characteristics. As the Chinese circumstances differ heavily from other former socialist states with transformed policies and economies, it is to note that a generalized transition model for former socialist states would not work. This is taken into account when illustrating and recapitulating the four dimensions of economic transition in *Figure 13* (p. 58). It is explained that the PRC developed from a socialist planned economy into a market economy with Chinese characteristics, and was therefore influenced by a number of policy changes. *Table 6* illustrates an attempt to structure the historical liberalization of the PRC with special regard to the grocery retailing sector, thus describing the listed factors of transition in *Figure 13* in more detail. On the basis of the historical development of the grocery retailing market presented and evaluated above, this thesis argues that the retail deregulation has been the fundamental force for structural changes and the fundamental growth during the last years.

Stages and Periods	Main Reforms
Stage I 1978 - 1986	Four SEZs along the coast (Shenzhen, Xiamen, Zhuhai and Shantou) Extension to 14 special economic zones due to successful business
Stage II 1986 - 1992	Tax reliefs for export firms Hainan becomes fifth special economic zone
Stage III 1992 - 1995	Six cities (Beijing, Shanghai, Tianjin, Guangzhou, Dalian and Qingdao) and five SEZs (Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan) allowed to 'experiment' with retail FDI
Stage IV 1995 - 2001	Foreign retailers allowed to develop chains in Beijing through JV (with the Chinese partner controlling the majority of stakes). The wholesaling sector also opened up to foreign investors
Stage V 2001 - 2004	WTO-entry Retail FDI permitted in all provincial capitals
Stage VI 2004 - onward	Lifting of all remaining restrictions in April 2004

Table 6 The Liberalization of the Grocery Retail Industry in China (own illustration after BOWLES, 1998, WANG AND ZHANG, 2005, HAHN, 2009, as well as TACCCONELLI AND WRIGLEY, 2009)

In contrast to the above illustrated *Table 6*, where five stages of retailing liberalization are distinguished, ZHEN (2007: 68-71) differentiates only three main phases when investigating the development of Chinese retailing. Firstly, Chinese retailing in the planned economy period until 1979; secondly, the retailing industry during the planned commodity economy until 1991 and the lastly, the sector in the pre-WTO period until 2001. ZHEN (2007: 67) further points out the comparison between Western and Chinese retailing in terms of timely emergence. While Western retailing took around 100 years to arise, the Chinese retailing industry evolved within ten years only (1992 – 2002). Similarly, WANG, ET AL. (2008) differentiate three main stages, such as phase I between 1981 and 1990, with state-owned retailers dominating the retail sector. Following phase II, between 1991 and 2000, which was “characterized by diversification in ownership structure and retail format” phase III between 2001 and 2005 was “driven to a large extent by the momentum for globalization” (WANG, ET AL., 2008: 3). Nevertheless, the author of this study stresses to acknowledge the fact that the Chinese ‘retail revolution’ and liberalization process did not reach its end with its entry into the WTO. Starting the PRC’s 12th Five-Year-Plan in 2011, another pivotal step towards a consumer-driven market was enhanced. Plans include the increase of imported consumer products to optimize the consumer market and to promote urbanization, therewith further stimulating the retailing industry (FORBES INSIGHTS, 2011: 3). With the entrance into WTO however, wholly foreign-owned enterprises were allowed and since then have become the most popular structure for foreign enterprises in China. The advantages include the avoidance of the search for and selection of a Chinese partner. In lacking a Chinese partner, however, this type of enterprise is forbidden from engaging in several business activities within China (DELOITTE, 2012: 6). Besides, merger or acquisition of domestic enterprises by foreign investors is permitted in two ways: (1) equity acquisitions, where foreign investors purchase existing shares of a Chinese enterprise or subscribe to new shares issued by a Chinese enterprise; and (2) asset acquisitions, where foreign investors purchase the assets of a Chinese enterprise. Both cases are modulated in ‘The Regulations on Mergers and Divisions of Enterprises with Foreign Investment’ (DELOITTE, 2012: 25). The PRC therewith recognizes several different

types of foreign enterprise structures, which fall under the in *Figure 14* listed classifications.

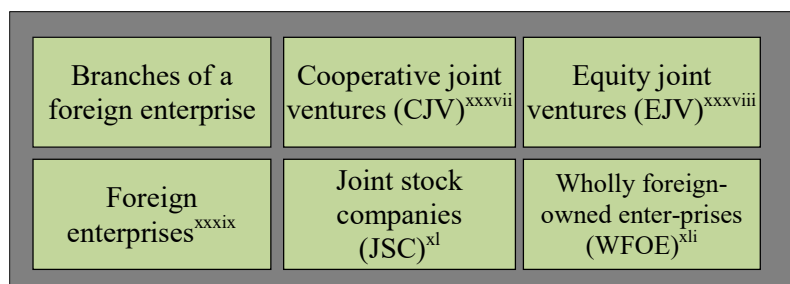


Figure 14 Foreign Enterprise Types in the PRC (own illustration)

^{xxxvii} CJV (also called a Contractual Operative Enterprise) is a separate legal entity jointly established by a foreign investor and a Chinese party. Establishment in two forms is possible for this JV. The first is *limited liability*, in which the investor provides the majority of the funds and technology and the Chinese party provides the land and equipment. This structure also allows the foreign investor to act as a minority shareholder, since there are no minimum limits on ownership stakes. Advantages include inter alia the fact that CJVs are allowed access to some sectors from which other types of JVs are restricted. Moreover, CJVs enable foreign partners to have far “*more capability to modify and terminate aspects of the deal, allowing them a great deal of flexibility in responding to changing circumstances.*” The second form of a CJV involves a situation in which both the foreign investor and Chinese party assume unlimited liability for the debts that result from their partnership – However, in this situation, no separate legal entity is created, and the foreign investor is required to invest a minimum amount, usually resulting in a majority stake being held by the foreign investor (DELOITTE, 2012: 5).

^{xxxviii} EJV is similar to a JV in that both a foreign investor and Chinese party create a separate legal entity, which is structured as a limited liability company registered in China. Both partners jointly manage the company, and each assumes liability in proportion to its respective contribution to the capital of the registered JV. Being the second-most popular form of investment in China, the government has simplified the process of both establishing and running EJVs to a very manageable level (DELOITTE, 2012: 5).

^{xxxix} Foreign enterprises “*are typically those other than investment enterprises that have a presence in China, up to and including a representative office, sites contracted for natural resource extraction or use, or even entities which do not have a presence in China (although these entities must have some China-based source of income to be included in this category)*” (DELOITTE, 2012: 6).

^{xl} JSC represent a type of investment structure in which the company is limited by its shares. Respectively, capital comprises the value of stock in exchange for the value of assets provided to the company, and each partner assumes liability based on the proportion of shares purchased. The main reason for JSC is the eligibility to be listed on a Chinese stock exchange (DELOITTE, 2012: 6).

^{xli} Within the founding of a WFOE, “*the foreign investor does not form a JV with a Chinese party, but instead creates and bears the funding burden for its own limited-liability company, which it then registers in China*” (DELOITTE, 2012: 6).

2.3.5 Traditional Retail Systems versus Modern Retail Systems

A widely used accumulated measure of the state of food retail modernization is the market share of food retail sales obtained by supermarkets. According to DIAZ, ET AL. (2012: 2) on behalf of *McKinsey*, China counts as a predominantly modern market, where in 2011 65 % of all grocery sales derived from modern grocery retail formats, such as supermarkets and hypermarkets; representing 13 % value growth in 2011 (AAFC, 2013: 10). Nevertheless, almost three-quarters of consumer packaged goods sales in China were sold through independent stores (MCKINSEY, 2012: 1). ZHAI, ET AL., (2014: 15) speak of a precursor to the next stage, stating that Chinese food consumption will very likely be completely dominated by modern packaged foods and retailers. With more and more rural communities gaining small convenience stores, replacing small family-owned traditional food stalls, and increasing the amount of supermarkets, their assumption seems to be confirmed. However, back in 1996, GERMAN, ET AL. (1996: 12) accurately described the average Chinese consumer's perception of supermarkets: *„It may be easier to describe the supermarket by explaining what, to Chinese consumers, it is not. It is not the place consumers go to buy their basic food needs - such as rice, grains, cooking oil, or fresh fruits and vegetables. These products are purchased at the wet market or from small neighbourhood shops.”*

In fact, local competition in form of wet markets and small convenience stores is still strong (GOLDMAN, ET AL., 1999: 126; MAI & ZHAN, 2004: 59; MARUYAMA & TRUNG, 2007: 33, 44; DIAZ, ET AL., 2012: 3; GAIN, 2012: 9; MARUYAMA & WU, 2014: 390-391). While in some countries, traditional retail stores lose market share, as confirmed in a case study on consumer preferences in the Portuguese city Braga by FARHANGMEHR, ET AL. (2001: 197), concluding that hypermarkets are becoming more popular; in emerging countries in particular this can be doubted. *Carrefour* for instance conducted extensive ethnographic research on wet / fresh markets before entering the Chinese market, being aware of the competition represented by the Chinese customers' familiar fresh-market display they are accustomed to (TACCCONELLI & WRIGLEY, 2009: 65). While it is commonly assumed that with rising living standards and higher spendable incomes, consumers will switch to modern, clean supermarkets, GOLDMAN, ET AL. (2002: 291) doubt this assumption on the basis of investigations into consumer behaviour in Hong Kong (in 1995 and 1999), thereby indicating the difficulty in replacing traditional-format shopping. Similar to

VEECK'S (2000) research on food markets in Nanjing, in which she concludes that traditional food markets will retain their popularity. A more current investigation in this aspect is necessary. Conducted in 2002, MAI AND ZHAN'S (2004: 59) study on Chinese consumer behavior in Beijing clearly indicates that 92 % of supermarket shoppers additionally go to traditional wet markets, mainly for purchasing meat, fish, vegetables and fruits. More recently, MARUYAMA AND WU'S (2014: 392) research confirms these findings for Dalian, a second-tier city in northeastern China. The GAIN REPORT (2012: 11) however, predicts that due to local government support, supermarkets' efforts to expand the fresh section, and especially with consumers' growing concerns over food safety, traditional markets, and especially wet markets, will gradually be phased out. *Figure 15* provides an overview of emerging markets presenting a mix of retailing on a range from predominantly traditional to predominantly modern trade.

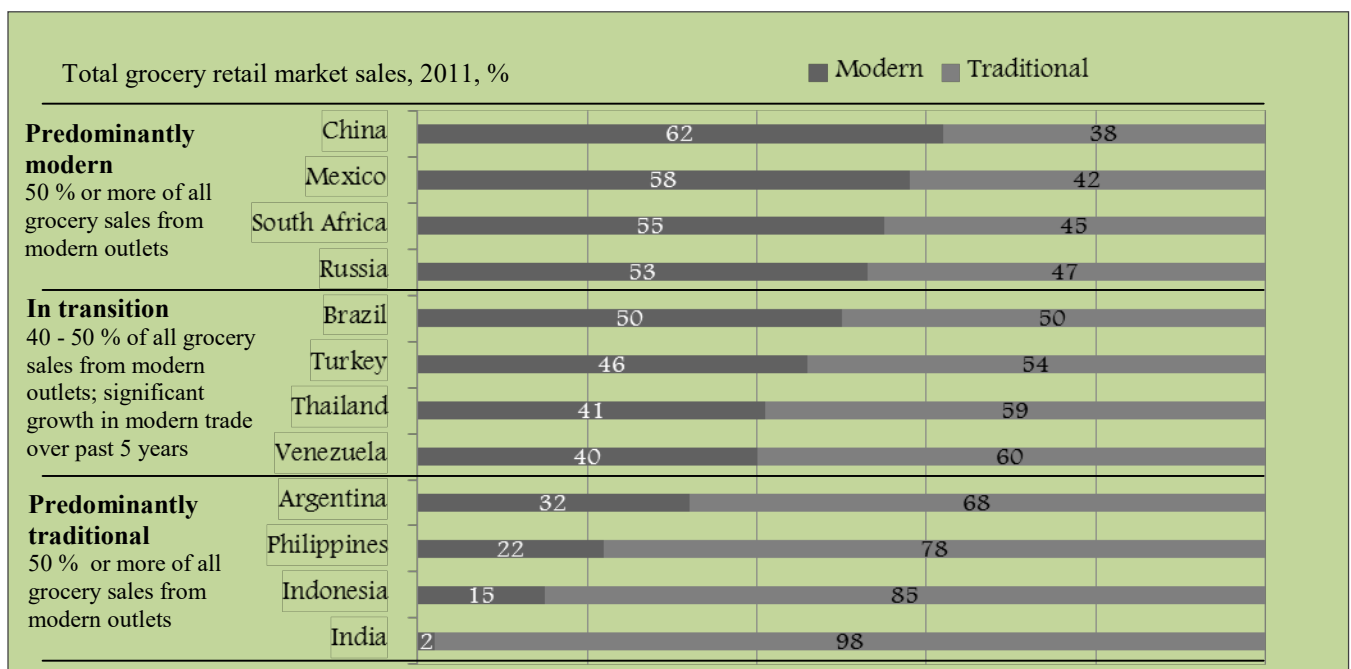


Figure 15 Emerging Markets and a Mix of Retailing (own illustration, adopted from DIAZ, ET AL., 2012: 2)

2.3.6 Uneven Regional Development

“The winners of China’s reform race are coastal globalizing city regions; they enjoy policy preferences and agglomeration effects and are locomotives of China’s miraculous rise.” (WEI, 2007: 24)

Several analyses express concern about one consequence of the above discussed reforms. Indeed, the liberalization of China’s markets coevally reveals an uneven regional development (FAN, 1995; WONG & YU, 2002: 373, 382; CHENG, 2005: 103; KENG, 2007: 201; FAN & SUN, 2008; RODRIGUEZ-POSE, 2012: 115; WHYTE, 2012). According to WEI (2007: 18-19) regional inequality is a key issue in former socialist countries, conceptualizing China’s economic reform process *“as a triple process of decentralization, marketization, and globalization [...]”* he further argues that *“multiscalar regional inequalities (interregional, interprovincial, intraprovincial) are driven by a multiplicity of agents (including the global investor, the state, and the local agent) unleashed by the triple process, which have interactively and jointly produced the uneven landscapes of regional China.”* WHYTE (2012: 229) goes even further, arguing that *“[...] the goal of social equality has been abandoned, and China has become an increasingly unequal and unfair society.”* CHENG (2005: 522-524) claims that structural problems and inequality will extenuate and intensify through WTO-membership. Indeed, with small, clearly geographically defined SEZs, the opening-up process was brought forward. This procedure, influenced by the ‘growth pole theory’^{xlii}, and following the ‘ladder-step-theory’^{xliii}, targeted the coastal areas first; often described as the beginning of uneven development (FAN, 1995: 421-434; FAN, 1997: 624-626; LIEFNER & WEI, 2014: 294; ZHANG & ZHANG, 2003: 47, 51). Since criticism of the uneven development policy became more rigorous,

^{xlii} The central idea of the growth poles theory is that economic development, or growth, is not uniform over an entire region, but instead takes place around a specific pole (or cluster), as represented by SEZs along the Eastern coastline of China. This pole is often characterized by core (key) industries around which linked industries develop, mainly through direct and indirect effects (FAN, 1995: 425-427; FAN, 1997: 629-630).

^{xliii} The ladder-step-theory holds that the Eastern Chinese region which has high economic efficiency should be developed first, before the less efficient Central and Western regions. Decentralization of investment and capital, as supporters of this theory argue, would only slow down the development process (FAN, 1995: 421-422).

policies within the scope of the Ninth Five-Year-Plan encourage investment in inland areas (FAN, 1997: 620-621, 631-632). And while China is the leading recipient of FDI (BUCKLEY, ET AL., 2007: 143), the latter is unevenly distributed, with 85 – 90 % accounting along the coastal region (mainly the YRD, the PRD, and the BER) (JIANG & PRATER, 2002: 790),

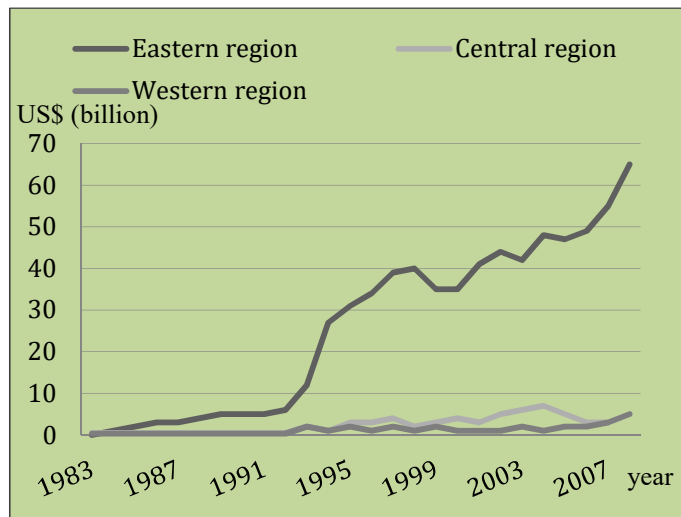


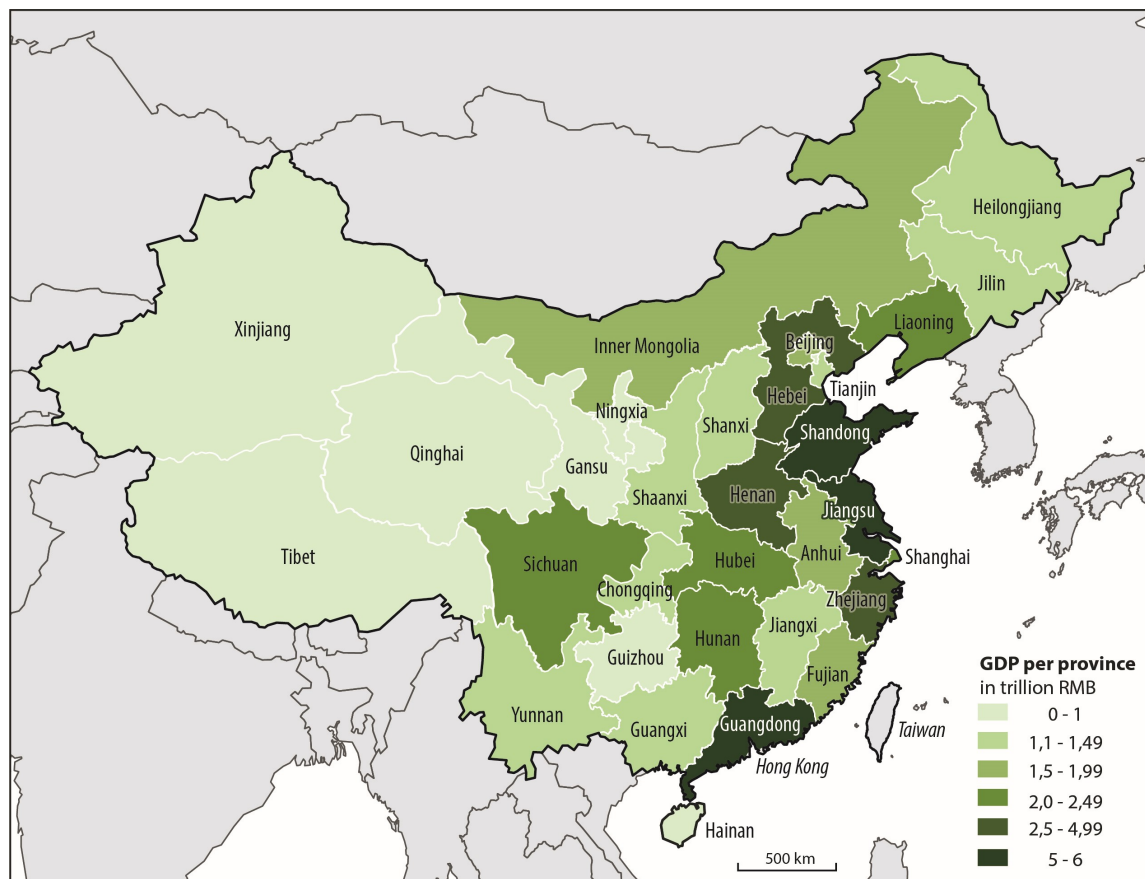
Figure 16 FDI Flows into China by Region (own illustration, after CHEN, 2007: 134)

as illustrated in Figure 16^{xliv}. The “three-economic-belt” paradigm had slowly started to fade by the early 1990s, with development models turning their attention toward Western and Inland China, also embodied in the Ninth Five-Year-Plan (1996 - 2000). The western regions comprising of twelve provinces, autonomous regions and municipality, accounting for 71.4 % of the country's total land area, have a combined population of around 370 million. At the opening ceremony of the 10th Western China International Economy and Trade Fair and the 2nd West China International Cooperation Forum in Chengdu, Chinese Premier Wen Jiabao celebrated the accomplishments of the Western Development Strategy adopted in 2000, clearly stating that the latter, the PRC will “(...) unswervingly stick to (...)” (CHINA DAILY, 2009a: online). In fact, the government provided more than ¥ 3.5 trillion (approximately US\$ 570 billion) to support the Western’s regions development^{xlv}

^{xliv} Guangdong province for instance, did not enjoy any obvious comparative advantage for trade or location advantage for FDI than inland provinces before the open-door policy was adopted in 1978. Ranking 14th among 30 provinces in regard to labor productivity, Guangdong positioned itself almost the same as the inland Sichuan province. However, since 1978 Guangdong has become the most favored place for FDI as well as the largest trading province largely due to its proximity to Hong Kong (ZHANG & ZHANG, 2003: 63)

^{xlv} The Western Development Strategy covers 6 provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), 5 autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang), and 1 municipality (Chongqing). This region contains approximately 71 % of mainland China's area, but only 29 % of its population (2002), and 19.9 % of its total economic output, as of 2009. The Western Development Plan is designed to help the Chinese Government to better exploit these Western areas (CHINA BUSINESS REVIEW, 2010: online). According to LU AND DENG (2011: 2-3), Western China’s economic development “has experienced a dramatic reversion after implementation of WDS (Western Development Strategy – author’s note), which [...] proves that WDS has played a significant role in promoting western regions’ development.”

during a ten-year period since the start of the campaign (CHINA DAILY, 2009b: online). GDP of the regions jumped from ¥ 1.66 trillion to ¥ 5.82 trillion, at an average annual growth rate of 11.7 % during 2000 and 2008 (CHINA DAILY, 2009b: online). Today, the economic zones administer a noteworthy contribution as emerging engine that drives China's economy (CHINA DAILY, 2009c: online). Nevertheless, WHYTE (2012: 229) notably remarks that “[T]he country’s sharp increase in income inequality is not the result of the rich getting richer while the poor become poorer.” Indeed, several arguments put forward that China’s reforms and impressive economic growth since 1978 have transformed inequality patterns. When personal wealth was non-existent, the maximum monthly income was only around 800 ¥, and China’s national Gini-coefficient^{xlvi} of income distribution was below 0.22 (ZHANG & ZHANG, 2003: 50), a very moderate figure compared to other societies.



Map 4 China’s GDP by Province (own design, adopted from PWC, 2013: 164, 166-167, realisation by Julia Breunig)

^{xlvi} The Gini coefficient, which is also known as the Gini index or Gini ratio is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. This is the most commonly used measure of inequality. The coefficient can range from 0 = total equality, to 1 (or 100), which indicates complete inequality (one person has all the income / consumption, all others have none) (WHYTE, 2012: 234).

Nowadays, according to KENG (2007: 188-189) and WHYTE (2012: 234), the PRC's Gini coefficient varies substantially, being estimated at close to 0.50 and among the highest in the world (though still below the levels of nations such as South Africa and Brazil). *Map 4* (p. 66) illustrates the PRC's regions based on their GDP per capita, revealing the immense economic differences across the country.

2.3.7 Regional Variations

“The tide of economic development is lifting almost all Chinese boats, but at unequal speeds.” (WHYTE, 2012: 231)

As already mentioned in *chapter 1.2* (p. 15), it is essential to emphasize that China cannot be treated as one market due to regional variations covering different factors, which will be discussed in this chapter. Various factors determine the development of the retailing sector in different provinces, regions or even within cities. *Figure 17* illustrates an overview of factors determining different retail structures across China; factors that play an essential role within the multiple case study approach applied in this research (see *chapter 3*, p. 88).

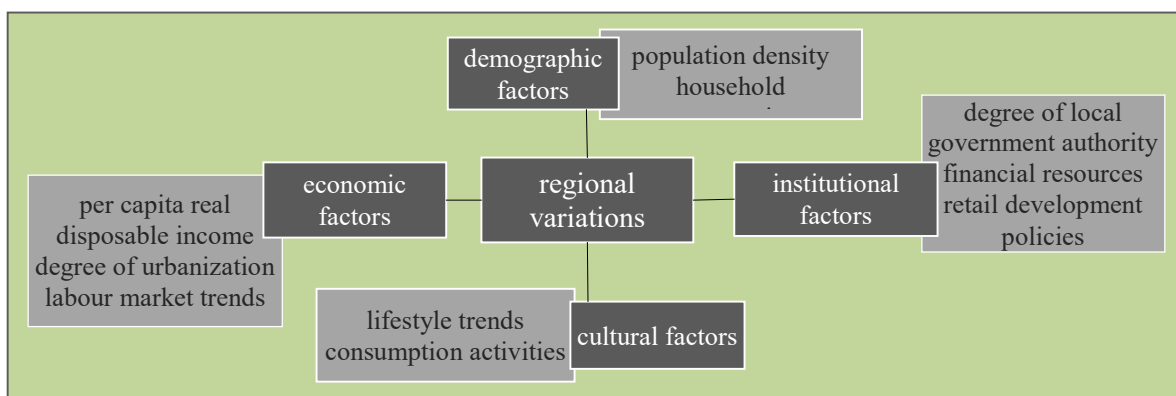


Figure 17 Factors Determining Regional Variations (own illustration, various sources)

Socio-economic factors, such as per capita disposable income, highly determine consumption patterns and were investigated by several researchers according to their inequality. VILLAVERDE AND MAZA (2012: 327-328) explore regional inequality in Chinese per capita income between 1992 and 2007, concluding that compared to 1992, *“most of the Chinese regions in 2007 have average per capita incomes farther from the national average.”* The discussed regional variations as well as the evaluated history of liberalization process both lead to uneven regional development, a pivotal factor when examining the grocery retailing development within China.

2.4 The Concept of Retail Formats

“Central to the success of these international transfers is the retailer’s capabilities and format transfer strategy. Retail formats identify the central elements defining a retailer’s strategy. Thus, format strategy is often a key to an international retailer’s ability to gain a strong competitive position in host countries.” (GOLDMANN, 2001: 222)

As large retailers become global organizations they are faced with strategic challenges very different from those associated with their historical domestic position (DAWSON & MUKOYAMA, 2014d: 5; DUPUIS & FOURNIOUX, 2006: 54). As acknowledged by Alexander (1997: 13), although international strategies can differ considerably; they can be distinguished in three categories of international action, as suggested by TORDJMAN (1988: 14-16) investment, multinational and global. Whereas the first refers to the transfer of funds for the partial or full acquisition of a retail operation, the second and third, despite their seemingly identical meaning, carry different, specific definitions. SALMON AND TORDJMAN (1989: 12) describe the degree of similarity that international operations have with their home market. Hence, global retailers tend to “*replicate the same formula worldwide*”, while multinational operations adapt their “*formula*” to local conditions. Especially in regards to the internationalization of grocery retailing, the diversification into different store types plays a vital role (PELLEGRINI, 1994: 121). ALEXANDER (1997: 41) points out that to understand trends and future developments within international retailing it is essential to categorize the various retail formats. Therefore, this thesis focuses on the retail concept of the “*formula*” rather than on the general strategies applied by retailers. In order to make a competitive impact on retail business, as suggested in the quotation above, understanding the different types of retail formats or institutions is essential. Next to global expansion, consolidation and technological advancement, innovative formats have been ‘market driving’ rather than ‘market driven’, transforming the market place and shaping consumer behaviour (KUMAR, 1997: 830). However, the selection of the appropriate format as one of the major problems foreign retailers are facing is acknowledged by JINGLUN (2003: 155-158) in his research on China’s reform of the distribution system. According to DUPUIS AND FOURNIOUX (2006: 52f) four initial types of key strategic questions have to be answered. Next to market selection, the time of entry and the targets, the very first question

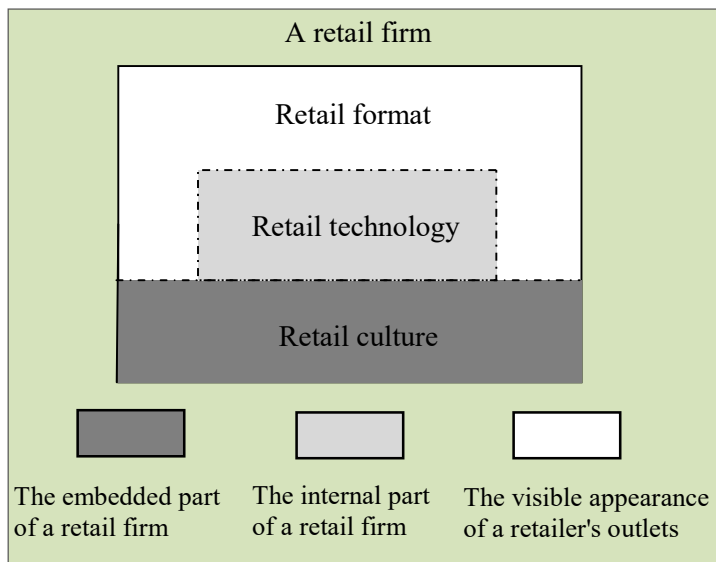


Figure 18 Three Components of Retail Know - How (own illustration, adopted from AU-YEUNG, 2003: 138)

asks for the store format and formulae to be internationalized; hence revealing its importance. “For the retailer the output of the business model at a place of transaction is the retail format” (DAWSON & MUKOYAMA, 2014a: 38). However, it is argued that even within one sector, such as the grocery retailing industry, operations within one store format are very diverse and cannot be generalized. DAWSON AND MUKOYAMA (2014a: 40) correctly argue that “[T]he format is interpreted in different ways by each retailer, according to their culture, historical development, managerial style, innovativeness and capabilities to generate and use resources.” Similarly, REYNOLDS, ET AL. (2007: 648) criticize that the “range of definitions for many categories is confusing and often unhelpful”, providing the example of Walmart, which has been variously described as a hypermarket, discount store and power centre. They further conclude that “a retail format is the physical embodiment of a retail business model: the framework that relates the firm’s activities to its business context and strategy. In turn, the business model sets out how a retailer selects its market and customers, defines and differentiates its products and range, promotes itself, finds and keeps its customers, uses its resources, arrives at key processes and obtains a profit or return on investment.” AU-YEUNG (2003: 138) uses the less well defined term ‘retail know-how’, in order to clarify the term ‘retail format’. Figure 18 illustrates this classification. Accordingly, and analogous to REYNOLDS, ET AL. (2007: 648), the retail format is “the visible appearance of a retailer’s outlet” and represents along with retail technology and retail culture, one of three components of ‘retail know-how’. Considering the importance of maintaining global standardization, CHUANG, ET AL. (2011: 444) differentiate only between front-end (retail formats) and back-end (distribution, information technology) operations. AU-YEUNG (2003: 138) uses the term ‘retail know-how’ interchangeably with ‘retail expertise’, thereby acknowledging that the main three elements define “(...) a retailer’s strategy, which in turn determines the retailer’s competitive position in a market.” According to WANG (2003:

116), the retail format “*is a micro-factor at the organizational level, designed as the means by which corporate strategy is executed*”; while FOX AND SETHURAMAN (2006: 193) simply define it as a catenation “*of stores that offer the same, or a very nearly the same, variety of product categories.*” In this thesis, the component ‘retail format’ is discussed and classified in more detail. As already defined in *chapter 2.1* (p. 21-22), it is inter alia the choice of assortment, physical location and price. Concurrently, different retail formats entail a specific cash flow and Return on Investment (ROI)^{xlvii} management philosophies. On the one hand, retail formats are created to respond to human needs, on the other hand, retail formats shape and develop customer’s behaviours. Consequently, grocery retailers “*may need to adjust the original retail know-how in the host country*” (AU-YEUNG, 2003: 130). Within the scope of this process, ‘new’ retail know-how and therewith retail formats might emerge.

2.4.1 Different Types of Store Formats and their Development in Food Retailing

As retailers have various ways of meeting customer needs through designing and organizing retail outlets, this chapter’s objective is to describe the different types of food-orientated store formats and to briefly discuss their development. Moreover, selected characteristics of store-based formats, representing different types of retailer strategies in selling goods and services, are revealed. As different types of retail institutions have a competitive impact on the retail business, mirroring business operations and representing a specific strategy, their understanding is essential. Choosing the right format is very likely to be crucial to business success, as an individual benefit in the different store formats is perceived by consumers (SONNECK & OTT, 2006: 178). However, several researchers complain about either lack of definitions or ambiguity of classifications (HASSAN, ET AL., 2013: 585). The following section introduces the major retail formats and summarizes their

^{xlvii} ROI refers to a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio (SCHMALEN & PECHTEL, 2006: 477-478).

most important factors. The author thereby agrees with DAWSON'S (2000) acknowledgment of the fact that definitions of store formats are often varying, sometimes inexact, and occasionally confusing. A classification of retail formats however, provides the terminological basis used to investigate the development and geographical scope of these formats in the PRC.

Superettes / Minimarkets / Mom and Pop stores

With average sizes below 400 m², superettes offer a very limited assortment of food and non-food items. Once the traditional neighbourhood store format in food retailing, superettes or minimarkets are under heavy pressure in many markets (ZENTES, ET AL., 2011: 31). However, although the competition by large hypermarkets and cheaper discount stores ZENTES, ET AL. (2011: 32) is of the opinion that many western markets have written off the concept of minimarkets, while, according to NIELSEN (2010: online), a high market share within this format is present in the Asia-Pacific region.

Conventional Supermarket

Conventional supermarkets offer all major foods, as well as household goods and some personal care products for daily requirements, usually ranging in size from 400 to 2,500m² (HAWKES, 2008: 660; SONNECK & OTT, 2006: 182). The size of the supermarket determines the type and quantity of non-food items it offers (AHLERT, ET AL., 2006: 291). While the supermarket is regarded as having been invented in the USA (HAGEN, 2002: 5), supermarkets were the first US retail format to be systematically introduced (PETROVIC, 2011: 104). Back in 1972, APPLE describes the phenomenal development of supermarkets in the USA from its origins in the 1930s to its post-war growth after 1946. He (1972: 53) further predicts that the drastically divers and changing retail environment will foster consumer shifts to lowered-margin / discount formats, one-stop shopping centres and specialized retail outlets in the long run.

Superstore

Compared to conventional supermarkets, superstores are considerably larger, carrying more food items, in-store bakeries, meat, cheese and fish departments as well as a significant amount of general merchandise and other services (HAWKES, 2008: 660). Compared to hypermarkets, superstores offer a more limited range of non-food items (AHLERT, ET AL., 2006: 291). It is often argued that "*the supercenter is really a slightly*

altered version of a hypermarket, combining a discount department store and a large supermarket under one roof with common checkouts” (SEIDERS & TIGERT, 2000: 181).

Hypermarket

With grocery representing around 60 % of sales, hypermarkets usually hold more than 2,500 m² with a large product variety of prepared foods and general merchandise as well as services in food and non-food (HAWKES, 2008: 660; AHLERT, ET AL., 2006: 291). Predicted to gain worldwide market share over the past few decades, hypermarkets originated in France, similar to supercentres such as *Walmart* and *Kmart* in the USA (GRAFF, 2006: 58) or *Warenhäuser* in Germany, such as *Metro*, *Real* or *Kaufland* (ZENTES, ET AL., 2011: 33). Whereas supercentres in the USA usually offer extensive sporting goods and automotive departments (e.g. *Walmart*), they also frequently include an eatery, such as *Starbucks* coffee bar or *McDonald's*. Hypermarkets in contrast focus more on fast moving consumer goods (FMCG) (HASSAN, ET AL., 2013: 585). QUI AND ZHAO (2011: 22) promise successful prospects due to low prices, large parking and a one-stop shopping experience, whereas TORDJMAN (1995: 14-17) refers to fierce competition being faced by discount stores. As argued by FARHANGMEHR, ET AL. (2001: 197) investigating Portuguese consumers, hypermarkets often represent the preferred type of retail store for frequently purchased packaged goods, due to its low prices and convenient one-stop shopping. The hypermarket format is often described as a “*booming market marked by convenience, comfort, and low prices*” (HINGLEY, ET AL., 2008: 10).

Convenience Store

Offering a very limited, food-orientated assortment (ZENTES, ET AL., 2011: 34-35), the convenience store is a small store format with long opening times, usually based, unlike minimarkets, in highly frequented locations which are often located in a rural location and are used as a convenient supplement to larger stores (AHLERT, ET AL., 2006: 290). A convenience store may be part of a petrol station. In some countries (such as the USA or several Asian countries), convenience stores have long shopping hours, some are open 24 hours. Convenience stores usually charge significantly higher prices than conventional grocery stores or supermarkets, as convenience stores order smaller quantities of inventory at higher per-unit prices from wholesalers. However, convenience stores compensate for high prices through the convenience of having longer opening hours, serving more locations, and having shorter cashier lines.

Discounter

Following a very aggressive everyday-low-price (EDLP) - strategy, German originated discounters offer a small selection of items (ZENTES, ET AL., 2011: 34-35; SONNECK & OTT, 2006: 182). The ‘no-frills-concept’, offers products of low-price store brands, sold out of boxes with a high turnover speed (ZENTES, ET AL., 2011: 34; AHLERT, ET AL., 2006: 290; WORTMANN, 2004: 426). Furthermore, discounters are sub-divided into soft and hard versions (COLLA, 2003: 57). Generally relatively small in terms of store size, typically between 300 - 900m², hard discount stores, also known as limited-line or limited-assortment discounters, stock less than 1,000 product lines, largely packaged groceries, simply presented in practical furnishing. Merchandise may be displayed with the original manufacturer’s packaging to reduce the cost of removing it. Importantly, goods are mainly ‘own brands’ or budget brands. Soft discounters however, also known as extended-range discounters are slightly larger, but with the same, frugal characteristics. The crucial difference lies in the wider range of products, typically stocking 1,500 - 4,000 product lines. Soft discounters commonly carry own-label and budget brands, as well as leading brands at discounted prices (Hawkes, 2008: 660; Ahlert, et al., 2006: 291; Colla, 2003: 57).

Non-Store Formats

Nevertheless, many retailers develop into multi-channel^{xlvi} retailers, meaning that different types of electronic and physical channels are used (ZENTES, ET AL., 2011: 71-73; DAWSON & MUKOYAMA, 2006: 8-9). Non-store formats (that is, off the premises of fixed retail locations and markets stands), includes inter alia automated vending, internet shopping or teleshopping. Grocery retailers joined the electronic commerce, providing websites and operating the ‘click and collect’ model which allows customers to place orders online and pick them up at a store or other designated location retailers (MCKINSEY, 2013b: 22). Europe’s online-grocery market has been stuck in a vicious cycle: poor supply drives low demand, which in turn justifies the poor supply (MCKINSEY, 2013b: 23); nevertheless, it is believed that in most markets, large retailers will very soon invest in online grocery (MCKINSEY, 2013b: 31).

^{xlvi} Various channels can complement each other, gaining new costumers segments which have been unavailable for reasons of positioning (SONNECK & OTT, 2006: 175).

Table 7 summarizes the above describes store formats and proposes an overview of store formats relevant for the forth-coming investigation.

	Superettes	Conventional Supermarket	Superstore	Hypermarket	Convenience Store	Discounter
Size (m²)	100 – 399	400 - 1,000	1,000 - 5,000	5,000 - 30,000	200 – 400	500 - 1,500
SKUs	2,000	20,000 - 30,000	30,000 - 40,000	40,000 - 150,000	1,000 - 3,000	700 - 1,500
Merchandise	small to medium width & depth of assortment; average quality; manufacturer & store brands	extensive width & depth of assortment; average quality; manufacturer & store brands	full assortment of supermarket items, plus health & beauty aids & general merchandise	full selection of supermarket & drugstore items; & general merchandise; extensive width & depth	medium width & low depth of assortment, average quality	medium width & low depth, heavy use of store brands (up to 90%)
% Food	90%	75 - 90%	60 - 80%	60 - 70%	90%	80 - 90%
Prices	average / competitive	average / competitive	competitive	competitive	average to above average / high	very low
Atmosphere & Services	average	average / good	average	average	Average	Low
Location	city or Neighbourhood	city or neighbourhood	community shopping centre or isolate sites	community shopping centre or isolate sites	neighbourhood, city or highly frequented sites	neighbourhood, traffic-orientated

Table 7 Selected Characteristics of Store-Based Formats in Grocery Retailing (own illustration after ZENTES, ET AL., 2011: 30 and SEIDERS AND TIGERT, 2000: 182)

2.4.2 Competition of Grocery Retailing Formats

Understanding the nature of competition among grocery retailers is an important and active area of inquiry for both researchers and practitioners in retailing and has been a frequently visited theme of research (GALATA, ET AL., 1999; MILLER, ET AL., 1999; COLLA & DEPUIS, 2002; FOX, ET AL., 2002; BURT & SPARKS, 2003; FOX & SETHURAMAN, 2006; GRAFF, 2006; TRIPATHI & SINHA, 2008; YU & RAMANATHAN, 2012: 225 JING, 2013: 147). It is argued that “[C]ompetition in the retailing industry has reached dramatic dimensions” (POPKOWSKI LESZCZYC, ET AL., 2000: 323), while GALVIN, ET AL. (2010: online) claim the PRC has become “*the world’s most important competitive battlefield.*” Two main types of competition can be distinguished. Firstly, ‘between-format competition’, such as for instance between discount stores and hypermarkets, or superstores and traditional wet markets. Secondly, ‘within-format competition’ between retailers of the same format who are competing for customers and market share respectively (FOX, ET AL., 2002: 29; FOX & SETHURAMAN, 2006: 194). The research carried out in this thesis will almost exclusively focus on ‘between-format competition’. While it is typically expected that geographical and economic segmentation in modern retail chain adoption rates is relevant, further factors regarding the consumers are existent and often overlooked. Consumption habits, mode of food preparation and shopping habits are essential elements when deciding to shop within a certain retailing format. GOLDMAN, ET AL. (2002: 282) suitably describe the adoption of modern retail formats as taking place more rapidly by wealthier consumers because of access to better transport facilities and the time saving benefits of the one-stop shopping experience. The difficulties arising from attempts to simply categorize customers according to the socio-demographic background are demonstrated by proven examples such as *Aldi* in Germany. Observations confirm the ambiguity of the customer base, justifying the expression ‘with the Porsche to Aldi’. While a plethora of research exists that attempts to identify the motivations and socio-demographic characteristics of the different store format costumers, GONZÁLEZ-BENITO, ET AL. (2005: 69) criticize the absence of research in regard to competition between different retail store formats. The right combination of a location and site is necessary for a particular format to be successful. While some need an inner city location, others have to suit the suburbs. They distinguish competition between different types of store formats and rivalry on an intra-format level, consequently the opposition amongst stores of the same format. As retail concentration

drives the growth of ‘own brands’ due to retailers’ necessity to differentiate them and to build customer loyalty (TACCCONELLI & WRIGLEY, 2009: 64, 67; SONG, 2011: 16-17).

The literature on store formats can be traced back to the discussion on cross shopping, which was primarily discussed in the trade literature in the late 1970s (CORT & DOMINGUEZ, 1977). Focusing on a particular aspect of the retail mix (e.g. price, service) means that “retailers can compete on highly diverse dimensions” (POPKOWSKI LESZCZYC, ET AL., 2000: 323). An investigation on Indian grocery shoppers indicated that there seems to be no single retail format in meeting consumer needs and wants. The authors (PRASAD & ARYASRI, 2011: 82) conclude that “[C]onsumers first choose a store format, and then move into a particular store within the format where they can save time, money and effort.” Hence, retaining customer allegiance to a particular retail format is posed as a major task. The academic literature has emphasized several highly influential factors determining grocery shopper’s behaviour and the consumer choice for a certain store format. In this research, the following five factors are employed.

- (1) *Price* Prices of items within and across categories, which may vary from week to week as a result of promotions.
- (2) *Variety* Breadth, or number of categories typically carried by the format.
- (3) *Assortment* Depth, or number of items within a category.
- (4) *Service* Range of consumable and perishable benefits
- (5) *Store location* Where the retail store is located and how this affects cost of shopping to consumers.

In regards to choice and price, *Figure 19* illustrates the positioning of different store formats.

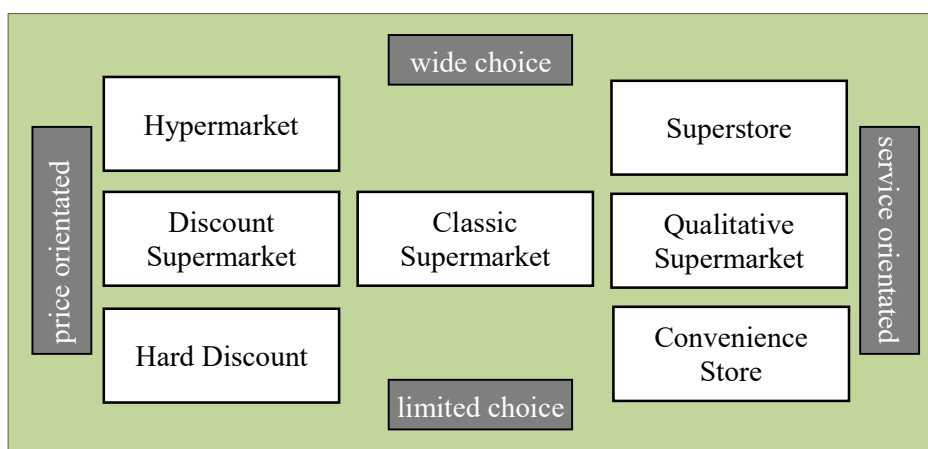


Figure 19 Positioning in Food Retailing Formats (own illustration after TORDJMAN, 1995: 31)

Among the available formats, the literature and the trade press have emphasized ‘Every Day Low Pricing’ (EDLP) and ‘High-Low Promotional Price’ (HILO) or ‘Promotional Pricing’ (PROMO) as two clear and opposing positioning choices (GALATA, ET AL., 1999: 1; POPKOWSKI LESZCZYC, ET AL., 2000: 623). According to JINGLUN (2003: 167), “[M]any international companies have employed an aggressive pricing strategy, and this had proved highly successful.” FOX AND SETHURAMAN (2006: 207) presage at the end of their investigation into retail competition, that global retailers such as *Walmart* and *Carrefour* achieve international success mainly due to their diversity of store formats. Due to the high saturation of many markets (see *chapter 2.2.2*, p. 29-30), several leading grocery retailers diversify in varying formats. More than 80 % of the leading Top 30 food retailers practice a format portfolio^{xlix}, with each format targeting a certain consumer group and sales situation (SOHL & RUDOLPH, 2012: 21). Arguing that competition between formats is fundamentally different than competition within formats, FOX, ET AL. (2002: 29) ask for further studies that include multiple geographic areas and larger panels. The research carried out in this thesis will almost exclusively focus on ‘between-format competition’, and is organized around the four key dimensions of retail format competition listed above. Having changed dramatically over the past few decades, early trends in regard to retail format, in particular in Europe, have been:

- The growth of grocery retailing chains and therewith a shift of power (WRIGLEY, 2001: 489; COLLA & DEPUIS, 2002: 103; COLLA, 2003: 56; DAWSON, 2004: 76; WANG & ZHANG, 2005: 44; WEBER & ANDERS, 2007: 747; ZHEN, 2007: 3, 15; PARUCHURI, ET AL., 2009: 228; ZENTES, ET AL., 2011: 1)
- The increase in multi-format retailing (ZHEN, 2007: 16).
- The growth of multi-channel retailing (STATISTA, 2013: 7).
- The loss in market share by department stores (TORDJMAN, 1995: 17-20).
- The emergence and growth of discount stores (COLLA, 2003: 56; WORTMANN, 2004: 433; GONZÁLEZ-BENITO, ET AL., 2005: 59).
- The increase of retail brand / private label goods (ZHEN, 2007: 14; SONG, 2011: 18).

In their yearly *Global Powers of Retailing*, DELOITTE (2014: G10) lists small formats and specialized shops when predicting tomorrow’s shopping experience. As from country to country the stage of development for each retail format differs, this is currently represented in the UK. While in Germany for instance the hard discount store already represents a

^{xlix} In contrast to a mono-format strategy, where only one format is operated by the retailer.

mature concept, the hard discount retailers are currently overtaking the UK market (THE GUARDIAN, 2014: online). Generally, DAWSON (2000: 6), in his outlook of research issues within the retailing industry, names inter alia the development of better models of retail competition and cooperation as a major challenge facing retail research. However, when focusing research on countries accommodating a still developing retailing structure with wet markets being existent, traditional formats have to be taken into account. Several researches on modern formats and their impact on traditional retailers have been conducted. Consumer perceptions of hypermarkets and traditional markets in Portugal were investigated by FARHANGMEHR, ET AL. (2001), revealing fierce competition. They (2001: 91) conclude that traditional formats lose market share to hypermarkets, with consumers less motivated by the option to buy certain goods, and more interested in reduced prices and convenience, which suggests an endeavour to optimise their time and money.

2.4.3 Format Change Patterns and Format Transfer Strategies

“The number of format transfer possibilities is large. The retailer must determine whether to transfer its format unchanged or modify it and whether any changes should be extensive or limited.” (GOLDMANN, 2001: 222)

Back in 1988, TORDJMAN posed the question whether the French hypermarket could be developed in the United States. Although the term hypermarket is not in general use in the USA, time has proven that the format is highly successful in the American market. The notion of transferring retail formats seems to disaccord with ALEXANDER’S (1997: 28) conception of international retailing which states *“not the transfer of concepts to new environments but [...] the establishment of operations in new markets.”* However, he adds and explains that *“[I]nternationalization of a concept may occur without an international transferring organization but international retailing suggests physical presence.”* As some retail formats have proven capable of exportation with only minor modifications, some research argues for the failure of particular formats in certain markets (MCGOLDRICK & HO,

1992: 71). In their investigation of the dissemination of retail formats in the ‘G8’¹, AHLERT, ET AL. (2006: 305) conclude miscellaneous outlooks for different countries. Inter alia they predict a growth for convenience stores in Japan, while forecasting discount stores a gain in market share of supermarkets, especially in Italy and Russia. On the one hand, COLLA (2003: 58) argues that mainly the hard discounters (such as *Aldi*, *Lidl* or *Netto*) reveal strong international presence, employing a mono-format and a global concept. However, some argue that “(...) *a fixed retail model in grocery cannot work*” (EUROMONITOR, 2013b: 6). Whatever opinion, the difficulty lies inter alia, as already discussed in *chapter 1.3* (p. 17-18), in the extremely high territorial embeddedness of grocery retailers’ activities (COE & LEE, 2006: 61). DUPUIS AND PRIME (1996: 32) assert that “*when a retail format is exported it has to face a new context which may affect its original competitive advantage [...].*” ALEXANDER (1997: 117) reveals the result of new formats in a new market firstly through the transfer from one market to the other and secondly through differentiated formats as a response from existing retailers in the target market. He further points out (1997: 307) that retailers seek to retain retail formats which they are familiar with. GOLDMAN (2001: 223) criticizes the literature’s general assumption that format transfers’ exclusive goal is to gain competitive advantage and therewith the ignorance of further transfer decision possibilities. Moreover, he (2001: 224-225) criticizes the simplified picture of format transfers and the two overarching format possibilities discussed within current literature: “*as is and adaption*”, representing three format change determinants:

- (1) Host country conditions (see also HUMPHREY, 2007: 280);
- (2) Home country conditions; and
- (3) Retailer’s global position.

REYNOLDS, ET AL. (2007: 655-656) reveal that “[O]fficial data often lags behind real changes in the market, often poorly representing the contemporary nature of retail formats (...).” More importantly however, REYNOLDS, ET AL. (2007: 658) conclude that research tends to over-formalize the format development process, while their investigation clearly indicated that “*in many cases retail format success – and indeed retail innovation more generally – is not wholly seen as being the product of deliberate design. Winning formats*

¹ ‘G8’ refers to the Group of Eight, which was the name of a forum for the governments of a group of eight leading industrialised countries, including Canada, France, Germany, Italy, Japan, Russia and the United Kingdom. Russia, which was invited to join as the last member, was excluded from the forum by the other members on March 24, 2014, as a result of its involvement in the 2014 Crimea crisis in Ukraine.

emerge from an opportunistic and incremental process, sometimes based more on intuition than rational analysis.” Interviews with retail practitioners further reveal that formats emerge from structured business models; however, market- and finance-led approaches creatively and inadvertently form innovative retail formats. From the retailer’s point of view it often seems undesirable “*to set a format in stone*” (REYNOLDS, ET AL., 2007: 658). Generally, as revealed in GOLDMAN’S quotation at the beginning of this chapter (p. 78), one first basic decision has to be made: whether to expand in the same format or in a different one. In regard to resource transformation, DAWSON AND MUKOYAMA (2006: 39) differentiate two levels of operational aspects:

- Firstly, “*the level of the core format and the relationship that define it and its evolution*”, such as convenience stores, discount and hypermarkets.
- Secondly, “*the changes of the format made by a firm to make it a formula of that firm in a particular market*”. Within each of the undertaken market adjustments, a specific formula for the local market is developed, such as inter alia *Tesco Taiwan*.

Investigating the expansion of US retailers, STERNQUIST (1997: 263) differentiates two types of companies and internationalization strategies. Firstly, the global expansion model means that no remarkable changes are made; chosen by retailers with strong ownership advantages who expand with a standard retail concept. Secondly, the multinational expansion model that incorporates changing retail concepts in order to adapt to country’s cultural differences in order to make use of a locational advantage^{li}. SALMON AND TORDJMAN’S (1989: 3-6) classification embraces a third retail strategy. They include ‘investment’, when an existing retailer is purchased in the non-domestic market and where development is isolated between different markets.

ZENTES, ET AL. (2011: 155-158) differentiate between four basic types of international retailing, as illustrated in *Figure 20* (p. 81). Firstly, the domestic market orientation means no fundamental changes within the retail concept; rather transferring the retail concept unchanged. The adaption to differences of local markets is therewith not happening. The global orientation usually seeks homogenous markets as a basis for the development of a retail strategy within the internationalization process. Opposing this approach stands the multinational orientation, which focuses on the adaption of diverse formats operating in

^{li} Locational advantage refers to the degree of attractiveness of a foreign country to a retailer. Traditionally, these factors are classified in push or pull factors (see *chapter 2.2.2*, p. 30). Factors include inter alia cultural proximity, market size and geographic proximity (STERNQUIST, 1997: 264-265).

heterogeneous markets; while the glocal^{lii} orientation attempts both: moderate adaptations to local markets within a global outlook. *Carrefour* for instance, aims to be ‘Chinese in China’ and ‘Brazilian in Brazil’, thereby adapting to local circumstances (BERNARD, 2002 CITED IN DUPUIS, ET AL., 2006: 102). The four basic types of international retailing not only determine the decision as to market selection, timing and mode of entry, but most relevant for this thesis, the transfer mode of retail formats (ZENTES, ET AL., 2011: 157). The transfer of know-how in this case is usually not considered as an essential factor. As mentioned in *chapter 1* (p. 4), wrong format transfer decisions or false market analysis may lead to serious negative consequences, as several examples cited above have demonstrated. In the early 1990s, SEGAL-HORN AND DAVIDSON (1992: 13) briefly discuss the format expansion development from the 1970’s onwards, arguing for an increasing global acceptance though highlighting the need for adoption. The only two forces

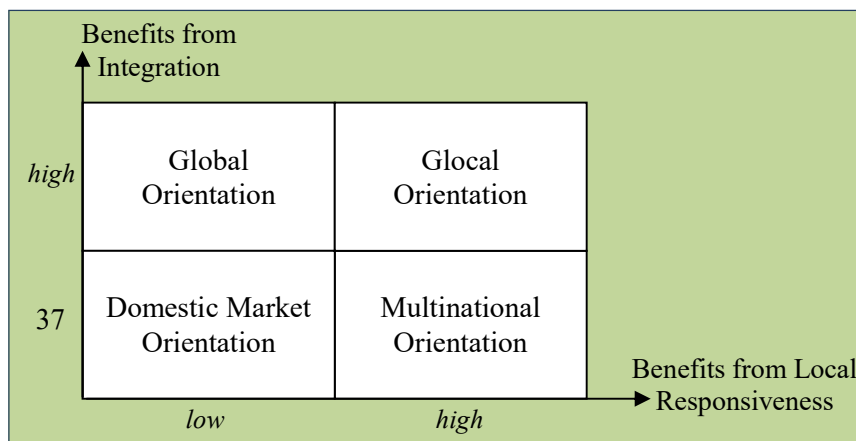


Figure 20 Four Basic Types of International Retailing (own illustration after ZENTES, ET AL., 2011: 157)

identified for the drive of format transfer are firstly the leverage advantages from global operations and secondly the need to adapt to local conditions within the foreign market

(GOLDMANN, 2001: 224). SPARKS (1995: 57) investigates the internationalization of the 7-Eleven convenience stores from the USA to Japan. He describes the concept as being subsequently ‘Japanized’ since the convenience store sector in Japan changed rapidly and grew successfully. In fact, a number of studies have examined the factors that affect strategy standardization. Impeding factors reveal several commonalities to general barriers of retailing internationalization, as discussed in *chapter 2.2.3* (p. 31-32). Government regulation, consumer tastes and habits as well as language and product usage conditions

^{lii} *Glocal* derives from “think global, act local” (ZENTES, ET AL., 2011: 157). According to DUPUIS AND FOURNIOUX (2006: 57), *glocalization* refers to the contraction of the terms globalization and localization. *Carrefour Taiwan* for example transfers core aspects, such as low-prices and parking on a global extent; however, adopts local features in regard to assortment and communication.

represent influential factors. Contrariwise, similar retail structures, competitive settings, marketing regulation and target segments facilitate greater standardization.

2.4.4 Drivers and Barriers to the Advancement of Modern Food Retailing

The transfer and development of retail formats has been discussed intensively, while “[N]ew retailing formats appear in the market increasingly more rapidly” (POPKOWSKI LESZCZYC, ET AL., 2000: 323). PETROVIC AND HAMILTON (2011: 46-47) describes the diffusion of American retail formats to Europe, listing three factors which can be considered when questioning the transfers within the retailing industry. Firstly, will there be an increase in consumer satisfaction, i.e. will there be a willingness to shop in the modern food retailing formats. Secondly and consequently, is there a sizeable demand to justify the investment. Thirdly, are political, legal, demographic as well as socio-economic factors suitable for the modern format to work (LO, ET AL., 2001: 66-68). Although ‘income’ has been identified as the main driver when investigating the question whether modern formats work (MAI & ZHAN, 2004: 58), further cultural characteristics have to be taken into consideration. REARDON, ET AL. (2012: 116-119) describe product penetration in developing countries, distinguishing three different waves. The first wave is typically in processed foods (including canned, dry and packaged items such as rice, noodles and edible oils). According to REARDON, ET AL. (2012: 121), this is inter alia due to the existence of significant economies of scale in procurement. However, as argued in this thesis, a major reason is also the fact that the above mentioned processed foods do not require the customer to own special storage equipment, such as a refrigerator or freezer. REARDON, ET AL. (2012: 36, 121) argue that typically of many developing countries, in China supermarkets very quickly took over staples and packaged food retail in the top 60 cities in the late 1990s to early 2000s. Moreover, they describe the second wave as in semi-processed foods with extensive or minimal processing (such as dairy products) and minimal processing / packing (such as chicken, pork, beef and fruit). Referring to the third wave as the slowest and the longest in being established in developing countries, REARDON, ET AL. (2012: 26-27, 116) describe it with a supermarket dominance of vegetable markets, and in particular leafy vegetables. In regard to retail format proliferation COLLA (2004: 50-54) reveals three highly influential factors. Firstly, retailing legislation allows the

government to change rules of competition by steering or constraining development of certain formats. Secondly, the technological progression and thirdly, the internationalization of the country's retailing industry and its players. TANDON, ET AL. (2011: 329) investigate the expansion of modern retailing formats in developing countries, revealing additional factors which increase their demand. Firstly, modern formats frequently address emerging partialities among consumers for greater shopping convenience and a wider choice of food options that are not adequately met by traditional retailers. Furthermore consumer's lives are becoming busier, suggesting a potential demand for convenience. Secondly, TANDON, ET AL. (2011: 340) note that retailers using modern formats are regarded as offering higher quality, safer food. Thirdly, younger consumers tend to utilize modern retailing more than elderly people; demographics are also a likely determinant of further growth. They conclude that the above mentioned factors are more important than efficiency gains in regards to the advancement of modern retailing and its formats. ALEXANDER (1997: 41) similarly argues that the *“relevance of different retail forms is determined by levels of economic and social development in global markets.”* The well-established and often cited ‘Wheel of Retailing’, as described by MCNAIR (1958: 17-18) and illustrated in *Figure 21*, provides a useful framework in which retail change and structural change may be described.

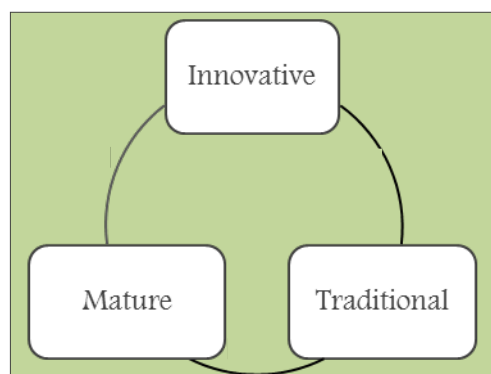


Figure 21 The Wheel of Retailing (own illustration after MCNAIR, 1958: 17-18)

Retailers upgrade their strategies in order to increase sales and profit within the three-stage development of formats. Initially, operating from a low status position, the retailer evolves from a traditional position to a mature, high status. ZHEN (2007: 16) acknowledges the fact the evolution of retail format is increasingly accelerated, hence, shortening the life cycle of retail formats. GONZÁLEZ-BENITO, ET AL. (2005: 59) briefly describe the transformation of store formats as a consecutive process with the introduction of supermarkets as the initial step, followed then by the larger versions of hypermarkets and the adjacent development of the discount store. Indeed, a widely used aggregated measure of the state of food retail modernization is the market share of food retail sales captured by supermarkets. Despite the Chinese ‘retail revolution’ and the enormous potential the market offers, market shares of modern food retail systems such as supermarkets have remained relatively small. In

their valuable, yet Hong Kong-focused research, GOLDMAN ET AL. (2002: 291) investigate barriers to advancement of modern food retail formats. Firstly, they found complete geographical diffusion of the prevailing supermarket format, while wet markets still remained dominant. Within GOLDMAN, ET AL.'S (2002: 291) two studies in 1995 and 1999, they conclude that changes in consumer shopping preferences occurring in that time had no observable impact on format choice (GOLDMAN, ET AL., 2002: 291). However, as ALEXANDER (1997: 111) correctly highlights, the framework does not offer a universal explanation and that not every retail format follows the logic of the 'Wheel of Retailing'. Correspondingly, interviewees in REYNOLDS, ET AL. (2007: 653) study of format innovation in the UK retailing industry, agreed that "*formats have limited lives without continued attention*", thereby supporting the above described life cycle approach by MCNAIR, and in particular the notions of 'innovation' and 'exit', also identified by LEVY, ET AL. (2005: 83-85). Changing and sometimes reoccurring trends can be identified in the UK retailing market, where first an increase in the size of grocery formats and therewith coherent out-of-town locations were favored. Subsequently, as smaller formats like *Tesco's* Metro and Express formats were re-introduced, a wave of re-entry into city centers was observed (REYNOLDS, ET AL., 2007: 654). REYNOLDS, ET AL. (2007: 655-656) highlight change in products and life-styles as drivers for change in retail formats; such as inter alia the preference of consumers for one-stop-shopping in many countries. The modernization of food retailing and the consequential development of modern store formats can be regarded as technical changes based on innovations that are both technological, such as scanning cash registers, and institutional, such as self-service and labelling (HAGEN, 2002: 6). Similarly, SENAUER AND REARDON (2011: 281) differentiate several factors driving the spread of modern food retailing, revealing high similarity to the motives of internationalization discussed in *chapter 2.2.2* (pp. 29-31). Several factors, such as trade liberalization, political stability, the emergence of a middle class, urbanization and cultural globalization have been discussed and viewed as correct in regard to the PRC. The inefficiency of traditional food systems however, is still controversial. AHLERT, ET AL. (2006: 289) distinguish a threefold explanation for the emergence of new store formats. Firstly, the changing demand pattern of consumers leads to diversification of store formats. Secondly, the retailer itself chooses to develop a format that fits its internal assets. Thirdly, opportunistic purchases may lead to the change or development of new retail formats.

2.4.5 Consumer Shopping Behaviour and Format Choice

Understandably, considerable research centers on how pricing and format strategies affect consumers' store choice behavior, as well as which consumer profiles tend to be drawn to each strategy. The literature on store choice determinants for grocery shopping is central to the research undertaken in this thesis. Research (SEGAL & GIACOBBE, 1994; POPKOWSKI LESZCZYC & TIMMERMANS, 1997; POPKOWSKI LESZCZYC, ET AL., 2000; FOX, ET AL., 2002; BHATNAGA & RATCHFORD, 2004; COX, ET AL., 2005; GONZÁLEZ-BENITO, ET AL., 2005) reveals that the store format is influenced by several factors, such as consumer demographics (e.g. income), store factors (e.g. location) and competition. Hence, variables affecting store and pricing format overlap. Retail format choice has been discussed widely. BHATNAGA AND RATCHFORD (2004) develop a model of retail format competition, while SOLGAARD AND HANSEN (2003) research grocery format choice in general and FORTHERINGHAM AND TREW (1993) as well as REDONDO (1997) concentrate on the effects of consumer characteristics regarding chain image and store choice. In 1993, FORTHERINGHAM AND TREW (1993: 179) realized that only few attempts had been made to identify the attributes of consumers that affect their decisions of which stores to patronize. In their investigation of grocery shoppers in Florida, they argue that low-income consumers are willing to travel further for grocery shopping, *ceteris paribus*, probably to take advantage of lower prices, while higher income consumers were unwilling to spend the extra time involved to shop at the store with the lowest prices and therefore forgo low prices for the sake of convenience. GALATA, ET AL. (1999: 4) argue that the selection of a preferred store format is driven by shoppers' demographic and behavioural characteristics. GALATA, ET AL.'S (1999: 1) analysis of store switching behaviour further indicates modest levels of inter-format switching, but a large extent of intra-format switching. This again reveals that the choice is at two levels, the format and then the store. Accordingly, TRIPATHI AND SINHA (2008: 7) argue that consumers first chose a store format pursuant to demographic variables and other socio-economic factors. They represent similar results to POPKOWSKI LESZCZYC AND TIMMERMANS (1997: 193), who base their research on scanner panel data for twenty-one grocery stores over a three year period in Missouri. They reveal that consumers are involved in substantial store-switching and variety-seeking behavior, the degree of which is related to a set of socio-demographic variables. BELL AND LATTIN (1998: 66) investigated the relationship between grocery shoppers, retail prize format and

store choice, concluding with the introduction of two types of buyers; ‘large basket’ shoppers (those who buy a lot of items on one trip, but go less often to the store) and ‘small basket’ shoppers. They show that large basket shoppers are less price sensitive to price changes in individual categories (as measured by category price elasticity), but are more sensitive to price variation of the entire basket for which they are shopping (measured by store choice elasticity). GALATA, ET AL. (1994: 21) as well as POPKOWSKI LESZCZYC, ET AL. (2000: 323) concluded within their investigations of store format choice, that marketing variables have a significant but lesser impact on store choice than demographics and consumer behaviour. Their analysis revealed three well-defined segments:

- (1) *Cherry-pickers*. Households with low opportunity costs of shopping (low income, small family size, high shopping frequency) who patronize both EDLP and HILO formats in search of the lowest prices.
- (2) *Service-seeking shoppers*. Households who patronize HILO stores seeking high retail service levels (high income, small basket size, high shopping frequency).
- (3) *Time-constrained shoppers*. Households with high opportunity costs of shopping (large family size, large basket size, low shopping frequency) who patronize primarily EDLP stores.

WANG, ET AL. (2010: 425) importantly note that shopping motives are generally determined by the country’s cultural idiosyncrasy. A detailed study on the effect of shoppers’ demographic, geographic and psychographic dimensions in terms of format choice behavior has been conducted on the fast growing Indian grocery retailing market (PRASAD & ARYASRI, 2011: 68). Moreover, as observed by XIANG (2012: 224), and highly applicable for developing countries with emerging retail structures as the PRC, a growing demand for high standards is a natural consequence of income growth. Multi-purpose, multi-destination shopping trips, which seem likely to grow in popularity as consumers try to minimize their shopping and traveling time, are proposed by several researchers (GAURI, ET AL., 2008: 266). GAURI, ET AL. (2008: 256-257) investigate the strategic selection of store format from the retailer’s perspective. While pricing and store format decisions are mainly investigated from the consumer’s perspective, the retailer similarly chooses its strategic choice as a combination of the two factors. GAURI, ET AL. (2009: 256) remark that little academic research has been devoted to the two perspectives jointly. Thus, they developed the framework illustrated in *figure 22* (p. 87), determining the joint effects of considering format decision.

The three factors affecting retail strategy choice appear to consist of the three categories named on the left side of the framework. The factors in turn, representing relevant information to current and potential retailers, might determine the appropriate format strategy to adopt.

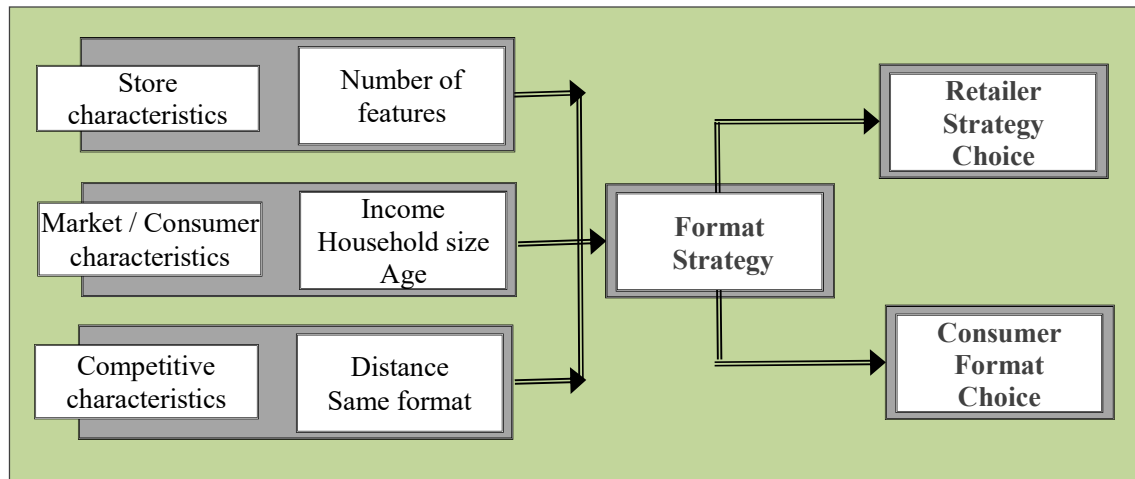


Figure 22 Conceptual Framework (own illustration, adjusted^{liii} from GAURI, ET AL., 2009: 258)

^{liii} Figure 22 is slightly modified, as to pricing strategy (separately displayed in the original parallel to format strategy) forms a part of the format strategy in the opinion of this study's author and as revealed in *chapter 2.4* (pp. 67-69).

3 The People's Republic of China and its Multiple Markets

After identifying research gaps and determining the theoretical background for this study, the aim of this thesis (see *chapter 1.2*, pp. 15-16) is inter alia to gain an understanding of the unique characteristics of the Chinese market, as well as to evaluate the development of retail formats across regions and across foreign and domestic retailers. *Chapter 3.2* continues with the introduction of triangulation, including the use of questionnaires and expert interviews, before providing justification for the applied research design. To these ends *chapter 3.3* commences with an overview and assembly of PRC's grocery retailing industry, after introducing the multiple case study approach applied as methodology in this research. Subsequently, *chapter 3.4* provides a brief analysis of the political, economic, sociological and technological conditions of the Chinese market. On the one hand, a general discussion of the PRC's market is conducted, which distinguishes unique characteristics essential for the grocery retailing sector. On the other hand, it serves as an initial analysis which is more comprehensively considered within each of the four cases in *chapter 4*. Furthermore, contributions of PRC's historical liberalization, which is intensively reconstructed and discussed in *chapter 2.3* (p. 36) are integrated for a better understanding of the geographical development of store formats and the general development of the Chinese grocery retailing market. *Chapter 3.5* (p. 140) continues to discuss the selection of cases.

3.1 Methodology: Multiple Case Study Approach

Methodologically, international retail research has become increasingly concerned with qualitative methods in recent years (ALEXANDER & DOHERTY, 2010: 390), indicating a more mature stage of its development. Therefore, as discussed in *chapter 1.1* (p. 8), case studies have been increasingly common amongst researchers. Typically, single case

designs are appropriate when the case has something special to reveal that might act as an initial point of investigation. However, single case studies limit the ability to generalize from their conclusions, whereas a multiple case study on the contrary, “*focuses on comparisons between cases rather than the in-depth understanding of a particular setting*” (YU & RAMANATHAN, 2012: 223). However, ABERCROMBIE, ET AL. (2006: 45) critically describe a case study as “[T]he detailed examination of a single example of a class of phenomena.” They (2006: 45) argue that “*a case study cannot provide reliable information [...] but it may be useful in the preliminary stages of an investigation since it provides hypotheses, which may be tested systematically with a larger number of cases.*” However, in his critical reviewing of misinterpretations about case study research, FLYVBJERG (2006: 3) argues for a misunderstanding of the impossibility of generalizations on the basis of an individual case, as well as the impracticability of scientific contribution. Similarly, FARQUHAR (2013: 10-11) recalls prejudices against case study research, revealing three levels of critique, such as the lack of objectivity, deficit of large sample size, and a general disapproval of qualitative research. According to YIN (2014: 13), “*an empirical case study [...] investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.*” VISAAK (2010: 370) argues that the case study method “*can be very useful for understanding such complex phenomena as the internationalization process or the management of multinational enterprises*”, whereby she (2010: 372) acknowledges the fact that case studies are able to close the gap between academia and industry, (2010: 373) as well as a wide range of opportunities to gather case study data from several sources and multiple levels and perspectives. BAI, ET AL.’S (2008: 11, 14) case study research^{liv} on format choice in Qingdao, which is one of the 14 coastal cities first opened to foreign markets in 1984, contains four categories of grocery shopping formats, namely wet markets and small grocery store which includes convenience stores, supermarkets, and hypermarkets, interviewing 838 urban

^{liv} BAI, ET AL. (2008: 14) remark that their analysis was complicated due to differing Chinese vocabulary used for each shopping format. Accordingly, the word for convenience store is translated into Chinese as e.g. ‘biànlidiàn’ but this word was widely used for “mom and pop” stores and variety stores, which in Chinese should be more properly called ‘xiǎomàibù’ and ‘ménshìbù’ respectively. The same problem occurs for the term supermarket (in Chinese ‘liánjià chāoshì’) that is widely misused in China. GOLDMAN (2000: 5), without highlighting complications, remarks that the term ‘supermarket’ is loosely translated into Chinese as ‘free to select’ some of the stores labelled as ‘supermarkets’ are actually small (less than 300 m²), self-service stores. In this research, the problem is addressed in the fact that three distinctive characteristics of the respective store format are given within the scope of the interviews.

residents. Multiple case studies were often adopted in regard to companies within one country, such as by BIANCHI AND OSTALE (2006), or within different countries, such as by HUTCHINSON, ET AL. (2006). WRIGLEY AND CURRAH (2003: 123-125) are of the opinion that “*retail internationalization is inevitably accompanied by periods of retrenchment and strategic readjustment. [...] a vocabulary to conceptualize and case studies to describe that process*” are needed. Similarly, GOLDMAN (2001: 222) states that “[I]nstead of formulating hypotheses for testing, this approach emphasizes the derivation of concepts and theory from qualitative, case based research.” A multiple case study approach allows investigation the internationalization of grocery retailers within different contexts, differentiating diverse geographical, economic and political surrounding conditions. GOLDMAN (2000: 3), researching the grocery retailing industry in the PRC and contributing highly to the scarce literature, acknowledges that “[...] a systematic analysis should cover a number of cities and regions. However, time and resource limitations and the difficulties in establishing close co-operation with retailers and officials in each city led to a decision to focus on one city.” As revealed within several contexts (see *chapter 1*, p. 7) the PRC reveals vast geographical, cultural and economic differences, while it is even argued that “[...] China is so vast and its regions so diverse it should be treated almost as a collection of separate countries” (ATSMON & MAGNI, 2012: 8). This thesis thereby argues that moreover the in *chapter 2.3.6* (p. 64) revealed uneven Chinese development is an important reason as to why a multiple case study approach is necessary. WEI (2007: 29) also clearly states that further studies within different localities are needed. It is argued in this thesis that viewing China as one market is not only unrealistic and potentially unfeasible, but may result in findings that are neither significant nor meaningful. Hence, following the suggestion of several researchers, this thesis applies a multiple case study approach. Especially within intercultural research, case studies reveal a special strenght (GHAURI, 2004: 111), as several studies within the grocery retailing internationalization reveal. SEIDERS AND TIGERT (2000: 184) investigate the impact of the supercentre format in four different cities across the USA. In their multiple case study on the PRC’s retailing market, CAO AND PEDERZOLI (2013: 292) interviewed 18 foreign companies conducting business in China analysing their strategic responses to differing circumstances. This research is supplemented by data collected from reputable websites and an extensive literature review. Expert interviews (*chapter 3.2.1*, p. 92) and profound field work complement the case studies. Clearly, the author of this research is aware that the research presented is geographically and temporally bound – a mere snapshot of the quick

developments. ADLER, ET AL. (1989: 61), originally attempting to investigate managerial behaviour, admit their failure of doing so due to “*the great amount of within-country variance*” (1989: 73) and the impossibility of blindly applying Western models. However, following the suggestion of STAKE (2006: 6), this thesis studies the individual cases in regard to their complexity and situational uniqueness in order to gain an in-depth understand of each case. GOLDMAN (2000: 3) acknowledges the fact that the grocery retailing industry in China lacks “*any earlier systematic analysis*”, suggesting that the need for a qualitative and quantitative in-depth investigation exists. In order to avoid the particular limitations of case studies and surveys, as revealed by VISSAK (2010: 379), both – qualitative and quantitative approaches are applied.

3.2 Triangulation

There is no agreement on exact numbers of foreign retailers in China. GOLDMAN (2001: 225) adds that “[T]he myriad entry arrangements contribute to the confusion” as “*only few foreign retailers received a central government license (...), most acquire a city or a district license.*” A further impediment is represented by same companies operating under several names in different cities and in JVs as well as by numerous little-know Asian retailers. “[A]n understanding of the Chinese consumer market has been severely limited due to lack of reliable data regarding consumer perceptions and consumptions pattern.” Moreover, SCHMITT (1999: 73) argues that “*(...) little is known about Chinese consumer behavior and how to segment the market*”, naming biased samples as a problem within Chinese research. Due to these major and to some extent unique deficits, multiple methods are used within the multiple case study, treating qualitative and quantitative methods as complimentary, instead of rival concepts, as proposed by JICK (1979: 602). Similar to WRIGHT (1996: 61), who argues that the sole use of surveys “*could not have adequately substituted for the inputs which the personal interviews generated*”, this research employs both. This approach allows triangulation^{lv} benefits, as suggested by VISSAK (2010: 380),

^{lv} Triangulation refers to an object of research that is considered from at least two different positions (FLICK, 2011: 27) and which entails a combination of methods (JICK, 1979: 602).

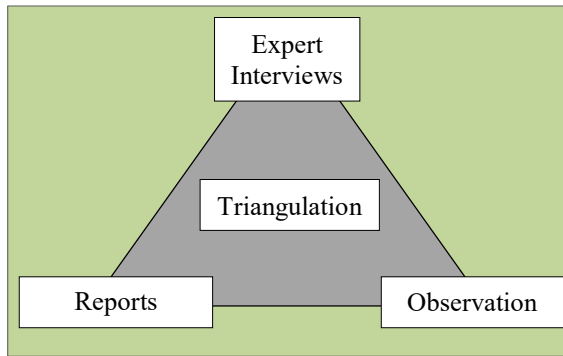


Figure 23 Triangulation of Research
(own illustration)

ranging from reduction of respondents bias to additional information that is provided and which supports the researchers' conclusions. The use of databases and observation is approved within retail research to provide a sound basis. Furthermore, number of stores, employment, floor area, retail sales, etc., revealed in a number of dimensions (such as

business ownership, store format, and geography) provide useful data for assessing the size of consumer market and the changes in consumption patterns. This primary data, other extensive secondary data, as well as the author's experience, having worked as a regional manager in the German grocery retailing industry, provide valuable resources for this study.

3.2.1 In-depth Interviews

Interviews have been proven to be a valuable and effective data collection technique. Moreover, conducting interviews may "*increase the possibility of getting the answers from the 'right respondent'*", as VISSAK (2010: 374) indicates there exists a difficulty in receiving answers from unintended persons in the case of surveys, or avoiding respectively skipping questions within the framework of a questionnaire. Nevertheless, VISSAK (2010: 374-375) summarizes criticism concerning the conduction of interviews, referring to its time-consuming manner when organizing, undertaking and subscribing them. However, in-depth interviews proved to be valuable as a qualitative research technique, which is proven by the usage of a wide range of researchers within an international context. WRIGLEY (1996: 63) explores this method in international research into US and Japanese firms and concludes that his results prove its value. REYNOLDS, ET AL. (2007: 650) conducted interviews with a total of 63 retail practitioners when investigating format innovations in the UK retailing industry. EVANS, ET AL. (2008) conducted 12 interviews in total: seven with UK firms and five with US retailers, when investigating motives and impediments of the retailing internationalization in general. LO, ET AL. (2001: 67) conducted in-depth interviews in Beijing and Shenzhen with executives of supermarket chains, government

officials and business consultants when investigating challenges and prospects of supermarket development in China. Also examining the development of the grocery retailing market in China, HINGLEY ET AL. (2008) employed in-depth interviews with four grocery retailers, namely *Walmart*, *Bonjour*, *Wumart*, and *Jingkelong*, while CAO AND DEPUIS (2009: 349) generate insights into the Chinese retailing industry from in-depth interviews of top Chinese subsidiary managers. SIEBERS (2011: 63) conducted interviews with 12 managers from foreign and local retailing firms in the PRC, including *Tesco*, *Walmart*, *Metro* and *Carrefour*. SONG (2011: 15), exploring the growth of Chinese grocer's own brands, interviewed a panel of 16 retail experts, including senior managers, consultants as well as selection of Chinese professors. Reporting from his own experiences, GHOURI (2004: 114-115) argues that the probability of gaining access and choosing the right informants is smaller in multinational enterprises, therewith describing the selection of the appropriate type of organisation as “*a balancing act between certain advantages and disadvantages.*”

The companies in the sample from grocery retailers were chosen because they are:

- Significant nationally in market size and growth;
- Significant locally in market size and growth in regard to the case study's focus;
- Considerable time within the market;
- International retailers entering the Chinese market;
- Provide direct comparisons between Chinese and foreign companies.

Random sampling was not possible given the small number of significantly important companies, but this also limited the sample of companies for investigation. Altogether, twelve interviews with senior executives and retail specialists were conducted. The author of this thesis conducted all interviews which lasted 45 to 90 minutes (one exception of 110 minutes) and were partly recorded and all transcribed and analysed. The interviewees were mainly senior managers who were typically in charge of their firms' operations in China in the spheres of sales, store-development strategy and expansion. However, especially for interviews with the senior managers, in few cases, recording or verbatim note-taking was strongly discouraged, wherefore both off-site and on-site note taking methods were used. The interviews conducted include eight grocery retailers listed in the top 20 grocery chains in the PRC. A limitation of the non-replicable one-off interviews is that respondents might be subjective in their assessments of their own company's skills relative to those of competitors. Furthermore, conducting in-depth interviews is costly and time consuming

given the spread of firms geographically, especially in China. Researcher's interview suggestions were followed, such as DIAMANTE'S (2013: 95) advice to pose open-ended questions in order to obtain more information. See *Appendix 6* and *7* (pp. 275-276) for an overview of interview partners and interview questions. Interview questions were assembled in accordance with assumptions as generated from the following compiled facts and discussions in *chapter 3.3* and *3.4*, before four cases are determined in *chapter 3.5*.

3.2.2 Justification of Research Design

The validity (construct^{lvi}, internal^{lvii} and external^{lviii}) and reliability^{lix}, two criteria suggested to judge the quality of the case study research (YIN, 2009, cited in FARQUHAR, 2013: 101), are both considered. Consequently, multiple case studies as discussed in *chapter 3.1* (p. 88), reveal a higher external validity, e.g. better generalizability than a single case does. Moreover, the following ethical prisms are considered, as suggested by (ALDRED, 2008: 889): (1) integrity and quality, (2) full disclosure about the research to subjects, (3) confidentiality and anonymity, (4) voluntary participation by participants, (5) avoidance of harm of participants, and (6) avoiding or disclosing conflicts of interest. VAN DEN HOONARD AND VAN DEN HOONARD (2013: 25) describe the triangle of ethics in research, namely “*confidentiality, anonymity, and consent*”.

^{lvi} Construct validity “*refers to the extent to which the study investigates what it claims to investigate. Construct validity assumes an objective reality and is therefore often rejected by interpretivist researchers (...)*” (FARQUHAR, 2012: 101).

^{lvii} Internal validity “*refers to the presence of causal relationships between variables and results and applies at data collection and analysis stages in research*” (GIBBERT AND RUIGROK, 2010, cited in FARQUHAR, 2012: 101).

^{lviii} External validity is often referred to as generalizability, relating “*to the extent to which the findings from a study can be generalized beyond that study to other populations (...) and contexts (...)*” (O'DWYER & BERNAUER, 2014: 70).

^{lix} Reliability “*refers to the absence of random error so if the research was repeated, researchers would arrive at the same insights*” (FARQUHAR, 2012: 102).

3.3 Food Retailing in China: Competition and its Store Formats

Gaining ground in the PRC's major cities, both hypermarket and supermarket formats reveal high growth rates of 14 % in 2012, while hypermarkets represent 27.4 % of total retail and supermarkets 24.8 %. Meanwhile, e-commerce, also a modern trade format, is exploding, with 53 % growth. However, it represents a fraction of urban FMCG sales - just 1.5 %. Hypermarket penetration rose by 2.3 % and supermarket penetration by only 0.6 % (BAIN & COMPANY, 2012: 4).

3.3.1 Current Foreign and Domestic Players

Having profiled the key dimensions of the historical and contemporary Chinese grocery retailing industry, the following chapter presents a more explicit assessment of its actual retailers. The Chinese retail structure is highly fragmented, its market concentration relatively low and enterprise density^{ix} of modern retailing formats highly differentiating throughout the country. Again, as highlighted within the problems of undertaking research in China (*chapter 1.1*, p. 8), data is often highly controversial. In his piece of research on the Chinese grocery retailing industry, GOLDMAN (2001: 225) acknowledges the fact that “*there is no agreement on exact numbers of foreign retailers in China.*” According to KHANNA AND PALEPU (2010: 30), who describe China's retailing sector as “[*M*]odernizing but still fragmented”, the 100 largest retailers are accounting for 10 % of the country's retail sales. Giving consideration to the grocery retailing sector, the PRC's ten largest grocery retailers, as illustrated in *Figure 10* (p. 53), though growing fast, account for only 11 % of total sales. China's biggest retailer, *China Resources Enterprise (CRE)*, holds a market share of 2.3 % of total grocery retailing and 3.8 % of modern grocery retailing (DIAZ, ET AL., 2012: 3). According to HAMILTON AND PETROVIC (2011: 11), the PRC's retail concentration in grocery trade is particularly small with a 6 % share of the top five

^{ix} As an important measure of retail structure, enterprise density represents the number of retail enterprises per inhabitant (ALEXANDER, 1997: 259f).

grocery retail firms^{lxi}. It remains disputable however, if the weakness of local retailers is still an applicable argument concerning the Chinese market. A query addressed within this thesis and explicitly discussed in *chapter 4.3.3* (p. 177) and *chapter 4.5* (p. 192). *Table 8* presents the ten largest hypermarkets and supermarkets operators by sales in 2012.

Rank	Enterprise	Sales (million ¥)	yoy growth (%)	No. of Stores	yoy growth (%)
1	China Resource Vanguard Co., Ltd.	941,000	13,80	4,423	11,2
2	RT-Mart Shanghai Ltd.	724,700	17,70	219	18,4
3	Lianhua Supermarket Holdings Co., Ltd.	657,302	-3,40	4,762	-8,8
4	Walmart (China) Investment Co., Ltd.	580,000	3,60	395	6,8
5	Carrefour China Inc.	452,739	0,20	218	7,4
6	Nonggongshang Supermarket Co., Ltd.	303,028	0,20	2,724	-19
7	Yonghui Superstore Co., Ltd.	279,300	37,00	249	22,1
8	TESCO China	200,000	11,10	111	8,8
9	Shandong Jiajiayue Group	181,880*	12,00	595	3,8
10	A-Best Supermarket Co., Ltd.	180,000*	2,70	116	0.0

* Estimated value

Table 8 Top 10 Hypermarkets and Supermarkets Operators by Sales in 2012 (own illustration after CHINA CHAIN STORE ASSOCIATION, 2013, cited in FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 28)

However, one reason for the doubt raised is an insufficient range of research. Moreover, history has revealed several cases of international's players divestment, such as the case of Dutch *Ahold*, entering the Chinese market in 1996 with 40 supermarkets in the Shanghai region through JV with *Zhonghui Supermarkets China*, importing their *TOPS* formula and converting the acquired stores accordingly. Furthermore, 22 stores in Shanghai were acquisitioned from *Yaohan Group* in 1998. However, the Chinese market was exited in 1999, only three years after its accession due to problems within the JV operations; and stores were sold to local partners (BURT, ET AL., 2006: 144-147). Nevertheless, the internationalisation of retailing in the PRC has undoubtedly intensified (WANG & ZHANG, 2005: 44-45), however, it seems to have slightly extenuated within China's grocery

^{lxi} Compared to developing countries such as Finland (90 %), Australia (83 %), Ireland (80 %), Germany (70 %), France (70 %), Spain (65 %), Netherlands (62 %), UK (59 %), Italy (35 %), USA (34 %) and Japan (11 %) in 2005 (HAMILTON & PETROVIC, 2011: 11). Market concentration is strongly linked to enterprise density, both important measure of retail structure. According to ALEXANDER (1997: 261), “[C]oncentration calculations measure the share of the market held by one of a group of retail enterprises.”.

retailing sector. As “[M]ergers and acquisitions (M & A – author’s note) have now become commonplace” (CHINA DAILY, 2013a: online), the Chinese grocery retailing market is highly shifting, with multitudinous of existing JVs. However, it also casts a spotlight on how domestic retailers are using M & A to expand their footprint in the PRC’s grocery market (CHINA ECONOMIC REVIEW, 2013: online; WANG, ET AL., 2008: 24). WANG, ET AL. (2008: 24) state that “[M]erger and acquisition became the most important means of store expansion” after 2004, listing examples such as Wumart’s purchase of Chaoshifa and its 75 % acquirement of Meilianmei in Beijing, as well as Bailian Group’s acquisition of Dashang holding.

The following section represents and assembles some of the most important players in the Chinese market and are introduced without particular order.

China Resource Enterprise (CRE; Hong Kong)



CRE, as a Hong Kong operated, state-owned enterprise, is one of China’s leading retailers. Opening its first store in 1984, the retailer’s total annual sales surpassed \$ 10 billion in 2010. In 2011 alone, 400 new stores opened. CRE’s brands include its flagship *China Resource Vanguard* (CRV; 華潤萬家), as well as *Ole*, *Vango*, *Suguo*, *Better Life Together*, *Fun 2*, *Vivo*, *Voila wine shops*, and the *Pacific Coffee Company cafes* (GAIN, 2012: 21-22). In 2008, CRE introduced a new store format called Fresh Market (MARKETLINE, 2012: 21). By the end of 2012, CRE operated a total of approximately 4,425 stores under CRV’s brand. Within one year, the retailer opened 782 outlets, including 82 hypermarkets with sales floor space of 8,000 – 15,000 m² (GAIN, 2013: 4). CRV continues to lead grocery retailers in 2013, with a 3 % share of retail value sales (RMB 120.5 billion). Applying the multi-format strategy, CRE has developed in hypermarkets, convenience stores and supermarkets, while it also operates the franchise model (EUROMONITOR INTERNATIONAL, 2013a: online). Actively looking for merger and acquisition opportunities, CRE acquired *Suguo* in 2004, a regional grocery retailer based in Nanjing, which continues to operate independently (GAIN, 2012: 24). It operates stores in the Chinese Mainland and Hong Kong (primarily located in Shenzhen, Guangzhou, Nanjing, Suzhou, Hangzhou, Tianjin, and Beijing) (TACCCONELLI & WRIGLEY, 2009: 59-60). CRV then continued to purchase Tianjin’s *Yuetan* in 2005 and *Jia Shijie* in 2007. In 2008, CRV completed the acquisition of *Aijia* supermarket in Xi’an. Altogether CRE purchased around 2,000 stores from regional players between 2004 and



2010 (CHAKRAVARTY & CHUA, 2012: 19). In 2011, *CRE* entered Wuxi by acquiring a 100 % stake in *Yongan* supermarket, managing hypermarkets, supercenters, and superstores under the *Vanguard* brand name (GAIN, 2012: 22). In 2012, *CRE* merged the *Jiangxi Hongkelong* chain with its 21 stores and helped *CRV*'s penetration into central inland cities (GAIN, 2013: 4; GAIN, 2012: 21). In August 2013, *CRV* acquired an 80% share of *Tesco China Co Ltd.*'s business (A.T. KEARNEY, 2014a: 9). This helped it to consolidate its leading position in grocery retailing via a 16 % increase in retail value sales (EUROMONITOR INTERNATIONAL, 2013a: online). However, many insiders observe that another new format named *Better Life Together*, which was introduced by *CRV* in recent years, will probably grow faster than *Ole* in the near future (GAIN, 2012: 22). In 2013, *CRE* operated a total of 4,600 stores nationwide, 83 % of it under own operation, and 13 % as franchise (CHINA RESOURCE ENTERPRISE, 2015: online).

RT Mart (Taiwan) and Auchan (France)



The JV between *RT-Mart International Ltd* and *Groupe Auchan SA* in 2011 formed the *Sun Art Retail Group* (CHINA DAILY, 2013a: online; GROUPE AUCHAN, 2014a: 3). Therewith, *Groupe*



Auchan operates its hypermarket business under two recognized banners – *Auchan* (歐尚) and *RT-Mart* (大潤發) (SUN ART RETAIL GROUP LIMITED, 2014: online). Being partners in China since 2000, “*Auchan and Ruentex (...) successfully organised the initial public offering of their jointly-owned subsidiary Sun Art Retail Group on the Hong Kong stock exchange on 27 July 2011. [...] 21.5 % of the subsidiary’s capital is now held by international institutional investors and the public*” (GROUPE AUCHAN, 2015: online). Taiwan-based *Sun Art Retail* is the PRC’s largest hypermarket operator in term of sales in 2012 and employs more than 115,000 staff in 2013 (GROUPE AUCHAN, 2015: online). Since 2001, a JV arrangement with French *Auchan* is operated (TACCCONELLI & WRIGLEY, 2009: 59). At the beginning of 2013, 273 hypermarket complexes across 25 of 31 provinces were in operation (SUN ART RETAIL GROUP LIMITED, 2014: online). In 2011, *RT-Mart* opened 42 new outlets, *Auchan* opened 6 new outlets. *RT-Mart* has 304 stores in China at the end of 2014; with 14 outlets in Shanghai alone, while 68 hypermarkets are operated under the *Auchan* banner as well as 66 shopping centers operated by *Immochan* (GROUPE AUCHAN, 2015: online). Although overall store numbers lag behind *Walmart* and *Carrefour*, *RT-Mart* single store sales are the highest (GAIN, 2012: 18).

Lianhua (China)



The largest domestic retail chain in the PRC is

Lianhua, operating more than 5,150 stores across China (CHINA ECONOMIC REVIEW, 2013: online). *Shanghai Friendship* has been the parent of *Lianhua*, now both belonging to a larger conglomerate, known as *Bailian*^{lxii} due to a government sponsored merger of several Chinese chains (DELOITTE, 2009: 8), with the intention to create a large-scale efficient organization to compete with global giants. The state-owned group operates in three main retail segments, such as supermarkets, hypermarkets and convenience stores (MARKETLINE, 2012: online). These formats operate under the brand names of *Century Mart*, *Lianhua Supermarket*, *Hualian Supermarket* and *Lianhua Quik*, respectively. Although having been nominally merged, *Lianhua* and *Hualian* continue to operate as distinct and competitive chains, both expanding aggressively through acquisitions of other chains. *Century Lianhua* represents the hypermarket brand of *Balian* group, whose food retail focus is dominated by supermarkets (GAIN, 2012: 22). According to GAIN (2012: 24), international players had to agree to *Lianhua* owning large minority positions, for instance in both *Carrefour* and *Metro*.

Walmart (USA)



With the biggest branded presence of the multinationals, the American retailer currently operates around 380 stores in China, including several different operation systems: *Walmart supercenter*, *Sam's Club*, *Trust Mart*, *Smart Choice*, and *Neighborhood Market* (CHINA ECONOMIC REVIEW, 2013: online). Entering the Chinese market in 1995^{lxiii} by partnering with SOE *Shenzhen International Trust & Investment Co. (SZITIC)*^{lxiv} in a JV, *Shenzhen Walmart Pearl River Co., Ltd.* was

^{lxii} The *Bailian* Group controls altogether five listed companies, namely *Friendship (Group) Co., Ltd.*, *Lianhua Supermarket Co., Ltd.*, *Material Trading Center Co., Ltd.*, *No. 1 Pharmacy Co., Ltd.* and *Fudan Microelectronics* (BAILIAN, 2014: online).

^{lxiii} According to ZHEN (2010: 39) and CCFA (2014d: online), *Walmart* entered the Chinese market in August 1996.

^{lxiv} *SZITIC* targets mainly the most developed and wealthiest cities in China for developing high quality commercial construction projects, thereby usually including a *Walmart* store in its new property (CHUANG, ET AL., 2011: 451). *SZITIC*'s shareholders are *CRE* (51 %) and *Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission* (49 %) (SZITIC, 2014: online).

established (CHUANG, ET AL., 2011: 451). In 2007, *Walmart* acquired a 35 % - stake in a Taiwanese *Bounteous*, the company that operates *Trust-Mart*, represented through 101 stores across 34 Chinese cities, and claimed a willingness to finalize the purchase over the next two years (DELOITTE, 2009: 7; TACCCONELLI & WRIGLEY, 2009: 59). Yet, the acquisition was repetitively postponed due to challenges to the merger and consolidation process. Several problems arose, including concerns from local government offices regarding benefits allocation, income tax issues and disagreements with an independent shopping mall land owner (GAIN, 2012: 19). In 2012, BLOOMBERG (2012: online) reported that *Walmart* had announced to open fewer stores within China than originally planned, adding only half the square footage it had forecasted. In 2013, CHINA DAILY (2013a: online) reported the closure of 11 *Walmart* stores (14 stores according to A.T. KEARNEY, 2014: 9) and a further shut down of 15 to 30 other outlets in the next 18 months across the PRC. According to *Walmart*, the closures will represent around 9 % of its total store portfolio and 2 to 3 % of sales volume through next year. Nevertheless, between 2014 and 2016, *Walmart* plans to accelerate development in China, opening up to 110 new facilities, including stores and distribution centres (IGD, 2014b: online). Additionally, *Walmart's* Warehouse Club format *Sam' Club*, currently consisting of ten stores in the PRC, is forecast to grow by up to ten stores each year, with the Shenzhen store reported to be one of the most profitable *Sam's Club* stores in the world; while focus remains on the current 353 *Walmart* stores (LEBENSMITTELZEITUNG, 2013d: online). In Shenzhen, three smart-choice (community store format) outlets and one of the first supercentres closed in 2012 (GAIN, 2013: 4). However, *Walmart* opened an e-commerce head office in Shanghai, buying a minority stake in the Chinese e-commerce company *Yihaodian* ('Number One Store'). Moreover, it is said that *Walmart* was part of a consortium that invested in Chinese online electronic retailer *360buy*.

Carrefour S.A. (France)

Multinational retailer *Carrefour*, as the world's fourth largest retailer attaches importance to China (KACZMAREK, 2009: 25), as it constitutes the French retailer's fifth biggest market. *Carrefour* opened its first hypermarket ('Jialefu' '家乐福') at the end of 1995 in Beijing and Shenzhen, followed by another store in Shanghai in 1996 through partnership with *Lianhua*. In regard to its first hypermarket operations practices, which DUPUIS, ET AL. (2006: 99) describe as



“by far the largest and quickest rollout of stores of any overseas firm”, the retailer suffered serious problems with Chinese authorities at the beginning of 2000s. *Carrefour*, as the minority shareholder in JVs operating the hypermarkets, linked these operating companies by means of management contracts with additional JV companies in which the French grocer owned a majority; thereby bypassing restrictive legislation that did not allow foreign majority ownership at that time, effectively allowing *Carrefour* to control its operations (WORTMANN, 2011: 132). *Carrefour* had rapidly increased store presence in several parts of the PRC. Holding 19 hypermarkets in 1999, more than 73 hypermarkets in more than 30 cities were present in 2004, not even ten years after their market entry. LEBENSMITTELZEITUNG (2006: online) reports of problems with location approval and consumer acceptance. The Chinese headquarter was moved from Beijing to Shanghai in 2000. In 2008, 134 hypermarkets in 50 cities represented the retailer, all over the country, from Shenzhen to Harbin and from Shanghai to Urumqi (WORTMANN, 2011: 132). In 2007, *Carrefour* celebrated its 100th store opening in Shaoxing, Zhejiang province. Although being European leader in terms of international retail expansion in Asia, the Hong Kong market proved to be unsuccessful and was exited (DUPUIS, ET AL., 2006: 93). Attempts to add supermarkets to its Chinese portfolio were stopped after two years in 2010. The *Dia* discount chain, however, starting operations in 2003, has grown to almost 300 stores in 2010, operating mainly in Shanghai and Beijing (WORTMANN, 2011: 134), thus making *Carrefour* a multi-format retailer within the PRC. Forming a JV with Hebei-based retailer *Baolongcang*, *Carrefour* holds a 51 % stake, taking over operations of all the *Baolongcang* stores (DELOITTE, 2012: 54). By closing 6 under-performing stores in 2011, while opening 20 new stores within the same year, GAIN (2012: 20) reports on several infringements by *Carrefour*, forfeiting its No.1 position as a foreign retailer in the PRC. The further illegality of charging slotting fees in China from 2012 onwards, as well as price tag fraud during Chinese Spring Festival period in 2011 caused scandals. Several *Carrefour* stores were fined RMB 500,000 each and made the country suffer reputational damage. CHUANG, ET AL. (2011: 453) as well as ZHEN (2007: 135) report on earlier legal difficulties provoked by *Carrefour* due to misusing the government’s JV agreements^{lxv}.

^{lxv} Interestingly, WANG (2007: 338) observes that although Walmart had not been admonished by the Chinese government for maintaining majority ownership in JVs prior to China’s WTO-entry, as was *Carrefour*. Without providing a clear explanation, WANG (2007: 338) describes Walmart’s public relation efforts and its popularity.

However, recently in 2013, *Carrefour* announced its plan to open 20 new hypermarkets annually, entering 30 new cities within the next three years, expanding into developing markets in lower-tier cities in western and central China. Furthermore, the retailer is expected to open 60 new stores to increase its presence to a total of 100 cities within three years, with most new stores opening in third- and fourth-tier cities in the country. *Carrefour* currently operates around 240 stores in approximately 75 cities in the country (CHINA DAILY, 2013a: online). The retailer has seen its third quarter sales in 2013 rise by 4.7 %, naming the PRC as one of its two key international markets (CHINA DAILY, 2013a: online).

**Shanghai Nonggongshang (NGS)
Supermarket Co., Ltd – The Bright Food
Group (China)**



According to *The Bright Food Group* itself, the SOE “is a large-scale comprehensive food industry group that covers modern agriculture, food processing and production, and food distribution. It owns a complete food industry chain” (BRIGHT FOOD GROUP, 2014: online). Covering more than 3,300 retailing stores, the group's total assets are ¥ 82 billion and revenue from its primary business totals ¥ 75 billion (2011), including, *NGS Supermarket Group*, including the chains of *Jieqiang*, *All Days*, *Kedi*, and *Guangmin* convenience stores, among others (BRIGHT FOOD GROUP, 2014: online). According to EUROMONITOR INTERNATIONAL (2013: online), the *Shanghai NGS Supermarket Group* operates two of the leading convenience and discount stores as well as being the third largest supermarket retailer in the PRC. *All Days* and *Kedi* (both convenience stores) operate chains of approximately 1,780 stores each.

Yonghui Superstores Co., Ltd. (China)



At the end of 2013, *Yonghui Superstores* operated 288 hypermarkets and supermarkets across 17 provinces (BLOOMBERG, 2014: online). The Fujian-based supermarket chain was quoted as planning to operate 350 stores and obtain ¥ 50 billion (\$ 8 billion) in sales revenue within the Chinese market by 2014 (CHINA DAILY, 2007: online). *Dairy Farm International Holdings Ltd.*, an operator of supermarkets and retail stores, recently bought 20 % of *Yonghui Superstores* for 5.69 billion yuan (\$925 million) (BLOOMBERG, 2014: online).

Tesco (UK)



Entering the Chinese market in 2004, *Tesco* co-operated with *Ting Hsin International Group* (*Ting Cao* according to DAWSON, ET AL., 2006), which operated 25 *Hymall* hypermarkets in the Shanghai area (WORTMANN, 2011: 145); stores in Taiwan, where both retailers are present, were not included in the agreement. The initial investment was £ 140 million, while the “*speed of new store development is much greater than in Tesco’s previous international activities*” (DAWSON, ET AL., 2006: 192). However, the company’s earnings in the Chinese market are not disclosed. It is estimated however, that the British retailer received £ 1.3 billion (\$ 2.1 billion) or 2 % of its global revenue of £ 64.5 billion from China in 2011 (BLOOMBERG, 2012: online). The retailer repeatedly announced that “*China is a strategically important growth market [...]*” (CHINA DAILY, 2013a: online; TESCO, 2014d: online). It has been reported that in 2005, *Tesco* opened its first store in Guangzhou, having secured an additional 20 store sites (LEBENSMITTELZEITUNG, 2006: online). In 2007, *Tesco* increased its initial 50 % - stake in *Ting Hsin’s Hymall* to 90 %, expanding towards Guangzhou regions and Beijing. In the same year, its first *Tesco*-branded store, *Tesco Legou*, opened in Beijing. One year later, the first *Express* store, which offers mainly fresh food, was opened in Shanghai, thereby extending their format portfolio (AAFC, 2013: 4) and moving its headquarters to Shanghai in 2009, where it operates 21 stores. According to BLOOMBERG (2012: online), *Tesco* had planned to double its Chinese hypermarkets and shopping malls to 200 in five years, starting in 2010. However, instead of opening around 20 stores a year, *Tesco* opened only 16 hypermarkets in 2012, closing four outlets in the same year and also building fewer shopping malls than planned. At the end of 2011, *Tesco* had 103 outlets in China (GAIN, 2012: 21). On 9th August 2013, *Tesco* and *CRE* announced that they have entered into a Memorandum of Understanding and are in exclusive talks to combine their Chinese retail operations to form the leading multi-format retailer in China. The closing of yet another three stores in 2013 as well as the announcement of a JV with *CRE* (80 %) indicate *Tesco’s* withdrawal from the Chinese market (CCFA, 2014b: online).

Shandong Jiajiayue Group Co. Ltd. (China)



According to the retailer itself, *Shandong Jiajiayue* 新鲜世界 全家购物趣 *Group Co. Ltd.* is a large chain group specializing in supermarket chains amongst other business ventures. Starting in 1995, *Jiajiayue* today operates over 400 stores in 34 cities

within Shandong province (such as inter alia Weihai, Yantai, Jinan, Weifang, and Qingdao). The retailer covers four different store formats, including hypermarkets, supermarkets, neighbourhood stores (similar to convenience stores), and discount stores. With *SPAR* entering the PRC in 2004, independently owned regional retailers were encouraged to develop voluntary participation in retail chains. Operating 230 stores in 7 provinces in China, *SPAR* retail sales in 2013 were RMB 11.5 billion, a 19 % increase compared to the previous year. *Jiajiayue Group* applied to join *SPAR* Voluntary Chain organization and gained a *SPAR* license from *SPAR International* in 2004, appointing itself as the first *SPAR* partner in the Chinese market, opening the first *SPAR* store in 2005 (*SPAR*, 2014: online). *Whui*, founded in 2000 and operating over 50 stores in the Sichuan province, represents another regional retailer of the five retail chains organizing into the *SPAR* China group. *Sichuan Dehui Commercial Co. Ltd.* is the latest retail chain to be brought into the fold (*RETAIL GAZETTE*, 2013: online).

***Wumart Stores Inc.*^{lxvi} (China)**



Wumart (物美) is a major retail chain based in Beijing operating 2,578 stores throughout China including hypermarkets, supermarkets, and convenience stores targeting middle class and lower end consumers. Reaching more than US\$ 5 billion, total revenue increased by 14.9 % in 2011. According to *GAIN* (2012: 24), *Wumart* is planning to open its first high end store in Beijing to join the increasing wave of imported product competition. In 2006, *Wumart* became market leader in Beijing by acquiring a 75 % stake in its minor competitor *Beijing Merry Mart Chainstore Development Co.* In October 2013, *Wumart Stores Inc.* announced plans to acquire 36 stores from *Lotus*, which would give *Wumart* a 3 % share of the national market, moving its ranking from eighth to sixth, according to *Kantar Worldpanel* (*CHINA DAILY*, 2013a: online).



***Lotus* (Thailand)**

Operating 72 stores in the PRC, the Thai-based *Lotus* chain has experimented with new formats in recent years. Opening a new format in Shanghai in 2011, the store failed and had to close within the same year. At the end of 2011, *Lotus* opened another new concept store in Shanghai called *Lotus Life Station*,



^{lxvi} *Wùměi*; Chinese for ‘good product’.

intending to combine a convenience store, coffee shop, fresh products store and a hypermarket all in one. They are reported to plan to open 1,000 stores within the PRC in the near future (GAIN, 2012: 20). Yet, two stores of this format were closed in 2013 (A.T. KEARNEY, 2014a: 9). *Lotus* net profit being recorded as 392 million yuan and 96.9 million yuan loss in 2012 and 2013 respectively, reports continuous loss in past years. Likewise demonstrating a negative trend, the number of stores decreased, with six new stores opening and seven stores closing at the same time (CCFA, 2014c: online).

AEON-Jusco (Japan)

The Japanese retail giant operates a total of 102 various formats within the PRC, including 19 general merchandise stores in the PRD region, featuring food, fashion, electronic appliances and house wares; however, they also represent grocery retailing formats, such as *Jusco* supermarkets. In 2011, *AEON* group also introduced the new *AEON* supermarket format both in Guangzhou and Shenzhen. With a sales floor of 32,000 square feet, the new *AEON* supermarket will focus on high-end food products (GAIN, 2012: 20). In March 2013, all stores were renamed *Aeon* as part of the chain's new strategy (GAIN, 2013: 4).



Lotte Mart (Korea)

The fifth largest Korean *Korea Lotte Group* (in year 2010), entered the Chinese market at the end of 2007 by initially purchasing 49 % of *CTA Makro* (which was a Chinese subsidiary of Dutch *Makro*), buying the remaining 51 % one year later in 2008, thereby operating eight stores mainly in Beijing. Changing the business model to *Lotte Mart* (hypermarkets), a second acquisition in 2009 extended network to cover an additional 68 stores of *Lianhua Supermarket*. During the last years the hypermarket network grew to more than 100 stores (CHOI, 2014: 123-124).



Metro (Germany)

In 1996, an initial store was opened in Shanghai, conglomerating with Shanghai-based *Jinjiang Group*, which held 40 % of the operation (WORTMANN, 2011: 141-142; SCHMEKEL, 2004: 143). As



discussed earlier (see *chapter 2.3.3*, p. 52), the Shanghai government licensed new retail operations, while knowingly bypassing the Chinese central government prohibition of foreign companies holding a majority stake at that time. According to SCHMEKEL (2004: 143), *Metro* was first to receive a licence for operations throughout China in 2001. Introducing a new C+C format *Metro Select*, *Metro* opened its first three stores in Guangzhou. 75 % of the items on offer are food, with up to 90 % procured from local regions and own brands on 3,400 m² (LEBENSMITTELZEITUNG, 2011: online), operating a membership system similar to that of *Walmart's Sam's Club* (GAIN, 2012: 21). In 2014, *Metro* has opened its 77th store and announced plans to further develop a more specialist strategy, concentrating on five channels of which e-commerce is one. The first steps in realising its internet business have already been taken; click & collect is being introduced in all stores (IGD, 2014b: online). In 2013, *Metro's Media Market* chain was announced to exit the Chinese market (A.T. KEARNEY, 2014a: 9).

FamilyMart (Japan)

FamilyMart has operated convenience stores in the PRC since 1993, forming a partnership with a big Taiwanese business group, *Ting Hsin International Group* in the PRC (SATO, 2007: 45). According to an announcement by Japan's *FamilyMart Co., Ltd.* 8,000 stores are planned to be operated by 2021, up from 600 stores in 2011 (QIU & ZHAO, 2011: 22). *Yihaodian* and *FamilyMart* have entered into a partnership that will allow customers to collect and pay for orders made online at *Yihaodian* at 300 *FamilyMart* stores in Shanghai (IGD, 2014c: online).



ParkNShop (Hong Kong)

A member of the *A.S. Watson Group*, and a wholly owned subsidiary of *Hutchison Whampoa Limited*, *ParkNShop* operates more than 260 stores in the PRC. It operates mainly in Hong Kong and was the first foreign retailer to enter the mainland Chinese market in 1983. The chain's first mainland superstore opened in 2000 and its first mainland megastore followed in 2001. Currently *ParkNShop* operates around 60 stores in northern and southern China. The Hong Kong grocer plans to open more than 300 shops within the next years, reacting to an increasing popularity in small- and medium sized stores (A.T. KEARNEY, 2013: 7).



Outlining some of the biggest players in the Chinese market and briefly discussing their historical growth and composition, a certain level of internationalization within the PRC's grocery retailing market is clearly revealed. Furthermore, the fierce competition between domestic and foreign chains is indicated, which will be considered in more detail in *chapter 3.3.4* (p. 120). Moreover, the described trend shows a consolidation with large chain supermarkets or hypermarkets. The large majority of foreign retailers mentioned above, entered the Chinese market at a considerably early stage (see *Figure 9*, p. 48), bringing different formats to the market. Although the hypermarket format has been the format primarily introduced by big international players, such as *Carrefour*, convenience stores and supermarkets equally navigated their way into the market. Without really developing hypermarket or convenience store formats, they were simply introduced to the market, neglecting years of development stages, as seen in other countries.

3.3.2 Format Competition within the Chinese Grocery Retailing Industry

The new national standard of Retail Format Classification (NNSRFC)^{lxvii}, published in August 2004 and implemented by October 2004 was approved by the MOFCOM and

^{lxvii} “The retail format shall refer to the different business forms that the retail enterprises take, after combining corresponding factors for satisfying different consuming requirement. In order to bring into play the promoting action of new-style retail format over the commodity circulation, and guide local authorities to do well the programming work of commercial network, the MOFCOM has organized the relevant entities to revise the former National Standard of Retail format Category (GB/T18106-2000) in accordance with the development tendency of China's retail industry in recent years and using for reference the classification mode of retail format in developed countries. The State Administration of Quality Supervision, Inspection and Quarantine and the Standardization Administration of China have jointly formulated the NNSRFC [...]relevant issues are hereby notified as follows:

1. The publicity work of the NNSRFC shall be done well: *The classification standard of retail format is the premise to scientifically regulate and lead the development of retail industry, and it is the important technical basis to form the commodity market pattern with reasonable structure, perfect function, clear layer and complete system. The new standard, according to the format characteristics of the retail store, and in accordance with its business mode, commodity structure, service function, and site selection, commercial circle, size, store's facility, target custom, store or non-store selling and other factors, classifies the retail industry into 17 formats and stipulates corresponding condition, which includes traditional grocery store, convenience store, discount store, supermarket, hypermarket, warehouse club, department store, specialty store, exclusive shop, home center, shopping center, factory outlets center, television shopping, mail order, store on network, vending machine, tele-shopping. This kind of classification mode accords with the development tendency of domestic and overseas retail industry. [...]*

2. The new standard shall be treated as important basis of programming work of commercial network: [...] *In the program, importance shall be attached to integrating the development of the new-style format and the upgrade and reconstruction of the traditional commerce and harmonizing between the key format and the special economy. Around the key point of format structure adjustment, development of the convenience store, discount store and small & medium supermarket that are convenient to the residential life shall be encouraged. [...].*

3. The new standard shall be used to guide and regulate the direction of commercial investment: [...] *in light of the characteristics of different formats, differential operation shall be carried out to prevent out-of-order competition. Those who are eligible may, through dynamic tracing of the development situation of retail format, analyze and predict the development tendency of each retail format, formulate the catalogue of encouraging or restraining the format development and guide the investment of commercial enterprises so as to macro-control the layout of commercial network and the balance of the industrial format and to promote co-prosperity of multi-formats (MOFCOM, 2004: online).*

forms a response to “the development tendency of China's retail industry in recent years” by using “the classification mode of retail format in developed countries” as a reference point (MOFCOM, 2004: online; see the following page for an overview of the retail formats and their characteristics). Furthermore, the classification of retail formats, which “is the premise to scientifically regulate and lead the development of retail industry”, includes 17 formats, such as the following grocery formats relevant to this research: traditional grocery store, convenience store, discount store, supermarket, hypermarket, and warehouse club. The MOFCOM (2004: online) additionally describes the retail format as “the base to[a] form rural commercial network”, and that “construction [should] comply with the transformation tendency of the economic and social development and residential consumption and to make all the formats complement each other and develop harmoniously.” Until 1979 however, “[T]here was no concept of retail format” within the Chinese retailing industry, with retailers being described as “puppets” due to their total lack of autonomy (ZHEN, 2007: 70). Within thirty years, the retailing sector of the PRC developed a wide range of ever evolving retail formats.

Nowadays, the typical small store of the *Lianhua* chain, operating also in small towns in rural Zhejiang, offers no produce, but rather cheap, dry goods for poor consumers, whereas a *Carrefour* hypermarket in Shanghai carries a full line of fresh products (REARDON, ET AL., 2007b: 407).

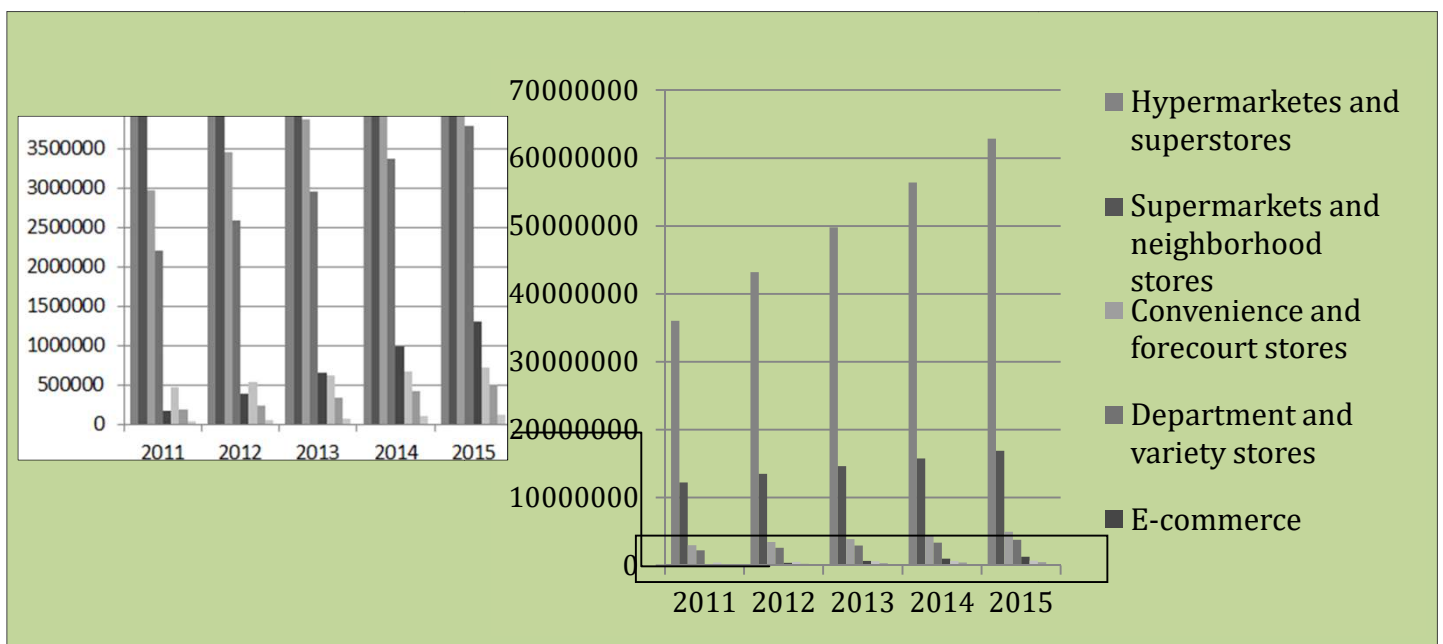


Figure 24 Retail Format Sales for Edible Grocery by Channel Type in China in US\$ (own illustration, based on data from PLANET RETAIL, 2012, cited in AAFC, 2013: 14; see Appendix 5, p. 274 for exact numbers)

Retail Format	Location	Trade Area and Target Customer	Size	Merchandise Assortment	Service / Policy	Business Hours and Facilities
<i>Grocery store</i>	Residential or traditional commercial districts	Trade area radius of 0.3 km; local residents	Business area < 100	Grocery, tobacco, beverage, liquor	Counter and self-service	> 12 h
<i>Convenience Store</i>	Commercial centres, major intersections, transport stations, hospitals, entertainment places, office buildings, gas stations, etc.	Small trade area; 5 min walk distance; singles and/or young people; purposeful shopping (5 – 7 min walk)	Business area about 100	Fast foods and small consumer goods; about 3000 items; price above average	Mainly self-service; Onetime Pay	16 h; fast-food Processing appliance; Services (> 10 h)
<i>Discount store</i>	Residential districts and main streets where rent is low	Trade area radius of 2 km; local residents	Business area 300 – 500	Priced lower than market average; self-brand Important	Self-service; one-time pay	Fewer employees; limited services
<i>Supermarket</i>	City and district commercial centres; residential districts	Trade area radius of 2 km; local residents (10 min walk distance)	Business area < 6000 (about 1000)	Packaged and fresh foods, daily use goods; grocery supermarket different from general Supermarket	Self-service; separate entry and exit; onetime Pay	12 h ($\geq \frac{1}{4}$ 11 h; some parking)
<i>Hypermarket (DZC)*</i>	City and district commercial centres; urban fringe; large residential districts	Trade area radius of 2 km; local residents and random customers	Business area > 6000 > 2500	Clothing, food and daily use goods; one-stop shopping; self-brand	Self-service; separate entry and exit; onetime Pay	Parking more than 40 % of business area
<i>Retail warehouse / membership Club</i>	Major roads / highways in urban fringe	Radius > 5 km; business and group purchase, random customers (customers with car)	Business area > 6000 (about 10,000)	Clothing, food and daily use goods; self-brand; types around 4000; low price and wholesale	Self-service; separate entry and exit; onetime Pay	Parking ~ business area (large parking area)

*DZC, 'daxing zonghe chaoshi', which literally means 'large, comprehensive supermarket'.

Table 9 National Standard of China: Classification of Retail Formats 2000 and 2004 (store-based only) (own illustration, adopted from SDTB, 1998 and MOC, 2004, cited in WANG, 2011: 173)

Within the last 15 to 20 years several new retail formats emerged in China (WANG, 2011: 191). Prior to 1990, CHUANG, ET AL. (2001: 447) differentiates the existence of two types of medium/large SOEs; ‘*foodstuff stores*’ or department stores, both retailing food items. In regard to grocery retailers, three types were distinguished: SOEs, collectives without subsidization and wet markets (*nóngmàoshichǎng*). Due to reasons given above (see *chapter 2.3.5*, pp. 62-63), such as unhygienic circumstances and tax issues, the Chinese government initiated the ‘*nónggaichao*’ policy in 2003, aiming to convert wet markets into ‘indoor supermarkets’ by auctioning them to supermarket chains.

Hypermarket Sector in China^{lxviii}

According to Deloitte (2009: 9) and GAIN (2013: 6), the most important format, much more concentrated than other grocery channels, continues to be the hypermarket (大卖场). In 2008, hypermarkets reported the most robust growth in China (Euromonitor INTERNATIONAL, 2009: 1), experiencing sales growth of 15 % in 2011 (AAFC, 2013: 12). Hypermarkets located in city centers often consist of a number of floors, with food items typically located at the ground floor. Grocery sales had increased from 59 % of total grocery sales in 2008, to 60 % in 2011. According to EUROMONITOR’s data, the largest

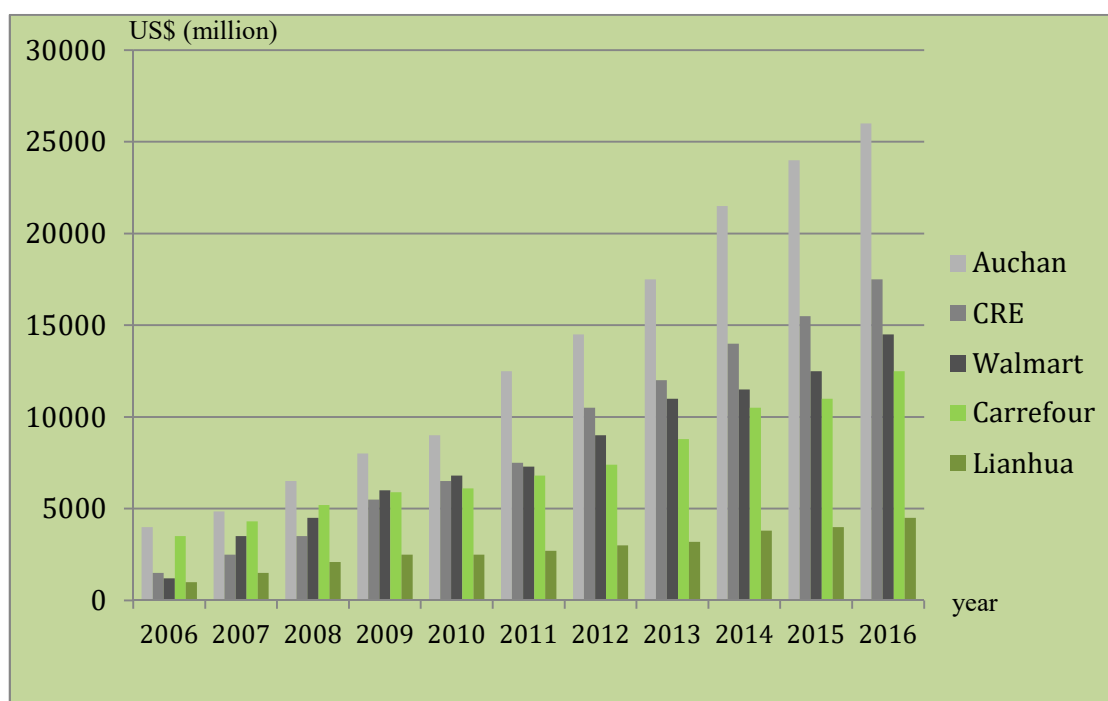


Figure 25 China’s Hypermarket and Superstore Leaders, 2006 – 2016 (PLANET RETAIL, 2012, cited in AAFC, 2013: 12)

^{lxviii} See Appendix 8 (p. 277) for an overview of selected hypermarkets in the PRC.

hypermarket player is a JV between Taiwan's *RT-Mart* and *Groupe Auchan SA*, with market shares of almost 14 % (CHINA ECONOMIC REVIEW, 2013: online; BLOOMBERG, 2014: online). Further key players in the hypermarket format include *Walmart*, *Carrefour*, and *Lianhua*, as illustrated within *Figure 25* (p. 111), with the development of hypermarkets led by international retailers such as *Walmart*, *Carrefour*, *Tesco* and *Trust-Mart* who have apparently reached saturation in first tier cities (ZHEN, 2007: 229). In order to encourage customers to purchase more, some hypermarkets offer a home delivery service or free shuttle buses, as Chinese consumers tend to shop frequently, buying less as car ownership is relatively rare (AAFC, 2013: 12). Nevertheless, *Ahold's* Chief Executive Officer (CEO) Dick Boer (BEHRENBECK, 2013: 2) states that closing down *Ahold's* hypermarkets and focusing on supermarkets, convenience and smaller store-concepts was a necessary step towards fulfilling the customers' needs. Despite competition, hypermarkets are expected to continue to benefit from the convenience trend, as shoppers buy groceries less frequently at local markets and make weekly shopping trips to hypermarkets. According to BAI, ET AL. (2006: 20), hypermarkets are a substitute for supermarkets. Hypermarkets, along with convenience stores, are forecast to experience double-digit CAGRs from 2011 to 2016. A sales value CAGR of 11.6 % is predicted for hypermarkets from 2011 to 2016 (EUROMONITOR INTERNATIONAL, 2011, cited in AAFC, 2013: 12), while EUROMONITOR INTERNATIONAL forecasts a 39 % growth to ¥ 862 billion yuan in 2016 from 2013 (BLOOMBERG, 2014: online). Moreover, hypermarkets in the PRC tend to be fairly smaller than their western counterparts, and very few follow the big-box format faithfully. Often, mainly in large cities, they typically represent multi-story operations. Often acting as small shopping malls, a large amount of space is set aside for independent boutiques and eateries, a habit that tends to underline the perception of hypermarkets as places for occasional shopping expeditions rather than daily shopping (GAIN, 2012: 7). For the hypermarket itself, the food sales area typically accounts for about half of the total area. A trend being described by the GAIN (2012: 7) is the evolvement of department stores in the direction of hypermarkets by adding large grocery stores.

***Supermarket Stores in China*^{lxix}**

The Chinese fondness for fresh food and wet markets has already been emphasized in 1977, when STEILEN (1977: 4) described the slow shift of Hong Kong residents to modern

^{lxix} See *Appendix 9* (p. 278) for an overview of selected supermarkets in the PRC.

supermarkets and their ‘Westernization’ in regards to western, packaged, canned and imported food. STEILEN acknowledges the fact that the term supermarket had at that time in Asia, a different connotation than in the USA for instance. Nowadays, the supermarket segment in China is highly fragmented and mainly dominated by domestic players. AAFC (2013: 11) cites in its *Consumer and Retail Trends in China* that supermarkets represent the largest grocery retail channel in terms of value, accounting for nearly half (46 %) of sales in 2011. It is evident that the number of local supermarket firms in fact has declined, as local food retailers are organizing into chains in order to compete with foreigners (STERNQUIST & CHEN, 2006: 243). In fact, domestic players, such as inter alia *Lianhua*, *CRV* and *Suguo*, dominate the supermarket sector (GAIN, 2012: 8). PLANET RETAIL (cited in FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 27) forecasts hypermarket and supermarket sales growth to fall from 16 % yoy in 2012 to 12 % yoy in 2013 and store number growth to drop from 11 % yoy in 2012 to 10 % yoy in 2013 (see *Appendix 10*, p. 279, for data from 2009 – 2013). In the future, supermarkets are forecast to experience a sales value CAGR of 8.5 % from 2011 to 2016 (EUROMONITOR INTERNATIONAL, 2011 and PLANET RETAIL, 2010, cited in AAFC, 2013: 11). In contrast, QUI AND ZHAO (2011: 22) claim ordinary supermarkets to be fairly unprofitable due to fierce competition from hypermarkets and wet markets. *Ahold’s* CEO Dick Boer (BEHRENBECK, 2013: 2) points out the need for supermarkets to focus on the experience for fresh food (see also AAFC, 2013: 5). Catering to wealthy consumers looking for quality products, premium supermarkets offer a wide range of imported products, typically accounting for a majority (50 – 70 %) of all SKUs. With the introduction of the high-end chain *Ole* supermarkets, *CRE* was one of the first to enter the premium supermarket category (AAFC, 2013: 11), followed inter alia by *Taste*, another high-end supermarket brand from *ParkNShop* in 2010. While supermarkets are widely available and the dominant retail format in small and medium cities, they are facing competition from hypermarkets, particularly in larger cities (AAFC, 2013: 11).

***Convenience Stores in China*^{lxx}**

The first Chinese convenience store, *Baishi Bianlidian*, opened in Shanghai in 1999. By 2005 China already had three chains with more than 1,000 stores and several chains with hundreds of stores, all of which were Chinese in origin (SATO, 2007: 49). The rise of

^{lxx} See *Appendix 11* (p. 280) for an overview of selected convenience stores in the PRC.

convenience stores is mainly seen as providing further competition for supermarkets (AAFC, 2013: 11). With a growing popularity among younger consumers who appreciate long opening hours and convenient store locations, it has been reported that the format has reached market saturation in large cities such as Shanghai and Guangzhou. According to the CCFA (cited in SATO, 2007: 49-50), two of four major problems affecting convenience store chains in China are “*the inability of convenience stores to differentiate their merchandise from that available in supermarkets and the tendency of the convenience stores to display a limited variety of goods in large numbers the manner of hypermarkets.*” However, convenience stores are often said to be in the development stage, thus, experiencing increasing competition, mostly among domestic chains, as the following *Table 10* illustrates. Due to growing car ownership, convenience stores located at petrol stations are also expected to increase. As a modern grocery format in the market, the convenience store format is expected to drive growth for the future, with a CAGR of 11.2 % from 2011 to 2016 (EUROMONITOR INTERNATIONAL, 2011, cited in AAFC, 2013: 13). Most of convenience stores are directly invested, not as usually run as franchising operation (ZHEN, 2007: 102).

Rank	Enterprise	Store Brand	Country of origin	No. Of Stores
1	Sinopec Group	Easy Joy	China (Beijing)	20,891
2	PetroChina Co. Ltd.	uSmile	China (Beijing)	13,000
3	Dongguan Sugar & Liquor Group Meiyijia Convenience Store Co., Ltd.	Meiyijia	China (Dongguan)	4,650
4	Zhejiang Gongxiao Supermarket Ltd.	Gongxiao; Jialian	China (Zhejiang)	2,115
5	Shanghai Linhua Quik Convenience Stores Co., Ltd.	Quik	China (Shanghai)	2,031
6	Nonggongshang Group	Kedi; Alldays	China (Shanghai)	1,780*
7	7-Eleven	7-Eleven	United States	1,732*
8	China Resource Group	Suguo	China (Nanjing)	1,694
9	Guangdong Sun-high Convenience Store Co., Ltd.	Sun-high	China (Guangdong)	1,559
10	Chengdu Hongqi Chain Co., Ltd.	Hongqi	China (Chengdu)	1,336

* Estimated value

Table 10 Top 10 Convenience Store Operators by Number of Stores in 2012 (own illustration, adopted from CHINA CHAIN STORE AND FRANCHISE ASSOCIATION, cited in FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 31)

Discount Stores in China^{lxxi}

Discount stores are still evolving and represent a minority, not having been “*accepted by the majority of Chinese consumers*” (SONG, 2011: 17). The first discount store named *Dia* is said to have been opened by *Carrefour* in 2003 (SONG, 2011: 17). According to AAFC (2013: 13), discounters are predicted to experience a sales value CAGR of 8.9 % from 2011 to 2016. QUI AND ZHAO (2011: 22), similarly to SONG (2011: 16) do not forecast thriving success for discount supermarkets in the short term, arguing that private labels have not yet gained consumer acceptance. Other sources however, such as AAFC (2013: 13) and ZHEN (2007: 230) forecast noticeable growth in the future with a number of large retail players expected to establish discount chains. A current challenge facing discount stores in the Chinese market is the extreme low price of products already in supermarkets who offer a similar range of products. However, lesser-known private label products and less aesthetically designed shopping environments are offered. FUNG BUSINESS INTELLIGENCE CENTRE (2013: 34) similarly attests to the increasing popularity of discount formats among consumers and retailers, with store numbers estimated at around 400. This figure, however, refers mainly to discount outlets. In 2013, *Shanhai Bailian Group* opened *Wuxi Mall*, its third discount outlet, proving that Chinese consumers are demanding formats that allow cost savings. Discount stores however, are not yet a significant channel, having only a limited presence in large cities. The development of private labels in China is still in its embryonic stages (TACCCONELLI & WRIGLEY, 2009: 67). However, some sources, such as AAFC (2013: 6) argue that private labels “*have a notable presence in China’s retail sector*”, becoming more and more popular among price-sensitive consumers, often carrying the same name as the retailer. Nevertheless, perhaps due to this lower-price focus, consumers are said to have the perception that these products are of an average or lower quality (SONG, 2011: 17).

Traditional Grocery Retail in China

While some research predicts consistent strength of traditional grocery formats, predication on the future of traditional stores and wet markets are contradictory. According to EUROMONITOR INTERNATIONAL, traditional grocery retailers are forecast to have minimal growth in the future, with a sales value CAGR of 2.7 % from 2011 to 2016 (cited in AAFC, 2013: 11). Nevertheless, traditional grocery retail captures a special position within the

^{lxxi} See *Appendix 12* (p. 281) for an overview of discount stores in the PRC.

Chinese retailing industry, as there is a separate chapter devoted to this subject (see *chapter 2.3.5*, p. 62). Due to inter alia small refrigerators and a strong desire for fresh food, it is argued that wet markets will not lose their important role in Chinese consumer choice. Traditional wet markets still represent major competitors in the PRC. According to DELOITTE (2009: 4), when asked about primary competitors, “*leaders of modern retailers apt to list street markets and street vendors rather than other big box operators.*” Further, complaints are rising as to unpaid rent and taxes evasion, often allowing street vendors to sell at lower prices. In the case of *Walmart* it is said that managers visit local wet markets as often as three times a day, comparing prices and best sellers in order to adapt to changing demand patterns. Nevertheless, the rise of modern formats confirms the attractiveness of supermarkets and hypermarkets, offering the convenience of one-stop shopping and reliable hygiene standards as well as amenities such as air-conditioning (ZHEN, 2007: 108-109 ; DELOITTE, 2009: 4).

***Warehouse Clubs in China*^{lxxii}**

Still representing an emerging format, warehouse clubs or so-called Cash and Carry (C+C) stores still have a limited presence in the market. Major C+C and wholesale club stores include the *Metro Group*. However, the format is critically discussed in *chapter 4.4* (pp. 182-184).

***Non-Store Retailing in China*^{lxxiii}**

In 2009, 8 % of the Chinese population shopped online. In 2013, e-commerce revealed a yoy to US\$ 305 billion (A.T. KEARNEY, 2014a: 10). However, the grocery online shopping option is still in its infancy (TACCCONELLI & WRIGLEY, 2009: 66; QIU & ZHAO, 2011: 22). Although internet and home shopping enjoy an increasing popularity, traditional, store-based retailing accounted for 99 % of all sales in 2008 (EUROMONITOR INTERNATIONAL, 2009: 1), and 92 % in 2013 (A.T. KEARNEY, 2014a: 10), thereby confirming the focus of this thesis on store-based retailing formats. However, according to GAIN (2012: 2, 16), internet retailing is growing rapidly in the PRC^{lxxiv}. In 2010, *Walmart* launched an internet

^{lxxii} See *Appendix 13* (p. 281) for an overview of selected warehouse clubs in the PRC.

^{lxxiii} See *Appendix 14* (p. 281) for an overview of selected e-commerce retailers in China.

^{lxxiv} As of July 2014 there have been 622 million internet users in China, revealing a penetration of 46 %. Compared to the USA with 277 million internet users and 87 % penetration (CHEN, ET AL., 2015: online).

retailing site for its *Sam's Club* chain. More recently, *Walmart* agreed to increase its stake in the rapidly growing domestic online supermarket *yihaodian.com* to 51 %. Several international grocery retailers, such as *Carrefour*, *Auchan*, *Metro* and *Lotus* currently have online operations. As this thesis objective is to investigate the geographical scope of retail formats, internet retailing will not play a major role within this research. However, due to its increasing importance as well as its representation of a non-store format, it will not be fully neglected.

3.3.3 Geographical Development of Modern Food Retailing in China

Reconstructing the historical liberalization and internationalization of the PRC (see *chapter 2.3*, p. 36) as well as evaluating the uneven regional development (see *chapter 2.3.6*, p. 64) has already delivered perfunctorily insight into the geographical concentration of the retailing industry. A further distinctiveness revealed in the above chapter is the fact that cross-provincial retailers remain less common due to local market access barriers. In fact, when observing the geographical distribution of the main grocery retailers, it becomes repeatedly evident that “[...] *there is no single China market*” (PwC, 2013: 8). Moreover, it

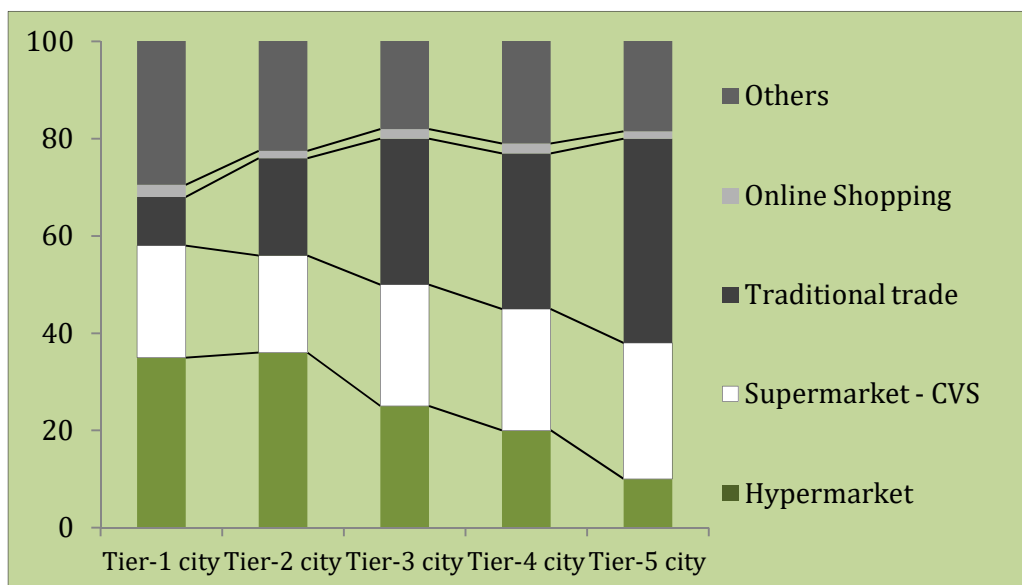


Figure 26 Modern Trade Prevalence in Higher-Tier Cities (own illustration after BAIN & COMPANY, 2012: 7)

becomes evident that in urban cities revealing a greater consumption of processed food, especially the megacities (ZHAI, ET AL., 2014: 16), modern grocery retailing is more prevalent when the city is more advanced. *Figure 26* (p. 117) illustrates this phenomenon. In a host of leading Chinese 2-tier cities, such as Chengdu, Chongqing, Dalian, Shenyang, and Wuhan, modern retail outlets account for only about 50 % of sales. By contrast, modern retailing represents more than 75 % of sales in Beijing and Guangzhou, 80 % in Shenzhen, and 77 % in Shanghai (DIAZ, ET AL., 2012: 3). Focusing on areas of high population density, investment mainly took place along the East coast of China, along the YRD and PRD (DELOITTE, 2013: 2). Back in 1996, Beijing and Shanghai accounted for 70 % of all foreign-invested retail enterprises in China (BOWLES, 1998: 31; WANG, 2003: 126). France's *Carrefour* opened its first supermarket in Beijing in 1995, along with Dutch Makro in 1997. Shanghai plays an especially important role within the development of China's retail sector (WANG & ZHANG, 2005: 41, 68). Major international retailers, such as *Walmart*, *Metro* and *Carrefour* were and are attracted by the city's liberal policies as a SEZ, either locating their headquarters offices in Shanghai or choosing the city as gateway to enter the Chinese market. Still today, the main focus lies on the first-tier cities - such as Shanghai, Beijing and Guangzhou. As discussed in *chapter 2.3.6* (p. 64), FDI is heavily concentrated along the East Coast, as preferential policies and agglomeration economies can be enjoyed. But also the central-western region has become more popular for investments, with the Sichuan province and its cities Chengdu and Sichuan counting as eligible places. Unbalanced conditions and the diversity of China as a market have started to shift the focus of foreign retailer expansion from further saturated regions, mainly in the East of China, towards rather underdeveloped regions in the South and West of China (SIEBERS, 2011: 154-155). Purchasing power in second- and other lower-tier cities is rising robustly and modern grocery retailing in first-tier cities is experiencing extremely fierce competition in an increasingly saturated market (EUROMONITOR INTERNATIONAL, 2013a). QIU AND ZHAO (2011: 22) similarly yet more precisely are of the opinion that many large cities such as Shanghai and Guangzhou are already saturated with convenience stores. DELOITTE (2009: 9) in turn forecasts second-tier cities to represent the major growth pole for hypermarkets. Although *Carrefour* is increasing its presence in tier-1 cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, the French retailer is also expanding into medium-size cities located along the coast of China, as well as wealthy cities located in the interior and West China. Chongqing was the first stop on *Carrefour*'s westward expansion. By the end of 2005, *Carrefour* had seven stores in the western region of China, including

Chengdu, Chongqing, and Kunming WANG (2007: 331-332). *Wumart* stores' fragmentation is mainly concentrated in Beijing, Tianjin and Zhejiang and Ningxia Provinces (GAIN, 2012: 24). *Walmart*, while focusing efforts on Southern China and second-tier cities such as Dalian and Harbin (Northeast China), is also slowly expanding its presence in more competitive first-tier cities, such as Shanghai and Beijing. *Walmart's* new stores are located in Guangdong's Huizhou, Longgang, and Zhaoqing; Hunan's Hengyang; and Fujian's Fuzhou, Xiamen, Nanan and Ningde (GAIN, 2012: 19). For the first time *Walmart* announced plans to open a *Sam's Club* store in Nanchang (Jiangxi Province), which would become the first second-tier city that has the membership store in China (CCFA, 2014d: online). By acquiring the *Trust-Mart* chain of 101 stores, presence is growing in South and East China. *RT-Mart* is focusing on smaller second- and third-tier cities. Japan's *FamilyMart Co., Ltd.* has announced plans to further expand away from Shanghai, where it is currently operating, into other first- and second-tier cities. Also concentrating on cities such as Guangzhou and Shenzhen, *7-Eleven* operates over 600 outlets in six cities in total (including the neighboring cities Foshan, Dongguan, Zhongshan, and Zhuhai) (GAIN, 2013: 5).^{lxxv} Analyzing and forecasting the geographical range of chained retailers, initial developments reveal that operators are penetrating further into inland areas of the PRC's 33 provincial level regions. Yet, differences between foreign and domestic retailers are distinguishable, as further discussed in the next chapter. According to TORSTEN STOCKER (consultancy at A.T. Kearney), “[O]ne of the reasons that the [grocery] market is so fragmented is because China is so damn big [...] Historically, you had a lot of retailers that existed at the very local level or provincial level and everybody [big and small supermarket chains] is still expanding” (cited in CHINA ECONOMIC REVIEW, 2013: online).

^{lxxv} See *Appendix 15* (p. 282) for an overview of selected retailers store locations.

3.3.4 Foreign Retail Chains Versus Domestic Retail Chains

SIEBERS (2011: 156) is of the opinion that foreign grocery retailers have not made a significant impact on China's retail sector, a judgment shared by WANG (2003: 127) and to a lesser extent by CHUANG, ET AL. (2011: 445). The latter investigate *Walmart* and *Carrefour's* operations in the PRC, arguing that neither has been able to achieve oligopolistic power due to a lack of success in replicating their home market standardization. AU-YEUNG (2003: 152), as well as SAMIEE, ET AL. (2004: 248) in contrast argue that changes have already been induced, therewith conceding foreign players to influence the Chinese retailing industry. WANG (2007: 321), in his study on foreign retailers in post-WTO China, highlights the fact, that "*levels of market penetration and performance vary greatly*", while referring to Western retailers "*taking the lead in penetrating the Chinese market*", due to their advanced information technologies and resources. Back in 2000, GOLDMAN (2000: 1), describing the grocery retailing sector in Shanghai where supermarkets established a visible presence of some 1,000 stores and an estimated market share of 5 %, acknowledges that local chains dominate the sector but well-known international retailers are very active. Indeed, as evaluated in *Figure 9* (p. 48), several international retailers entered the Chinese market at relatively early stages. As already described in *chapter 2.3.3* (p. 50), entering the WTO in 2001 facilitated the expansion of foreign grocery retailers, intensifying competition between foreign and local companies. SIEBERS' (2011: 156) opinion as stated above, that foreign grocery retailers have not made a significant impact on China's retail sector, is not shared by this author and is further investigated and reasoned within the analysis in *chapter 4.5* (p. 192). Indeed, a *Wumart* manager acknowledged in 2007 that "*(...) confronting competition from foreign retailers will present its main challenge in the future, and Jingkelong faces a difficult transition to become a commercial and competitive organisation*" (HINGLEY, ET AL., 2008: 24). Furthermore, this thesis argues that the significance of indigenous Chinese grocery retailers or so-called "*second-tier regional TNCs*" (TACCONELLI & WRIGLEY, 2009: 59) is often underplayed, if not disregarded. AU-YEUNG (2003: 152) speaks of "*the development of animosity of some local retailers towards their foreign counterparts*", due to limited financial and knowledge capacity to employ 'Western retail know-how'. Nevertheless, their solid knowledge of the cultural and political business environment must not be underestimated due to their strong economic, political and ethnic networks. While some

Company	Ownership	Business Line	Stores	Sales ¥ billion
<i>Chinese</i>				
Lianhua	China SOE	Super-/Hypermarket/ Convenience	5239	70.0
Wumart	China Pvt	Supermarket / Convenience	2578	38.0
Suguo (CRV)	China SOE	Supermarket / Convenience	1905	37.0
NGS	China SOE	Super-/Hypermarket/ Convenience	3204	29.0
Vanguard (CRV)	China SOE	Super-/Hypermarket/ Convenience	3155	72.0
<i>Multinational</i>				
RT Mart	France	Hypermarket	143	50.0
Carrefour	France	Hypermarket	182	42.0
Walmart	US, JV	Hypermarket	219	40.0
Metro	Germany, JV	Hypermarket	48	12.0
Tesco	UK, JV	Hypermarket	109	16.0
Auchan	France	Hypermarket	41	13.5
Lotus	Thailand	Hypermarket / Convenience	74	13.6

Table 11 Leading Domestic and Multinational Food Retailers in 2010 (own illustration after CCFA, 2011 cited in GAIN, 2012: 18)

retailers (including *CRV* and *Lianhua*) have a significant presence, the hypermarket format is dominated by foreign operators including *Carrefour*, *Walmart*, *Metro*, *Lotus*, *RT-Mart*, *Auchan* and *Tesco* (GAIN, 2013: 6), as illustrated in *Table 11*. Other retail channels, most notably supermarkets, are highly fragmented and controlled by domestic players (GAIN, 2012: 6). “*Conditions remain difficult and no doubt China is still in the red,*” for *Tesco*, said Investec analyst DAVE MCCARTHY, who has a sell rating on the UK retailer. “*Just because China is big, this does not make it attractive and building large stores there may not be the right answer.*” In their study of Chinese retailers and their market orientation, STERNQUIST, ET AL. (2010: 372) ascertain that private retailers and those with foreign investment surpass state-owned retailers at collecting and reacting to market information. In 2012, 20 foreign retailers were represented in the top 100 list, of which *RT-Mart* continued to hold the top spot, followed by *Walmart*. Despite CHAKRAVARTY & CHUA’S (2012: 19) statement, similar to ZHEN (2007: 126), that “*Chinese retailers have outperformed their international competitors*”, foreign retailers are never-the-less big contenders. In terms of operating efficiency and gross profit margin, foreign retailers generally perform better than domestic players (FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 15). With the exception of *Walmart*, the leading foreign retailers are predominantly Western European or Asian. Noteworthy here is the fact that the large majority of foreign grocery retailers entered the Chinese market at an early stage. *Walmart* for instance began operations in China already in 1996. In 2015, the amount of stores is supposed to have risen from 419 to 500, estimating the current turnover of € 10.3 billion. *Carrefour*, number

two retailer in the world, entered the Chinese market in 1993 and was the leading foreign food retailer in China by 2005, operating 90 hypermarkets, eight supermarkets and 255 discount stores (GAMBLE, 2011b: 28). *Tesco*, the world's third biggest grocery retailer, entered comparatively late in 2004, only operating in China as minority shareholder in a JV (LEBENSMITTELZEITUNG, 2013a: online). *Walmart* and *Carrefour* for instance incorporate a first-mover strategy^{lxxvi}, thereby gaining first-mover advantages^{lxxvii}. While GOLDMAN (2000: 2) observes a high visibility of foreign retailers, of the 7,000 estimated supermarkets operating in China in the year 2000, most were owned and operated by Chinese retailers; foreign retailers' stores constituted only a small fraction (around 3 - 4 %) (ASIA PULSE, 1998b cited in GOLDMAN, 2000: 2). Further, GOLDMAN (2000: 5) argues that an estimated 70,000 fresh food stalls in the hundreds of street markets in Shanghai are responsible for some 70 % of fresh food sales. Although several foreign grocery retailers opened huge amounts of stores during the last years, store openings decreased between 2011 and 2012. *Walmart* for instance opened 43 stores in 2011 and 30 in 2012 (*Carrefour*: 29 in 2011, 18 in 2012; *RT-Mart*: 42 in 2011, 34 in 2012; *Tesco*: 43 in 2011, 30 in 2012; *Lotte Mart*: 42 in 2011, 34 in 2012) (FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 18). Major hurdles facing foreign retailers are often represented in the fact that it is very difficult to secure prime sites at reasonable prices, when establishing new stores. Furthermore, most foreign retailers operate single-format stores, whereas multi-format retailers are not only provided with greater flexibility, but usually reveal increased synergies when negotiating prices (FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 19). Chinese customers are highly attracted by low prices, usually offered by foreign retailers, such as *Carrefour* or *Walmart*. However, YU AND RAMANATHAN (2012: 229) argue that local retailers generally tend to obtain consumer confidence from their low prices rather than quality. Profit margins are reportedly lower at Western companies who are willing to accept lower profits, than those at local enterprises, representing a long-term strategy in increasing their store presence and winning customers. In an interview conducted with a

^{lxxvi} First-mover strategy refers to an organizations early move to a new market. However, KERIN, ET AL. (1992: 48) correctly argues that believing the “*entry order automatically endows first movers with immutable competitive advantages and later entrants with with overwhelming disadvantages is naïve in light of conceptual and empirical evidence.*”

^{lxxvii} LIEBERMANN AND MONTGOMERY (1988: 41, 44) define first-mover advantages “*in terms of the ability of pioneering firms to earn positive economic profits [...] within a multi-stage process.*” They include inter alia the preemption of geographical locations or buyer switching costs.

Walmart manager in 2007, he stated that Walmart gains “customer confidence by telling them (author’s note: customers) we are the largest retailer in the world. Some of the young shoppers really appreciate our background and drive a long way to come here” (cited in HINGLEY, ET AL., 2008: 15). This is often combined with an assumption that foreign retailers sell products of higher quality. While the advantages of foreign firms are often praised in regard to their expertise, their cultural differences are often seen as hindrance. Especially in the long run, strong growth from early on will be necessary to allow them to compete with local competitors. JINGLUN (2003: 158) is of the opinion that domestic firms will come to the fore. It could be argued that due to the Chinese government’s earlier controlling of entry time and mode of new retailers, local retailers were allowed to respond to the foreign competition. One reaction can be seen in the augmenting in the amalgamation of local retailers. In 2001, Chinese *Hualian* and *Xidan* merged, representing one of the most notable domestic acquisitions (AU-YEUNG, 2003: 142). Indeed, local grocery retailers are catching up regarding modernization and efficiency improvement, whereas GOLDMAN (2000: 8) remarks on a high degree of local chains copying foreign retailers. By the end of 1990s, foreign retailers such as French *Carrefour*, German *Metro* and Thailand’s *Lotus* were all present in Shanghai; however, they had introduced new formats to the Chinese market, as only department and a few specialty stores were present. Department stores in Shanghai especially, lost money rapidly to the newly introduced formats. And while foreign grocery retailers presented less than one percent of the total store locations, around five percent of the retail workforce was employed by them (WANG & ZHANG, 2005: 56). In 1996, the geographical distribution of overseas-invested retail enterprises was very one-sided, with 92.8% of foreign companies investing along the Eastern Coast of China (37.1 % in Shanghai), only 5.4 % in Central, and 1.8 % in Western China. However, in contrast to Guangdong (29.2 %) and Shanghai (26.6 %), the Eastern region (86.9 %) is the main point of interest for overseas Chinese^{lxxviii}.

9.6 % invested in the central, 3.5 % in the western parts of the PRC (WANG, 2003: 126). See *Appendix 16* (p. 283) for a complete overview. In regard to format choice, retailers from Asian countries operating in China mostly adopted the retail format of department stores. While they mostly entered the Chinese market earlier than the European and North American retailers (see *Figure 9*, p. 48), the latter adopted ‘new’ formats such as

^{lxxviii} Overseas Chinese retailers refer to enterprises and people from Hong Kong, Macao and Taiwan. Hong Kong gained independence from the UK in 1997, after 156 years under British colonial governance, immediately becoming the PRC’s first Special Administrative Region.

hypermarkets (*Carrefour*), C+C (*Metro*, *Makro*), or discount department stores (*Walmart*). Despite operating large chains in their home markets, no major players have yet been able to build up strong chains in China. Yet, with recent notification on several store closures of *Carrefour* (CCFA, 2014a: online), as well as *Tesco*'s absconding from the Chinese market within the framework of *CRV-Tesco* Integration Program (CCFA, 2014b: online), the fate of foreign retailers seems to reveal ample uncertainties.

Rank in 2012	Rank in 2011	Enterprise	2012 sales (mio. yuan)	yoy change (%)	No. Of stores	yoy change (%)
1	1	<i>RT-Mart Shanghai</i>	72.470	17,7	219	18,4
2	4	<i>Walmart (China)</i>	58000*	3,6	395	6,8
3	3	<i>Yum!Brands</i>	52.200	30,5	5200	16,9
4	2	<i>Carrefour China</i>	45.274	0,2	218	7,4
5	5	<i>Best Buy</i>	24.185	-12,0	252	-9,7
6	6	<i>Tesco China</i>	20000*	11,1	111	8,8
7	7	<i>Parkson Retail Group</i>	19.724	20,1	48	4,3
8	10	<i>Metro Jinjiang C & C</i>	17.900	29,7	64	18,5
9	9	<i>Lotte Mart</i>	16.318	6,7	99	8,8
10	12	<i>Auchan (China)</i>	16.305	28,4	54	20,0
11	8	<i>New World Development Store China</i>	16000*	3,2	39	0,0
12	14	<i>C.P. Lotus Corporation</i>	12493*	6,6	57	9,6
13	13	<i>Zhengzhou Dennis Department Store</i>	12.200	13,0	144	45,5
14	15	<i>A.S. Watson & Co</i>	12000*	20,0	1500	36,4
15	16	<i>McDonald's Corporation</i>	9000*	11,1	1500	7,1
16	18	<i>AEON</i>	8.083	21,3	36	20,0
17	19	<i>IKEA China</i>	7.634	21,2	11	22,2
18	17	<i>Ito-Yokado</i>	7.487	0,0	13	0,0
19	20	<i>Park'n Shop (China)</i>	4.077	-5,1	51	10,9
20	21	<i>Emart China</i>	2400*	0,0	16	0,0
Total			303.857,00	11,3	10.027	16,2

Table 12 Foreign Retail Chains among the Top 100s in China (own illustration, adopted from CCFA, 2013, cited in FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 16)

3.3.5 Current Trends within the Chinese Grocery Retailing Industry

Although the Chinese grocery retailing market remains highly fragmented (LU, 2010: 17; CHUANG, ET AL., 2011: 447), especially compared to the often extremely concentrated Western equivalents, this thesis argues for a decreasing degree of fragmentation due to a consolidation process that has been initiated with the liberalization process and WTO entry, described in *chapter 2.3.3* (p. 50). Further developments and trends are identifiable: The number of chain stores has grown in recent years.

- Still a large number of regional small chained or independent supermarkets (GAIN, 2012: 8).
- M & As have increased tremendously (ZHEN, 2007: 233; CHINA ECONOMIC REVIEW, 2013b: online; A.T. KEARNEY, 2014a: 9).
- Cross-provincial retailers remain less common due to local market access barriers.
- Domestic players dominate the supermarket sector (GOLDMAN, 2000: 7; GAIN, 2012: 8).
- Foreign players dominate the hypermarket sector (ZHEN, 2007: 229).
- New retailing outlet types emerge (EUROMONITOR INTERNATIONAL, 2009: 2).
- The leading Chinese supermarket chains operate across multiple formats (CHINA ECONOMIC REVIEW, 2013; online).
- It is evident that packaged foods, especially categories such as chilled and frozen processed food (see *Appendix 17*, p. 284), as well as confectionaries reveal tremendous growth rates (GTAI, 2014a: online).
- Fresh food is nevertheless positioning itself as the core offer.
- Foreign retailers reveal a direct impact on the Chinese grocery sector, as they highly influence Chinese own brand's emergence and growth (SONG, 2011: 16).

In 2008, *Carrefour* and *Tesco* respectively opened express outlets in Beijing and Shanghai, with fresh food constituting the main offer in these supermarket-like outlets. Similarly, *Shanghai Lotus* opened neighborhood hypermarkets in Shanghai with fresh food as its core offer (EUROMONITOR INTERNATIONAL, 2009: 2). Specialty supermarket stores such as *CRV* high-end retail format *Ole* and *City Shop* in Shanghai, both targeting high and upper-middle class clients, are reported to have successfully attracted customers from the hypermarkets. As mentioned above, hypermarkets often take on attributes of department

stores and vice versa. Therefore, department stores reveal an increasing growth in grocery sales. According to a report on global shopping centre development, Chinese cities continue to dominate development activity. China was by far the most active development market last year with four cities in the top five in terms of the amount of new space completed and seven of the top 10 most active development markets globally. Additionally, Chinese cities account for exactly half of all the shopping centre space under construction in the 180 cities analysed. Focus lies on the cities Shenyang (8.1 million people), Wuhan (9.8 million people) and Chengdu (CBRE, 2012: 1, 3). In regard to retail formats there are two central questions which need to be answered. Firstly, as discussed in *chapter 3.3.3* (p. 117), the geographical location where each retail format finds application. Secondly, for a retail format to be successful, it must serve a market better than competing formats. In combining these questions it is asked: What does the current grocery retail landscape in four chosen areas across China look like and how could they potentially look, according to the findings of this study, in the future?

3.4 Extended PEST Analysis: China as one Market?

AKEHURST AND ALEXANDER (1995: 6) acknowledge that the retailing internationalization process “*is the study of contextualized change over time.*” Hence, the global environment may not simply be taken to be the retail environment, but rather the wider economic and social environment. In her investigation into the transfer of ‘retail expertise’ from developed to emerging markets, AU-YEUNG (2003: 136) highlights the importance of “*differences in economic, social, cultural, technological and political conditions (...)*”, as “*(...) retail expertise is rooted in a specific set of underlying (...) conditions and level of infrastructure development.*” It is non-controversial that China has been identified as a potentially attractive market. However, numerous threats, opportunities, strengths and weaknesses have to be assessed in order to distinguish truly attractive areas. Therefore, this analysis proceeds with a brief discussion of socio-economic data which highlights key aspects of the Chinese market relevant to retail enterprises. This thesis thereby uses an initial Political, Economic, Social and Technological (PEST, also often referred to as STEP) analysis, as it helps to provide a ‘satellite view’ to assess the external environment when

trying to narrow down a very large environment such as China. Especially for companies moving or having moved into unfamiliar and unpredictable territory, challenges posed by a different political, economic and cultural environment, have to be considered. The Chinese grocery retail market is influenced by various political, economic, social and technological factors (HINGLEY, ET AL., 2008: 7). In her valuable research, SIEBERS (2011: 50) concludes in regard to location that *“making food regional, city, and store location choices has a significant impact on the expansion process of foreign retailers in China’s market. Such choices are influenced by local political, economic, and social and cultural issues.”* The purpose is to develop an in-depth understanding of the countries context in which the research questions (see *chapter 1.2*, p. 16) are embedded. Hence, it serves as an analysis framework of macro-environmental factors, which will be extended within the discussion of cases in the *chapters 4.1.1 to 4.1.3* (pp. 146-151), when *“identify[ing] narrower contexts and focus research questions around feasible and meaningful regional contexts”* (PENG & NUNES, 2007: 230). However, this analysis is far from being a precise and clearly circumscribed framework, as already criticized by a range of researchers. According to PENG AND NUNES (2007: 230), *“[T]here are an almost unlimited number of variables that may emerge from each dimension.”* Therefore, as the consumer itself represents a pivotal variable within the grocery retailing industry, this analysis introduces the additional category *Consumer 2020* within *chapter 3.4.3* (p. 134). Nevertheless, within this study the purpose of the extended PEST analysis is threefold:

- I. To further develop a profound understanding of the Chinese context and to evaluate relevant and prioritised variables significant for this study.
- II. To confirm solid grounds as to why China was chosen as a context and location for multiple case studies in revealing chances and barriers relevant within the international grocery retailing market.
- III. To provide the foundation for a continued in-depth analysis within the scope of multiple cases.

Investigating and attempting to predict the European grocery retailing industry in regard to competition and format development, COLLA (2004: 48-51) evaluates factors of change, namely consumer buying behavior, technological process and retailing legislation. HESS (2004: 178) differentiates three types of embeddedness in regard to retailing enterprises, namely societal, network, and territorial; All representing major aspects of the extended PEST analysis in this piece of research.

3.4.1 General Political Analysis

Obviously, market orientation did not have a role to play in the planned economy (STERNQUIST, ET AL., 2010: 362). Ever since the establishment of the PRC, the CCP has been the dominating force and ruler of the country (PENG & NUNES, 2007: 231). The “*fifth generation*” of party leaders is led by Party Secretary General Xi Jinping (PwC, 2013: 10). The keynote report delivered by President Hu Jintao at the 18th Party Congress largely reflects the new leadership’s consensus. Three major themes stand out: (1) Restructuring the economy; (2) Boosting domestic demand; and (3) Spurring green growth (PwC, 2013: 12). President Hu called for “*doubling per capita income for both urban and rural residents by 2020*” (cited in PwC, 2013: 13). Therewith, China retains many characteristics of a planned economy, such as the five-year plans, which set the economic goals, strategies, and targets of the PRC. Provincial and local officials are accountable for delivering on the five-year plans and their priorities reflect that mandate. In regards to foreign policies, GOTTWALD AND DUGGAN (2011: 19) conclude that the PRC “*is in the process of adapting its internal policies to external standards while at the same time pursuing strategies to set new global standards close to its domestic ones.*” Despite the liberalization process described and discussed above, many of China’s policies, for instance land ownership, remains heavily under state control (WEI, 2007: 22). AU-YEUNG (2003: 143), argues that “[...] *a well developed legal and regulatory system has yet to be seen.*” According to BUSINESS MONITOR INTERNATIONAL (2014: 3), the PRC’s short and long term political risk ratings are 78.5 and 62.9. (out of 100; 100 being the most risky), alluding inter alia to the Sino-Japanese conflict over islands in the East China Sea. According to certain sources, the general political risk of the PRC is supposed to be rising (ASIA MONITOR, 2014b: 2). Yet, despite many regulatory issues, regulatory compliance is actually considered a minor risk, according to PwC’s 15th global CEO survey. However, it is often recommended in business literature, that foreign companies should actively engage in relationships with government officials in order to stay informed (PwC, 2013: 124). While regulations are introduced centrally in the PRC, policy implementation can be subject to local variations in interpretation and enforcement (PwC, 2013: 125). ASIA MONITOR (2014a: 2), reporting on the CCP’s Third Plenary Session, name the newly opened Shanghai Free Trade Zone as “*hope of a new wave of liberalisation in the Chinese economy*”, naming the financial sector

as the main area of focus for potential reform measures. Where the new zone differs however, is the fact that it might be used as to check possibilities of further economic liberalization within the financial sector, namely letting the market set interest rates or allowing foreign firms to freely trade the yuan (ASIA MONITOR, 2014a: 2). As already mentioned, transaction costs play a tremendous role, as time required to enforce a contract or to register property is considerably higher than in developed home markets (KHANNA & PALEPU, 2010: 18); thus often hindering the establishment of companies. In regard to China, registering property includes a 29 day time period and registering a business takes 35 days (for an overview and comparison of several countries, see *Appendix 18*, p. 285). Opening hours and employment law both represent influential factors (ALEXANDER, 1997: 180-181). According to BAKER & MCKENZIE (2013: iii), the *Employment Contract Law*, which became effective on January 1st, 2008, “*significantly changed the relationship between employer and employee to bring China more in line with international standards.*”^{lxxix} Within this scope the regulation of a minimum wage system was introduced (HSIEH, 2012: 26). The basis of the employment contract system in the PRC is formed by several state-level laws and regulations. Yet, “*locally promulgated legislation may also govern, from such places as major municipalities [...], SEZs, OCCs and provinces*” (BAKER & MCKENZIE, 2013: 3-4). In addition, the State and the CCP directly manage the only legal labor union. Grocery retailers have to deal with constraints in form laws, such as planning legislation and formal guidelines as well as restrictions in term of the size of the shop (DAVIES & WHITEHEAD, 1995: 119). It is emphasized that local Chinese governments have a strong influence on local business (SIEBERS, 2011: 35). Yet, PENG (2013: 143) argues that Chinese regulations count as more friendly to foreign investors than to domestic firms. ALEXANDER (1997: 31) proposes the consideration of regulatory boundaries on three levels: (1) intra-state boundaries, (2) state boundaries, and (3) supra-state boundaries. In regards to retail operations within one country Alexander (1997: 167) suggests the consideration on three further political structures: (1) inter-state, (2) state, and (3) local.

^{lxxix} In regard to working hours, for instance, “*Chinese regulations provide for a standard working hours system under which employees should not work more than eight hours per day and 40 hours per week*” (BAKER & MCKENZIE, 2013: 4). In regard to rest days, “[*T*he statutory minimum is one rest day per calendar week, which can be any day of the week. Saturdays and Sundays are generally rest days in China. An employer can arrange to have its employees take rest days on any other days” (BAKER & MCKENZIE, 2013: 5).

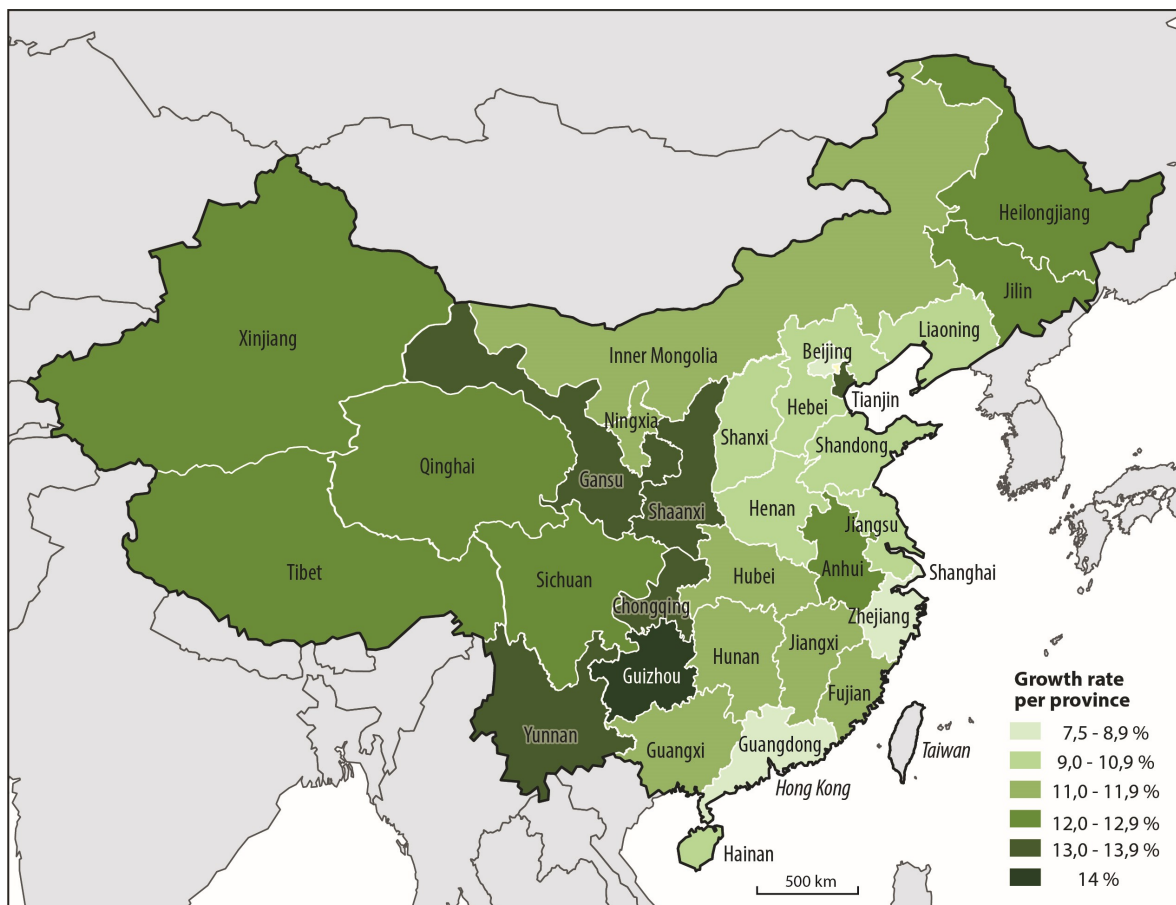
3.4.2 General Economic Analysis

The PRC's economic development within the last three decades has been terrific. At the beginning of Deng's era, GDP was RMB¥ 358.8 billion. Already back in 1980, ROBY (1980: 150) was pointing out the great economic potential China has. By 1992 it had already augmented by 670 % to RMB¥ 2,043.6 billion. Only eight years later, in 2000, GDP had improved by 400 % and increased to more than RMB¥ 8,900 billion (JINGLUN, 2003: 156). Rapid development occurred especially after China's participation in WTO in 2001 (WEI, ET AL., 2012: 166). Having risen from 4.4 % in 2002 to around 10 % in 2011, the PRC's share of global GDP is second-highest in the world, surpassing Japan to become the world's second-largest economy (see *Table 1*, p. 1), and representing the largest exporter and second-largest importer worldwide (PwC, 2013: 10). However, China's slowest growth rate since 1999 was witnessed in 2012, when it dropped down to 7.8% (THE ECONOMIST, 2014: online). Several economists have raised concerns whether 7% to 8% is possible over the next years (DELOITTE, 2014: G5). Current estimates, according to ASIA MONITOR (2014a: 3) forecast real GDP growth of 7.1% in 2014, before slowing further to average 6.1% growth over the next five years. The PRC's economic short and long term risk ratings are 86.0 and 76.4 (out of 100; 100 representing the highest risk), while, according to PwC's 15th global CEO report 2012, 30 % of 1,258 questioned CEOs, see China as the region for best overall growth prospects^{lxxx} (PwC, 2013: 22). TACCCONELLI AND WRIGLEY (2009: 50) argue that “[T]he geographic and economic dimensions of the [Chinese – author's note] retail industry are being reconfigured in radical ways”, especially with an unprecedented intensity of retail FDI since the mid-1990s. Positioning itself number one for several years in row, since 2013, the PRC ranks as the country with second-highest confidence^{lxxxi} in regard to FDI (A.T. KEARNEY, 2014b: 1) with more than 400 of the Fortune Global 500 companies operating in China (DERESKY,

^{lxxx} USA was ranked No. 2 with 22 %, followed by Brazil (15 %), India (14 %), Germany (12 %), Russia (8 %), UK (6 %) and France (5 %).

^{lxxxi} The A.T. Kearney Foreign Direct Investment Confidence Index[®] ranks countries on how changes in their political, economic, and regulatory systems are likely to affect FDI inflows in the coming years. Values are calculated on a '0 to 3' scale, whereas China ranks second with 1.95 behind the USA with a score of 2.16 (A.T. KEARNEY, 2014b: 1).

2014: 33). The PRC had become one of the most popular destinations for foreign investment, with FDI reaching US\$ 116 billion in 2011, an increase of 8% from 2010 (DELOITTE, 2012: 1). This however, when considering GOLUB’S (2009: 1256) examination of the PRC’s restrictions on FDI in services, contrasts the named results from 2004 - 2005. He ascertains that China reveals one of the highest restrictive FDI regulations in regard to business, communication, distribution, transport and others, scoring an average 0.42 points (0–1 scale, 0 = open, 1 = closed). WEI, ET AL. (2012: 171) reveal that Chinas government has to further prioritize the use of foreign investment. KALISH (2014: 6-7) similarly argues that planned and announced governmental reforms will, if realized, help shift China towards a consumer-driven economy and more stability. In their interesting study on the cohesion of economic growth and the expansion of urban land in the PRC, DENG, ET AL. (2010: 821) remark that “*the urban cores in the provinces of north-western and north-eastern China are expanding faster in the later period*”, interpreting this phenomenon as an “*indication that they are catching up with the rest of the economy.*”



Map 5 GDP Growth Rate per Province in 2013 (own draft, realisation by Julia Breunig)

According to BUSINESS MONITOR INTERNATIONAL (2014: 3), the PRC's consumer price inflation (CPI)^{lxxxii} rate has remained remarkably benign, notwithstanding the surge in credit in recent years, while producer price inflation (PPI) has been consistently negative. Inflation rates are prognosticated to stay below 4 % within the next five years ahead (PwC, 2013: 13). Within one decade, the per capita disposable income in urban areas in 2009

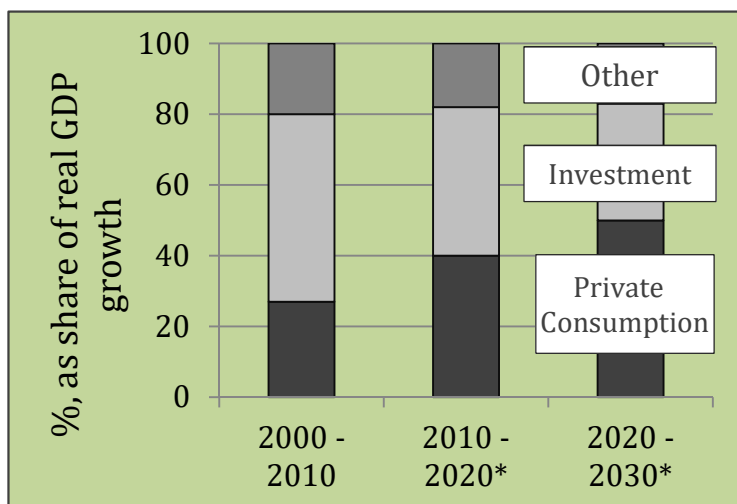


Figure 27 China's Driving Economy (own illustration after THE WALL STREET JOURNAL, 2013: ONLINE) * Forecasts

almost tripled, reaching ¥ 17,175 (US\$ 2,515) (LU, 2010: 16). The average per capita disposable income in the economically advanced cities such as Beijing and Shanghai is more than ¥ 26,000 (US\$ 3,810).^{lxxxiii} Nevertheless, CHUANG, ET AL. (2011: 448)

critically underline the misleading image which is presented by Chinese consumers having considerable disposable income. Although acknowledging the steep increase in consumer purchasing power, they argue that the 2009 “average household income of US\$ 3,744 was still only 8 % of a USA household (US\$ 45,989)” (CHUANG, ET AL., 2011: 449). Salaries are projected to rise from US\$ 3,828 in 2011 up to US\$ 16,300 in 2021 (PwC, 2013: 86). Increase has mainly been observed in the seven major economic areas such as Shanghai, Beijing, Tianjin, Hebei, Jiangsu, Zhejiang and Guangdong (HSIEH, 2012: 26). In 2013, minimum wage levels have augmented again due to cities and provinces raising them (see *Appendix 19*, p. 286 for an overview of minimum wage levels in 13 cities and provinces that raised minimum wage in 2013). Geographical scope is confined to three regions with the highest average disposable income in China, namely

^{lxxxii} CPI refers to inflation and reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. Within the last years the PRC revealed levels of CPI as considerably low as 3.3 % (2010), 5.4 % (2011), 2.7 % (2012), and 2.6 % (2013) (WORLD BANK GROUP, 2014d: online). However, the USCS (2013: 13) reports a 9.1 % annual inflation on food items in 2011, which demonstrated a steep rise in prices.

^{lxxxiii} For comparison: German per capita spending for private consumption was 17.200 € in 2012 (STATISTA, 2013: 7).

Beijing, Shanghai and Guangdong (mainly Shenzhen and Guangzhou) (AU-YEUNG, 2003: 137). CHUANG, ET AL. (2011: 448-550) emphasize the existence of differentiating perspectives in regard to augmenting household income in the PRC. While it is generally argued that incomes will increase, they rightly highlight the possibility of two separate entities, namely Beijing, Shanghai, Guangzhou, and Shenzhen, as opposed to the remainder of China. Interestingly, it is geographically significant that the stronger the private sector at the provincial level, the faster the province's economic growth (HAN & PANNELL, 1999: 272). Despite the fact that urban incomes are approximately three times higher than rural ones, the latter are rising slightly more than the former (see *Appendix 20*, p. 287), thereby limiting the fears of CHUANG, ET AL. In 2011, 50 % of China's population was living in cities, up from about 20 % at the time the economic reforms were launched (WHYTE, 2012: 233; PWC, 2013: 11). By 2030 this number could increase to two-thirds (equal to around 13 million every year) according to the WORLD BANK's estimation (cited in WALL STREET JOURNAL, 2013: online). However, YAO, ET AL. (2014: 281) highlight that the level of house prices "*is obviously unsustainable in China*"^{lxxxiv}. Domestic consumption represented 38 % of GDP in 2011 (PWC, 2013: 11). While urban households expended 37.9% of their incomes on food, rural households spend 43.7% in 2008 (LU, 2010: 16). Generally, from 2005 to 2010, urban Chinese increased their spending on groceries by almost 1.1 times, while average annual food purchases for all cities was slightly more than US\$ 700 per year, per person^{lxxxv} (GAIN, 2012: 4). According to Engel's law^{lxxxvi}, "*the lower the initial per capita income level of the population the greater will be the expansion in food demand for a given rise in income*" (SENAUER & REARDON, 2011: 282).

^{lxxxiv} YAO, ET AL. (2014: 481-482) report of several occasion when house prices increased by almost 25 % over night. Central governmental policies, such as the restriction of the numbers of houses each household could buy, were introduced in order to stabilize the housing market. YAO, ET AL. (2014: 499) further point out various indicators for a housing bubble in the PRC.

^{lxxxv} Expenditure of food differs between cities and regions; In Shanghai consumption represented more than US\$ 1,200 per person, and that in Beijing and Guangdong was about US\$ 1000 per person. The GAIN REPORT (2012: 4) compares this with US food purchases per person of about US\$ 2,300 per year in 2011.

^{lxxxvi} Engel's law is an observation in economics stating that as income rises, the proportion of income spent on food falls, even if actual expenditure on food rises. In other words, the income elasticity of demand of food is between 0 and 1. Engel's law doesn't imply that food spending remains unchanged as income increases: It suggests that consumers increase their expenditures for food products (in % terms) less than their increases in income. The law was named after the statistician Ernst Engel (1821–1896).

3.4.3 Meet the Chinese Consumer 2020

“The transformation of [...] China [...] into consumer societies must be considered one of the most profound and far-reaching social processes that will define the twenty-first century [...]” HAMILTON AND PETROVIC (2011: 19)

Dedicating a special edition to ‘The value of China’s emerging middle class’, THE MCKINSEY QUARTERLY (2006) confirms Hamilton and Petrovic’s statement. Dozens of management magazines (BLOOMBERG BUSINESSWEEK, 2009; DELOITTE, 2009; MCKINSEY, 2006), but also academic literature highlights the enormous potential of the Chinese consumer market. Also the Chinese government acknowledged to take steps to boost domestic demand (BLOOMBERG BUSINESSWEEK, 2009: 67) and is expected to do so in the next years to come, due to potentially decreasing exports and the need to further stimulate its economy (DELOITTE, 2009: 1). ZHEN (2007: 95) speaks of a dual-structure of Chinese

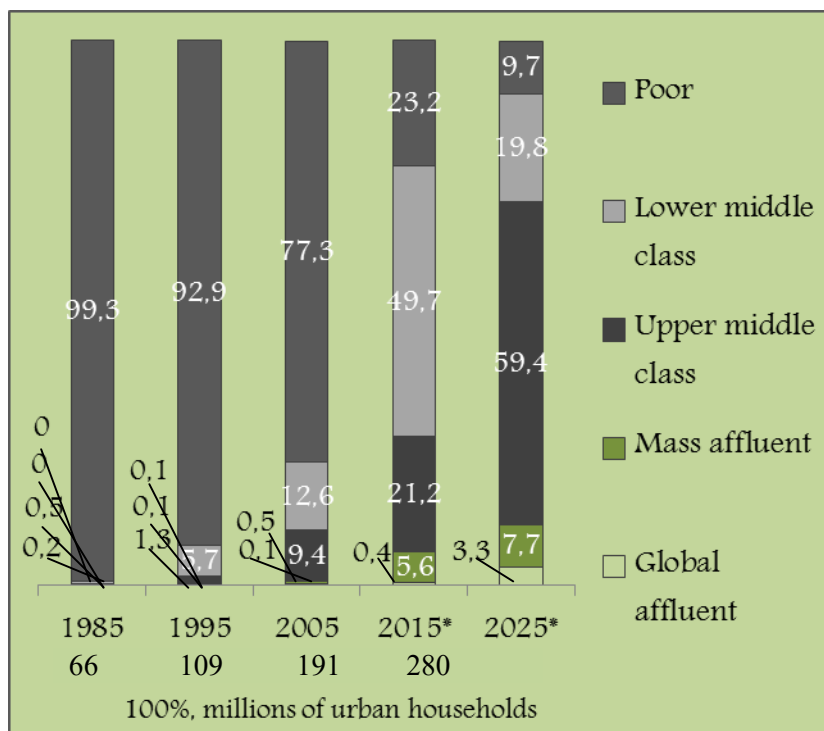


Table 13 Annual Disposable Income of Urban Households (own illustration, adopted from EUROMONITOR, 2013b: 12)

retailing, where the “developed urban retail market co-exists with the less developed rural retail market; and the modern retail format coexists with the traditional open market.”

With expectations of China’s population of roughly 1.4 billion to rise and peak at 1.54 billion around 2040 (AAFC, 2013: 3). By 2020, the number of

people expected to belong to the middle class will embrace 2,241 million households with an annual disposable income of over US\$ 300,000 (EUROMONITOR, 2013b: 11). WANG, ET AL. (2010: 434) allude to various misconceptions about the Chinese market and its

consumers. Correspondingly, YU AND RAMANATHAN (2012: 226) indicate that an understanding of the fundamentals of Chinese consumers' unique shopping habits is strongly required. The Chinese diet is evolving very rapidly and will be heavily shaped by the modern retail industry. Age and the urban area both heavily influence and determine food consumption (ZHAI, ET AL., 2014: 15). From 2000 onwards, a significant increase in snacking has taken place. Especially Western snack foods will expand, as they become more popular for young consumers (CURTIS, ET AL., 2007: 1-4; QIU, 2011: 19; GAIN, 2012: 3; AAFC, 2013: 4). Therewith, convenience food is playing an increasing role (GAIN, 2012: 3; ZHAI, ET AL., 2014: 15). As many people have busy work schedules, processed and packaged foods from modern supermarkets became more and more popular over the years (WANG & ZHANG, 2005: 51; GAIN, 2012: 3). From 2008 to 2012, China's packaged food and beverage market grew by an average 15.2 % annually, way above the world's average at 4.1 %, accentuating Chinese consumers' growing appetite for processed and packaged items. Luxury products such as French Bordeaux wines are increasingly popular. BELK (1999: 42-43) however observes that this adoption is not driven by taste, but rather as a status association. While the GAIN REPORT (2012: 3) argues for a reducing amount of restaurant visits due to safety concerns and rising inflation, thereby increasing at home cooking, the Chinese reveal a high preference for fresh foods. Yet, food safety concerns are apparent due to a series of food related scandals, such as milk powder, edible oil, etc. (GAIN, 2012: 3; LAM, ET AL., 2013: 2048; GTAI, 2014b: online). China has the largest diabetic population in the world. This has resulted in an increasing demand for diabetic food products, which are, in turn, expected to lead the food intolerance category in China (AAFC, 2013: 5). Furthermore, the Chinese price sensitivity is a widely cited argument (ACKERMANN & TELLIS, 2001: 57; KPMG, 2006: 10; HINGLEY, ET AL., 2008: 8; QIU, 2011: 23; YU & RAMANATHAN, 2012: 226; AAFC, 2013:10; USCS, 2013: 13; FRANK, ET AL., 2014: 209) and is often presumed to remain relevant. There is extensive literature examining the influence of cross-cultural differences in consumption. ACKERMAN AND TELLIS (2001: 57), with their study being set in Southern Carolina (USA), concluded that price-sensitivity was a major difference when comparing Chinese and American culture. They observed that Chinese consumers differ substantially in their attitude and behaviour to public and private consumption goods, arguing that most Chinese consumers are highly sensitive to price. However, Chinese consumers might not want to offend someone by criticizing a product or service; moreover, some do not sincerely answer certain questions as they do not want to admit that they cannot afford to purchase something (DELOITTE,

2009: 6). A joint study undertaken by BAIN & COMPANY and KANTAR WORLDPANEL, examined 40,000 Chinese households in 373 cities within 20 provinces regarding their shopping behaviour (BAIN & COMPANY, 2012: 3). The research argues that modern trade shoppers make fewer trips to the store but spend more per trip, with the average price per item increasing (BAIN & COMPANY, 2012: 4). Moreover, it is concluded that the PRC's shoppers "tend to be repertoire in most categories. They prefer to choose from a range of brands in a particular category for the same need or occasion instead of being loyal to a brand." Generally, as illustrated in Figure 28, expected spending in 2020 will have increased by 7.2 % in regard to food.

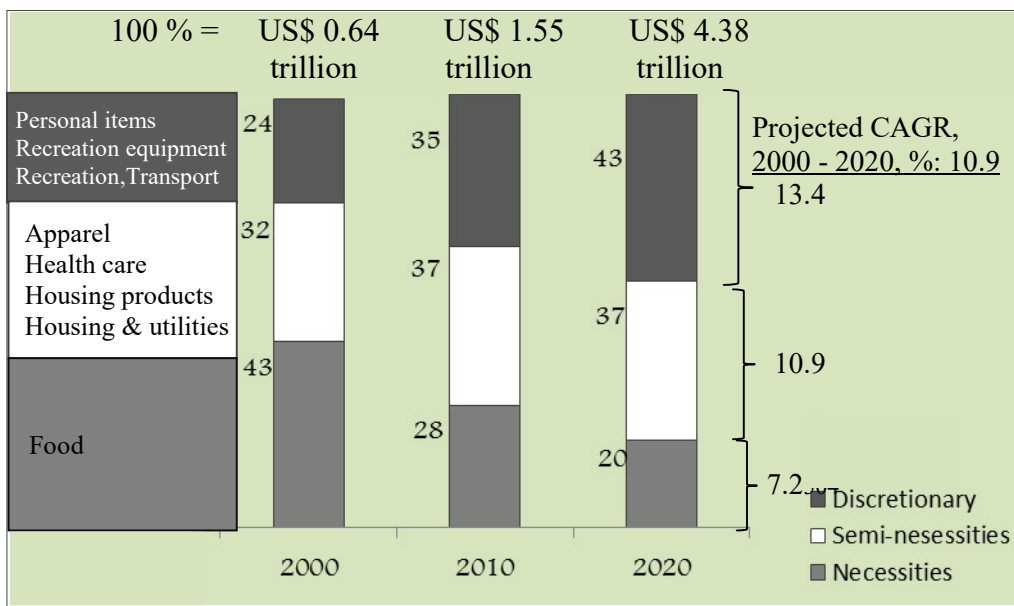


Figure 28 Expected Spending by 2020 (own illustration, adopted from ATSMON AND MAGNI, 2012: 6)

Income distribution, as revealed in Figure 29, is forecasted to augment similarly.

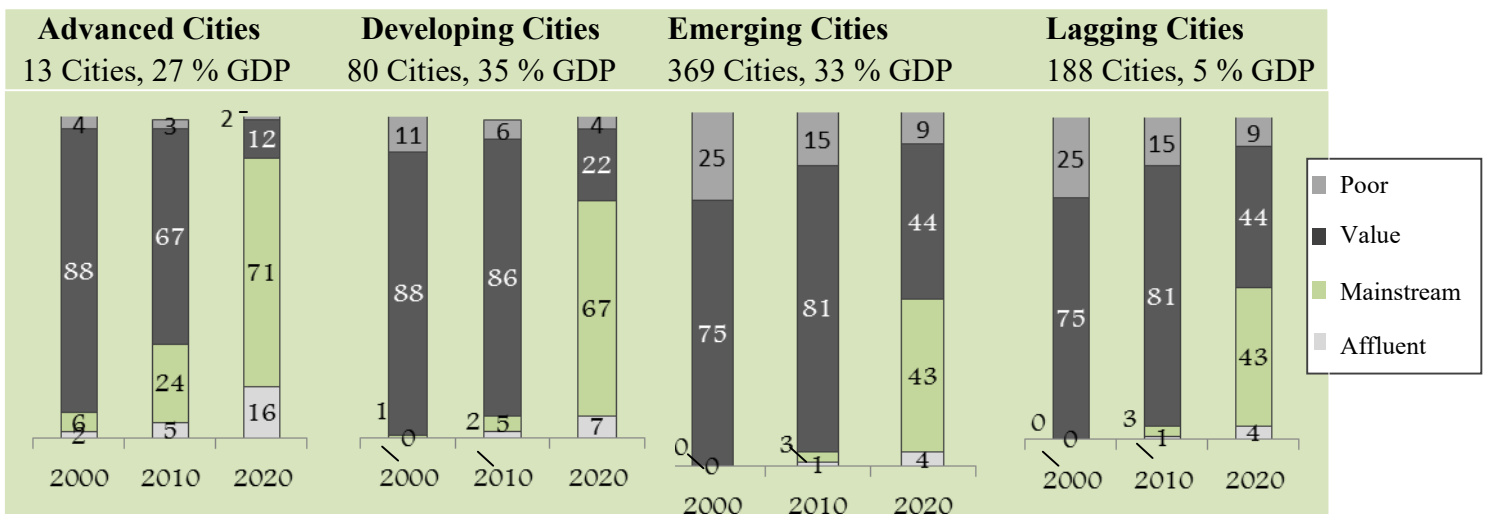


Figure 29 Change in Income Distribution from 2000 until 2020 in Advanced, Developing, Emerging and Lagging Cities (own illustration, adopted from ATSMON AND MAGNI, 2012: 5)

3.4.4 Social Analysis

Understanding and adapting to Chinese culture is often cited and argued as a primary problem associated with doing business in China (HINGLEY, ET AL., 2008: 22). Culture, as defined by HOFSTEDE (1997: 5) within his highly valuable research, is the “*collective programming of the mind which distinguishes the members of one group or category of people from another*”. HOFSTEDE (1997: 5, 10) further points out that culture shapes a person’s patterns of thinking, feeling and potential acting and has many types, i.e. national culture of a country and organisational culture of a company. Investigating the cultural differences of more than 50 countries, HOFSTEDE revealed four dimensions: power distance, collectivism vs. individualism, femininity vs. masculinity, and uncertainty avoidance. Based on HOFSTEDE’s studies, one conclusion can be drawn: the Chinese culture is fundamentally different from that of western countries in terms of high power distance, low individualism and low uncertainty avoidance. Thereby, HOFSTEDE (2001: 30-32, 357-359) reveals that the Chinese culture is characterized by low power distance^{lxxxvii} and high-uncertainty avoidance^{lxxxviii}. Hence, this cultural background entails that Chinese consumers have strong needs in predicting the market condition with uncertain information. In order to ease their discomfort, they like to dispose any risk represented in an unpredictable retailing environment by selecting trustworthy retailing services (WANG, ET AL., 2010: 426). Moreover, Chinese companies’ information flows are generally top-down in terms of directives and bottom-up in terms of reporting. A high obedience from subordinates as well as seldom questioning the suitability of the superior’s decisions (PENG & NUNES, 2007: 234) are thereby indicating the high power distance within the PRC.

^{lxxxvii} Power distance, as introduced by Hofstede, measures the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. This represents inequality (more versus less), but defined from below, not from above. It suggests that a society’s level of inequality is endorsed by the followers as much as by the leaders. Hence, open criticism or embarrassment of the government shall be avoided (WANG, 2003: 124).

^{lxxxviii} The uncertainty-avoidance dimension refers to the degree to which uncertainty and ambiguity are endured by a culture (HOFSTEDE, 2001: 29). Generally individuals hold higher level of anxiety and lower level of tolerance on any risk in a high-uncertainty avoidance culture when they deal with future. Furthermore, they usually have an intrinsic necessity for clear direction and tend to seek predictability and stability from professionals in ambiguous situations.

HINGLEY, ET AL. (2008: 21) argue that local staff is often hired in order to gain a better understanding of the Chinese culture. Social factors are usually defined as demographic factors and consumer artefacts of everyday life. ALEXANDER (1997: 34) reveals that “[T]he size of households and the ownership of specific goods are important indicators for retailers of a society’s readiness of retail structural change and the introduction of retail operations into a market.” Generally, researchers attest that Chinese consumers are becoming more westernized (QIU, 2011: 19; DAVIS, 2013: 353). Yet, reporting on the difficulty of selling to the far-reaching diversity of Chinese consumers, WALL STREET JOURNAL (2006: online) reveals a wide range of examples throughout the entire country, while CHUANG, ET AL. (2011: 450) highlight the over half a dozen major dialect groups and climates ranging from tropical to subarctic, referring to it as ‘Retail’s One-China problem’. Accordingly, HOLLANDER (1970: 112) observes a higher degree of inclination to anticipate complex cultural diversity. Although he highlights, “[A]rdent nationalists may want to disagree [...] the market and economic differences between, say, Germany and Australia or between the United States and Canada are certainly no greater than the differences within any of those countries.” These differences are also apparent in regard to anticipated average life. Life expectancy^{lxxxix} rose consistently during the last 50 years, reaching 79.63 years in Shanghai for instance. However, as already ascertained in regard to unequal regional development, life expectancy considerably varies across regions. For instance, the average resident in rural Tibet is expected to live as long as 64.34 years (LI & DORSTEN, 2010: 21). A further uniqueness of Chinese culture is *guanxi*, as already shortly introduced in chapter 2.2.3 (p. 31), and further deepened within this section. Although the exact degree of *guanxi* effects is unknown, researchers commonly agree on the fundamental importance of its business effects (HINGLEY, ET AL., 2008: 9, 21; ENDERWICK, 2007: 68-71). In the face of malfunctioning markets, the development of personal networks or *guanxi* plays an increasing role. ENDERWICK (2007: 69) suitably argues that “[F]rom a Western perspective, this blurs the fine line between relationship and corruption”, declaring what would normally be defined as illegal behaviour in Western terms, as acceptable in China. With extant publications focusing on *guanxi* and its conceptualisation and value development process, it represents one of the most researched Chinese cultural traits.

^{lxxxix} According to several sources cited in LI AND DORSTEN (2010: 21), the average life expectancy in China was only 35 in 1949, by 1980 it had improved to 64 and continued to increase to reach 68 in 1990, before rising to 71.8 in 2000.

HUANG (2009: 7) clearly distinguishes Western human organizations from *guanxi* in China, alluding to the quality and ‘strength’ of these connections arising from coupling frequency, duration and the difficult to predict outcomes. In his opinion, “*guanxi can be regarded as an important channel for business managers to grasp issues in business reality and thus enhance their ability to predict the short-term outcomes of complex business phenomena*” (HUANG, 2009: 8).

3.4.5 General Technological and Infrastructural Analysis

The road network counts as well developed and ports even as excellent (KHANNA & PALEPU, 2010: 32). A few years earlier, AU-YEUNG (2003: 143), similar to HEXTER AND WOETZEL (2007: 2), argued that “*road and transportation infrastructure is not well developed, a consistent supply of electricity is not guaranteed [...]*.” The driving force behind the emergence, modernization and growth of the grocery retail industry is the continued growth of the Chinese economy (BOWLES, 1998: 30). Yet, car ownership per capita remains low (DELOITTE, 2009: 5). Furthermore, the ownership of technical durable goods increased heavily during the last years (DAVIS, 2000: 134-137). Penetration of fridge-freezers is the highest amongst all major appliances in China, at 64 % in 2013 (EUROMONITOR INTERNATIONAL, 2014: 1). By the end of 2005, only 3 % of retail shops accepted financial cards (Khanna & Palepu, 2010). In 2006, there was one credit card for every 56 people and 0.93 financial cards per person (KHANNA & PALEPU, 2010: 31). The Chinese government itself (CHINA ECONOMIC YEARBOOK EDITING COMMITTEE, 2004: 111) reports of “*a modern information network which covers more than 2000 cities of the country and links to all major international networks in the world.*” In the course of the rapid informatization the number of internet users has risen from 0.62 million in 1997 to 111 million by the end of 2005 and to more than 5 00 million by the end of 2011 (CHINA INTERNET NETWORK INFORMATION CENTER, 2012: 4). Yet, the unequal development is omnipresent and also reveals itself within the coverage of internet users. 40.7 % of the country’s ‘netizens’ were located in the seven coastal regions and averagely 19 % of population in the seven coastal regions can access to the Internet. Guangdong accounts for 13.4 % of the country’s total 1.5 million users (PENG & NUNES, 2007: 234). At the

beginning of the 1990s, durable consumer goods such as refrigerators and washing machines had been available only to a minority of Chinese people holding special connections (DAVIS, 2000: 2). Within only five years (1990 – 1995) the number of cellular phones augmented from 20,000 to 3.4 million (DAVIS, 2000: 2). By the end of 2012 mobile phone users for instance had amounted to over one billion (HE, ET AL., 2013: 156). According to the State of Administration for Industry of Commerce, 700,000 logistic companies are registered in the PRC (PwC, 2013: 113). Furthermore, the PRC is rapidly developing and adapting to higher technical standards. The International Association of Bar Code Systems was joined in 1990 (GERMAN, ET AL., 1996: 16).

3.5 Selection of Cases

The number of cases is often critically asked for (FARQUHAR, 2012: 41). According to VISSAK (2010: 380), “[T]here is no agreement how many cases a researcher should select.” Whereas GHOURI (2004: 109) points out that ‘*how to select the cases*’ might be the most essential factor within this approach. Although concentrating their research on market orientation and business performance, SIN, ET AL. (2004: 57), similarly to this study, criticize the treatment of China’s as a homogenous country, focusing in their research on four cities. Despite the fact that the four cities of Hong Kong, Shanghai, Beijing, and Guangzhou all represent first-tier cities, SIN, ET AL. (2004: 58, 76) still reveal applicable differences in regard to socio-economic and political systems. Although not fully representative for other cities, Shanghai can be taken as an example of the Chinese key cities (Shanghai, Beijing, Chengdu and Guangzhou), where the competition from both international and local retailers is most intense (KANTAR WORLDPANEL, 2012: 2). Shanghai counts as the PRC’s most important financial and industrial center (SIN, ET AL., 2004: 58), with the immediate surrounding area (the YRD) representing the center of industrial and commercial activity. In the key cities, retail development is already well advanced. Next to Shanghai, which represents the most developed city with a vibrant retail sector, three further cases are selected, namely Chongqing, Urumqi and Hohhot. Geographically spread throughout China, the different case studies intend to grasp the different stages of the

grocery retailing sector in China, thereby revealing the incorporation of different expansion strategies by diverse retailers. *Map 6* illustrates the geographical positions of the four cities functioning as case studies.



Map 6 Four Selected Cases – Shanghai, Hohhot, Urumqi, and Chongqing (own design, realisation by Julia Breunig)

The four cities selected reveal an attempt to provide the economic, cultural and geographic diversity to study the internationalization of grocery retailing and the development of store formats within the PRC. All four cities have been visited in March 2015 for several days, within a month-long stay in China. Different competitors and store formats have been visited and observed in detail.

4 Case Studies, Data Analysis and Discussion

Having laid the foundations for the following data analysis and discussion, *chapter I* and *II* provide the theoretical and historical background of this thesis. *Chapter III* however, contains a specific debate leading to the questions posed to the interviewed experts. The selection of cases, as introduced in the chapter above, is now followed by a first discussion in regard to the non-existence of a single Chinese market, as emphasized throughout this research. Within the framework of expert interviews, this argument is confirmed and then emphasized through the introduction of four cities, namely Shanghai, Chongqing, Urumqi and Hohhot. In the subsequent chapters the resulting outcomes are discussed, and interview questions and observations are further debated and analysed. Alongside the introduction of main store formats and the discussion of their possible future developments, predominant challenges and opportunities within the Chinese grocery retail industry are evaluated (*chapter 4.3*, pp. 170-182). The components of location, localization and partnerships, the adjustment of formats in regard to their characteristic elements and their geographical development are illustrated. Lastly, the changing role of international retailers and therewith internationalization in general is evaluated (*chapter 4.5*, p. 192), before the main findings of the discussion are summarized and implications are given in *chapter V* (p. 200).

4.1 The Myth of a China Market

As stated within the very first sentence of this study (see *chapter 1*, p. 1), the Chinese market is considered to be as large as 1.3 billion consumers. But is it really? The National Expansion Director of a big international retailer counters

“[T]he Characteristics of the Chinese market? The fact that there is no Chinese market” (INTERVIEW II, 2015).

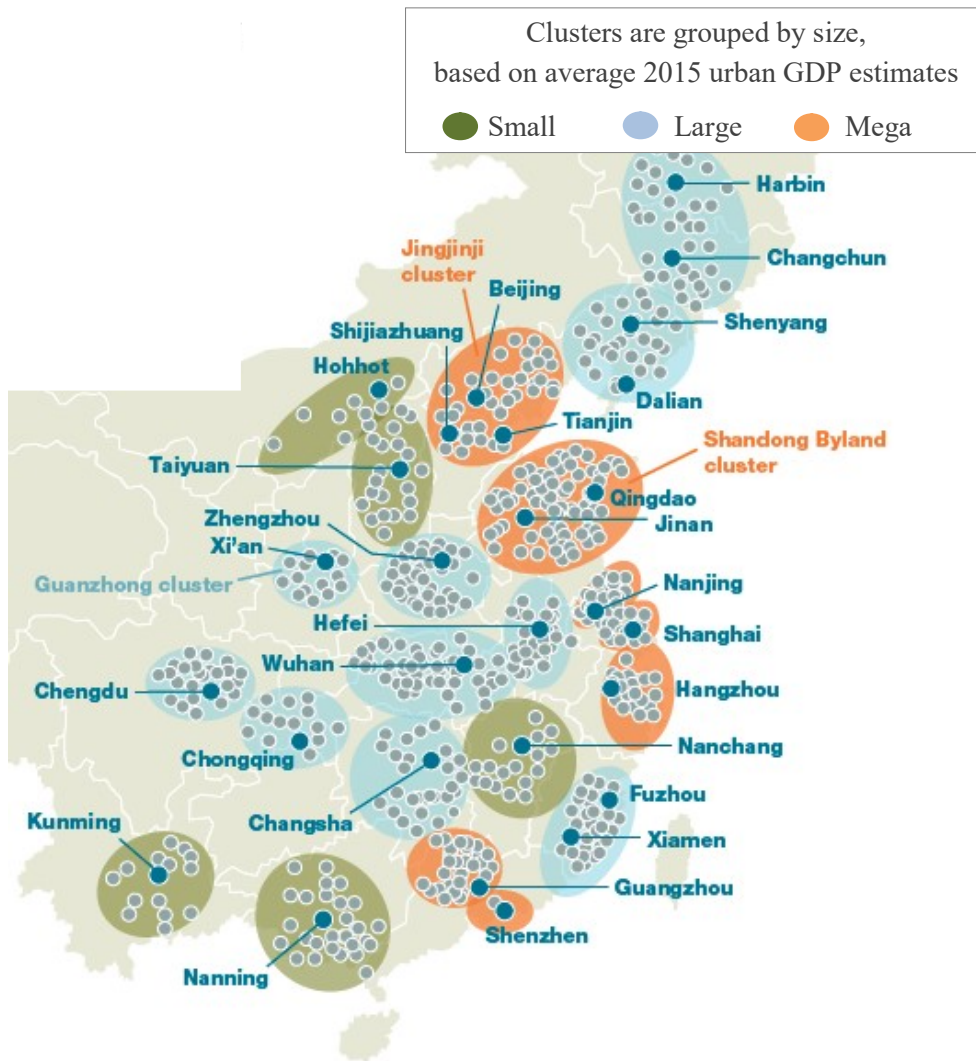
The interviewed experts reveal a far-reaching consensus in this regard. CEO of *7Eleven South China* states that

“[I]f we compare the Chinese market with Europe, it's a little bit as if we consider that it is the same market from Stockholm down to Madrid, which is obviously not the case^[xc]” (INTERVIEW IX, 2015).

Similarly, a Chinese retail analyst draws comparison to Europe, suggesting to differentiate at least between the thirty Chinese provinces, or better, at city-level with respects to the levels of tiers (INTERVIEW VII, 2015), as introduced in *chapter 1* (p. 7; see also *Appendix 2*, p. 271). A National Expansion Director (INTERVIEW II, 2015) states that the division of the market *“depends on your company and how your company is structured”*, suggesting the city-level as a point of view, too. CEO at *Auchan China* (INTERVIEW I, 2015), claims to distinguish seven regions within the Chinese market, accordingly to *Auchan's* distribution of goods. The freelance consultant and former Head of Business Development at *Metro China* claims the treatment from the company's perspective on a city-level, meaning that *Metro* has *“80 stores in 53 cities, so we treat it as 53 markets”* (INTERVIEW V, 2015). A Professor from Kyushu University in Japan proposes the division of regions according to their buying power and customer habits (INTERVIEW XII, 2015), while the Director of Strategy Planning at one of China's biggest retailers, differentiates the Chinese market accordingly to the question and problem he is considering when dealing with the market. As the case may be, he differentiates three ways: firstly, three geographical parts, East, Middle and West; secondly, different tiers; and thirdly, the North and the South of the PRC (INTERVIEW VIII, 2015). An international retailer considering its entry into the Chinese market, applies the cluster theory^[xci] (see *Map 7*, p. 144), differentiating between 22 agglomerations which are divided according to their regional differences, such as population density, income, rental costs, legal frameworks, and others (INTERVIEW III, 2015).

^[xc] Indeed, in his outlook on European grocery retailing in regard to format and development, COLLA (2004: 47) finds that European retailing still varies significantly from country to country.

^[xci] Neither considering the PRC's market at the country level, neither on the provincial nor city-level, MCKINSEY (2012: 8) suggests a cluster approach, dividing China into 22 city clusters. These are defined as *“groups of cities that are developing around one or two large hub cities”*, as *“it allows companies to define their strategic aspirations [...] and track performance at a level that is far more practical and cost efficient than managing their business at the city level”* (MCKINSEY, 2009: 7), while targeting consumers more effectively.



Map 7 Urban Clusters and their City Hubs (adopted from MCKINSEY, 2012: 8)

The consultant and partner at A.T. Kearney highlights that „*there is no distinct definition, it depends on the client^{xcii}*”, while naming big clusters and the different deltas, as revealed in map 7 as conventional methods to divide the Chinese market (INTERVIEW X, 2015). Nevertheless, 7Eleven CEO China (INTERVIEW IX, 2015) indicates that there exists

“a common range mainly for dry goods, a more different range for fresh goods and obviously quite strong local needs that have to be met with local suppliers, mainly in the fresh food sector”;

suggesting that China consists of different markets, but share a common core offer and the need to provide probably around 20 - 25% of the goods locally (INTERVIEW IX, 2015).

^{xcii} As the interviews with Mr. Stocker as well as with one of the international retailers’ representative were conducted in German, the quoted remarks are therefore translated by the author, which will not be noted again.

These claims have been addressed in several studies, as already discussed in *chapter 1.1* (p. 8-9). According to FRANK, ET AL. (2014: 208) for instance, consumers in Southern China value personal recognition more and are less satisfied with products and services than consumers in Northern China. Hence, preference structures differ more strongly along ethnic than geographical lines, most likely because ethnic differences involve larger cultural variance. Respectively, China lacks a national market; thus retailers need to be organized around regions. The different markets vary heavily in regards to tastes, spending power and consumer culture, as already discussed in *chapter 2.3.7* (p. 67). The interviewees name the high fragmentation and need for localization (see *chapter 4.3.2*, p. 175) in the market as two of the most important characteristics of the Chinese market. This correlates with results from BAIN AND COMPANY (2012: 4), who find confirmation in the fact that the grocery retailing is still largely a local, city-based business due to the vast differences in consumers' tastes and behaviour. Referring to the geographical expansion, *Wumart* founder Zhang Wenchong once acknowledged that "[W]e'll stick to what we understand [...] There is no one China market" (cited in WALL STREET JOURNAL, 2006: online). The commercial director at *ParkNShop China* states that

"this is the main challenge in China, to understand that it is not a country, but a continent" (INTERVIEW VI, 2015).

A similar conclusion as GARREAU (1981) can be drawn, as he suggests to treat the United States not as one market, but rather as a constituency of nine broader social environments. Remembering his time working for German *Metro*, the commercial director at *ParkNShop China* (INTERVIEW VI, 2015) remarks that he was "*responsible for a store in Harbin in the North, where in winter it was - 30 degrees. At the same time I went to a store in the South, where it was + 25 degrees.*" So one main challenge lies in managing "*China as one country due to the climate, the culture, the habits, in different parts of China, as they are quite big.*" Consequently, choosing the assortment and building up a marketing strategy is very difficult, as the following four differing case studies reveal.

4.1.1 Case I: Shanghai

As the PRC's biggest city, Shanghai represents a mega cluster (see *Map 7*, p. 144), with 24,15 million inhabitants living in 19 districts and one county^{xciii} on a land area covering 6,340 km². In 2013, growing 7.7 % yoy to RMB 2.16 trillion (US\$ 353.9 billion) (CHINA DAILY, 2014: online), the city's GDP growth rates (see *Map 5*, p. 131) are rather low compared to other Chinese provinces. Nevertheless, Greater Shanghai's GDP is already as large as Switzerland's economy (MCKINSEY, 2012: 7). Shanghai is one of the four autonomous municipalities (see *Map 1*, p. 7) and historically a commercial and financial center of China. The city's commercial activity is very likely to continue its growth. The new 'China (Shanghai) Pilot Free Trade Zone' "*marks a turning point in the Chinese investment policy*"^{xciv} (SCHMIDT, 2014: 1), by allowing the growth of a global modern financial and service hub. Since its opening in September 2013, 3,633 enterprises had registered within the first few months (CHINA DAILY, 2014: online). In 2013, Shanghai accounted for about 14.3 % of China's total utilized FDI, whereas the city's per capita disposable income of urban residents reached RMB 43,851 in 2013, having increased by 9.1% from 2012. Ranked number two in regards to retail sales after Beijing, first-tier city Shanghai has not only the largest retail stock, but also the biggest retail growth rates, before Beijing, Shenyang, Wuhan and Chengdu (JONES LANG LASALLE, 2012: online). Per person food consumption in Shanghai was approximately US\$ 1,200 per year (in 2012; average of US\$ 700 per person across the PRC) (GAIN, 2012: 4), representing 34.9 % of urban household expenditure per capita (compared to 44.5 % in year 2000). In his valuable research of supermarkets in Shanghai, GOLDMAN (1996: 2) argues that "*Shanghai has clearly been the pioneer and leader in modernizing its retail system in general and food retailing in particular.*" Back in 1996, he further argues that "*the food retail modernization process in Shanghai is much more advanced than in other cities and thus issues and dilemmas that are first encountered there are likely to appear later in other parts of China.*" Similarly, SONG (2011: 13), focusing his research of the emergence of own brands within

^{xciii} The 19 districts and county are Pudong New Area, Xuhui District, Zhabei District, Hongkou District, Yangpu District, Huangpu District, Luwan District, Baoshan District, Jiading District, Minhang District, Jinshan District, Qingpu District, Nanhui District, Fengxian District, Changning District, Jing'an District, Putuo District, Songjiang District, and Chongming County

^{xciv} Own translation from German article.

the Chinese grocery sector, argues that Shanghai “*leads Chinas as a trend-setting location due to its economic activity with the West.*” Similarly, a Chinese retail analyst (INTERVIEW VII, 2015) speaks of a “*pioneer city*”, in which every new concept is usually tested first, before being rolled out in different parts of the country. Considering the city to be “*three years ahead*”, it represents a top market due to historical and economic reasons (INTERVIEW VII, 2015). Indeed, the historical and economic analysis of special zones along the East coast and the dominant position of Shanghai in regard to international retailers’ market entrance in *Map 3* (p. 49), are clearly confirmed throughout the interviews. Another retail expert acknowledges that “*Shanghai still is the typical entry market, as it is the most advanced*”, naming its relatively open commercial access as a defining reason. Nevertheless, the retail consultant argues that “*it is not necessarily the best market*” to enter, depending on the format and positioning of the retailer. “*The Shanghai retail sector feels supersaturated, and it is. However, many state-owned retailers still exist which are not profitable*” (INTERVIEW X, 2015). Back in the 1990s, GOLDMAN AND QIN (1998: 91) describe the prevalent format in Shanghai as that of a small conventional supermarket, “*ranging between 300 to 1200sqm with a typical store being 500sqm, carrying 4,000 – 5,000 SKU’s and devoting 70 – 75 % of its assortment to foods.*” Larger formats, however, such as hypermarkets and supercentres, were rare (SHANGHAI FINANCE AND TRADE OFFICE, 1995, cited in GOLDMAN & QIN, 1998: 91). Nowadays, although all major international players are present (*Carrefour, Lotus, Auchan, Metro* all below 25 stores), local retailers such as *Lianhua* (more than 3,300 stores), *NGS* (more than 2,100 stores) and *Hualian* (more than 900 stores) clearly dominate the Shanghai market in regard to store locations (GAIN, 2012: 53). The high number of stores are owed to Shanghai’s high population density (more than 3,809 inhabitants per km²). According to the interviewed Chinese professor, Shanghai represents a model case. It has great independence, is economically advanced and “not so much a political hub as is Beijing”, with which Shanghai is competing.

“*If your business has success in Shanghai, then it has it everywhere*”
(INTERVIEW XII, 2015).



Top left: Alldays Convenience Store, opening 24 hours
 Right: Carrefour Hypermarket, along Shanghai's inner ring road
 Bottom left: High-end Shanghai City Supermarket, wine and fruit section
 Own pictures, Shanghai, March 2015

Yet, it remains debatable whether Shanghai's retail sector is not yet saturated. For 2015, more than 30 shopping centres are projected to launch, mostly in suburban areas (CUSHMAN & WAKEFIELD CHINA, 2014: online). Not only competition, but increasing rental price^{xcv} force retailers to sublease (for instance in huge hypermarkets), to go underground (see *chapter 4.4*, p. 182) or to move to suburbs. In a survey conducted by SAVILLS WORLD RESEARCH (2014: 2), finding suitable locations (20 %) and high rental costs (30 %) represented the two key business concerns faced by food and beverage retailers. Results that can be confirmed within the framework of the executed interviews. Although wet markets are increasingly being pushed out of the city center, family-run shops do still exist. Nevertheless, the presence of supermarket chains and international players, as well as the huge amount of convenience stores, operating 24 hours, clearly make Shanghai the largest consumer market among all mainland cities, supported by the rising income level and large inflow of tourists (HKTDC RESEARCH, 2014: online). Shanghai consumers are also being viewed as trend-setters for fashion and lifestyle products throughout the whole country.

^{xcv} For instance rental prices on East Nanning Road amount to RMB 2,200 per m² per month (asking rents are based on ground floors in prime locations).

4.1.2 Case II: Chongqing

Chongqing's population stood at 29.7 million by the end of 2013 and Chongqing is arguably "*the fastest-growing urban centre on the planet*", with a population already exceeding that of Peru or Iraq (THE GUARDIAN, 2006: online). Representing a large cluster (see *Map 7*, p. 144), Chongqing has a total area of 82,400 km². The city's GDP grew by 10.9 % in 2014, 3.5 % points higher than the national average. Chongqing is one of China's four municipalities directly under the central government, but its structure is substantially different from the other three. For instance, Chongqing is 12 times the size of Shanghai, and has six million more inhabitants than Shanghai. The vast majority of Chongqing is still rural. In 2013, Chongqing's urban population accounted only for 58.3 % of its total population, compared to an 89 % urban population in Shanghai. The city's retail sales have witnessed stable growth over the last 14 years. From 2001 to July 2014, retail sales registered a nominal CAGR of over 10.5 %. In the first seven months of 2014, retail sales totalled RMB 288 billion, with yoy growth reaching 13.1 %, making Chongqing a leader in terms of total retail sales in south western China. With improvements in infrastructure, LING AND SHI-QING (2010: 1) emphasize the growing importance of the Chengdu-Chongqing Economic Zone (CCEZ), which, next to the three major zones YRD, PRD and BER (see *Map 1*, p. 7), represents a point of connection linking the East of China with the West, and the South with the North, "*posing an important strategic position*". LING AND SHI-QING (2010: 1) forecast that "*[I]n 15 to 20 years, the [CCEZ] is becoming a zone with comprehensive economic strength and strongest international competitiveness in west China, an engine to drive rapid development of west China's economy and a new growth pole for Chinese economy.*" Undertaking the important strategic task in the reform and development of western regions, CCEZ is regarded as a key region in the strategic landscape of west China (LING AND SHI-QING; 2010: 2-3). Based on an analysis undertaken by JONES LANG LASALLE (2012: online), who base their results on presence of *Tesco*, *Carrefour*, *Walmart*, *IKEA*, list Chongqing, Shenyang, Wuhan and Tianjin top in regards to big box retailer concentration. Prime first floor shopping mall rents were RMB 27.4 per m² / day (SAVILLS WORLD RESEARCH, 2014: 3). Whereas Chongqing's traditional retail sector seems still more active than in Shanghai, the city centre offers a vibrant and high-end retailing sector, with different store formats and international players, such as *Metro*,

Carrefour, and *Walmart* present. Some of the more traditional areas such as Nan'ping and Shapingba seem to lag behind, mainly “as a result of the lower quality and smaller size retail stock, due to limited land supply and increasing traffic congestion” (SAVILLS WORLD RESEARCH, 2014: 2). Further emerging areas include Xinpaifang and Zhaomushan, which attract families with high purchasing power and are estimated to be entered into by a range of new retail suppliers (SAVILLS WORLD RESEARCH, 2014: 2). The vast increase in spending power is one of the reasons for one of the interviewed retail expert’s suggestion, that Chongqing is “ready for new formats” (INTERVIEW VII, 2015), indicating that Chongqing reached a mature level of modern retailing, prepared for increasing convenience and further innovation.



Top: German Metro (originally C+C operation)
 Left below: High-End Supermarket Olé in the very heart of Chongqing
 Right below: High-End Supermarket Olé Midst Luxurious Retailers in the City Centre
 Own pictures, Chongqing, March 2015

4.1.3 Case III: Urumqi

Urumqi^{xcvi}, the provincial capital of Xinjiang, covers an area of 14,200 km² and hosts 2.6 million people (DELOITTE: 2012: 53). As part of the Western Development Plan (see *chapter 2.3.6*, p. 64), the city's GDP reveals significant growth rates (see *Map 5*, p. 131), growing 17.3 % to RMB 206 billion in 2012. Urumqi is a regional hub for industrial production and also China's gateway to Central Asia. As one of the most distant cities from any sea in the world, Urumqi has represented a trading hub along the Silk Road for centuries. Culturally, the city is very different from East China. As revealed in *chapter 2.3.7* (p. 67), regional variations consist of a number of factors, such as consumer habits. FRANK, ET AL. (2014: 208), comparing Han Chinese with Uyghur^{xcvii}, reveal that the latter pay more attention to perceived quality and personal recognition and less to quality expectations. The author's own observations confirm the high relevance of the traditional grocery retail sector, with personal relationships and the familiarity of the store vendors. Areas such as Tianshan and Shayibake have the most notable concentrations of Uyghur commercial activities and account for 64.5 % of the Uyghur population in Urumqi^{xcviii} (HOWELL & FAN, 2011: 125). In these areas bazar-like shopping facilities are present whereas modern retail formats are not (yet) represented. However, conflicts between Han and Uyghur are frequent and dominate the media headlines regarding Urumqi. One of the origins of the conflict is most likely "*inequality between Han and minorities, which is persistently large*" (HOWELL & FAN, 2011: 136). With respect to the interviewed retail experts, most of them were surprised to receive questions about Urumqi. Its relative remoteness, cultural differences and recent history of disturbances between Uyghur and the Chinese government, has discouraged retailers from establishing business in the far western market of Urumqi (INTERVIEW I, 2015; INTERVIEW III, 2015; INTERVIEW IX, 2015). An exception is represented by French *Carrefour*, which operates two hypermarkets in the

^{xcvi} Urumqi is also known as Wulumuqi in Chinese.

^{xcvii} Uyghur are one of the 55 officially recognized minority nationalities in the PRC. 99 % of Uyghur reside in Xinjiang.

^{xcviii} The proportion of Han in Xinjiang province rose dramatically, from 6.7 % (220,000) to 40 % (8.4 million) between 1949 and 2008 (BENSON, 1990 AND SBX, 2010 cited in HOWELL & FAN, 2011: 125), representing the largest demographic change ever to occur in a major region of China since the founding of the PRC.

city centre. RIGBY (2007: 10) argues that *Carrefour* chooses “[...] a city with potential, looks for suitable suppliers and researches whether income levels are high enough and population numbers big enough to sustain a network of stores. If a location passes these tests, it makes a move. The strategy has taken it to outposts such as Urumqi, in the far north-west corner of China (...)” However, speaking to *Carrefour China*, it has been clearly indicated to the author, that *Carrefour’s* own decision, was also influenced by “strong advice” it received from the Chinese government. There are now three *Carrefour* stores in Urumqi, the first of them has been opened in 2004 at the International Grand Bazar, in a densely by Uyghur populated quarter. Back in 2009, it had to be closed for 17 days due to clashes which reportedly left five dead and 14 injured. Visiting the store in March 2015, the author had to undergo security checks twice when entering the store, including the scanning of the author’s handbag. Having adopted the stores physical presence from the outside (see picture below), the assortment has been adjusted to fit the Muslim orientated surroundings (for instance the abandonment of pork).



Top left Carrefour Car Park Entrance
 Top right Traditional Stalls in Urumqi
 Left: Carrefour Entrance
 Own pictures, Urumqi, March 2015

4.1.4 Case IV: Hohhot

As the capital of the Inner Mongolian Autonomous Region in North China, Hohhot serves as the region's administrative, economic, and cultural centre. The city's GDP of RMB 247.56 billion in 2012, increased up by 11 % yoy. Hohhot's nominal GDP per capita has risen by five times from 9,960 RMB in 2001 to 93,740 RMB in 2011. The trend is expected to carry on as the city is experiencing a robust CAGR of 22.6 % since 2001. Hohhot also holds the highest growth rate among all 27 provincial capital cities and the top economic aggregate relative to the capital cities of the five minority autonomous regions in China. The city is inhabited a total of 36 ethnic groups including Mongolians Hui, Manchu, Korean, and other ethnic groups. Representing almost 90 % of the total population, the majority of the population of Hohhot are Han Chinese. As the largest consumer centre in the region, the city has been recording ¥ 102.2 billion retail sales of consumer goods in 2012, an increase of almost 15 % from 2011. Nevertheless, foreign retailers only slowly navigate their way to Hohhot (CHINA MARKETRESEARCH, 2012: online). *Carrefour* established its first store in 2013 (CARREFOUR, 2013: online), with more openings in preparation. Observations reveal a low level of retail internationalization; with most international retailers operating along the East coast of China being absent. Several local chains such as *a happy-fire* expose a considerable store presence, indicating that the retail market is dominated by Chinese retailers. Due to the city's cold semi-arid climate (up to –



Left Local Convenience Chain Store *a happy-fire* in Hohhot
Right Local Convenience Chain Store *a happy-fire* in Hohhot
Own pictures, Hohhot, March 2015

5 degree during the author's stay in March 2015), the role of wet markets could not be sufficiently observed. However, it is assumed, as stated by several of the interviewees (INTERVIEW VII, 2015; INTERVIEW VIII, 2015; INTERVIEW X, 2015) that shopping habits differ considerably between the North and South of China and therefore wet markets

play a smaller role than in other parts of China.

4.1.5 Different Stages of Modern Retailing and Internationalization in China

The previous chapters clearly revealed the existing regional differences and diverse stages of economic development within the PRC. As argued in *chapter 2.3.5* (pp. 62), China counts as a predominantly modern market, where in 2011 65 % of all grocery sales derived from modern grocery retail formats, such as supermarkets and hypermarkets. Nevertheless,



Top: Carrefour: Cooling Section with In-Store Marketing Activities
 Bottom: Small Independent Store (Fresh Meat)
 Own pictures, Shanghai, March 2015



interviewees are aware of the “*partly strong traditional trade sector*” (INTERVIEW X, 2015) in some regions, which impedes modern grocery retailers to enter the market. Urumqi may be an example of such an impeded market (see *chapter 4.1.3*, p. 151). Whereas Shanghai reveals by far the most modern and competitive market, Hohhot and Urumqi still show a high share of traditional trade and so-called intermediate supermarkets. In one of his studies on the Chinese market, GOLDMAN, together with QIN (1998: 87) describe the format of intermediate supermarkets, which “*share characteristics of traditional food stores and of the modern supermarket.*” Predicting that this format is likely to play a more significant role in “*secondary cities, in towns and in rural areas in China*”, weaknesses such as lack of managerial and financial resources were named as reasons stopping intermediate supermarkets evolve into ‘complete’ or modern

formats. Observations clearly confirm the presence of different levels of modern grocery retailing and the existence of intermediate supermarkets, as illustrated in the above two pictures. Whereas Shanghai and Chongqing both reveal a relative constant level of modern store formats; Urumqi for instance reveals a clear traditional grocery retailing sector, which is mainly apparent in a culturally divided part of the city. Nevertheless, it is also evident that modern and traditional formats are intertwined. As in Urumqi for instance, where Carrefour is operating a hypermarket store in direct proximity to bazar-like open-air market stores, selling fresh produce and basic consumer goods. But also in Shanghai, which clearly reveals a high level of modern retailing, traditional stores find their place in the market. The head of business strategy at one of China’s largest domestic retailer, comments that

“China is still at the beginning. The country introduced modern retailing not too long ago and retailing has had a short time to develop. Several formats came to the market almost at the same time; they did not develop like in Europe or in America” (INTERVIEW VIII, 2015).

Figure 30 reveals an attempt to classify the four cities of Shanghai, Chongqing, Urumqi and Hohhot according to their estimated level of retailing development. As revealed in chapter 2.1 (p. 21), the retail internationalization process is complex, and can be

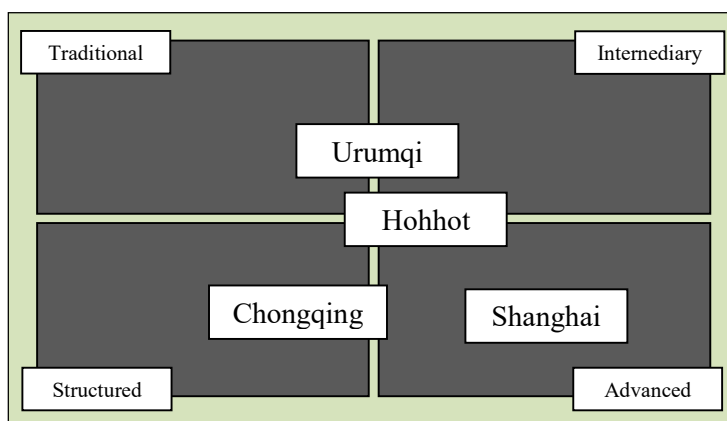


Figure 30 Stages of Retailing Development in the PRC (own illustration, adopted from TORDJMAN, 1995: 25)

categorized in a four-phase model, as proposed by DAWSON (2003a: 4), including the stages of stability, consolidation, control and dominance. As already argued in chapter 3.3.1 (p. 107), it can be confirmed that without really developing hypermarket or convenience store formats, they were simply introduced to

the market, neglecting years of development stages, as seen in other countries. One of the reasons for this status, is provided by an international retailer interviewed, who speaks of

“[V]ariety in all dimensions: offer, competition, major format concept, something quite hard to manage, even it [the Chinese market – author’s note]

isn't considered as that mature to some extent, but the latest innovations came to China at the latest stage at a very short time [...] and if something is working, it will be adapted by competition within a very short time. This is not so easy to handle, if you don't constantly innovate, and we are not talking about revolution, if you have an advantage at a time, it will only last for a very short time. The market evolves and changes very quickly" (INTERVIEW II, 2015).

Due to the described liberalization of the Chinese market and the accompanying economic development within a relatively short amount of time, the Chinese market was considered to have 'opened' (see *chapter 2.3.3*, p. 50), when different store formats around the world had already been developed and specified. The ongoing dynamic Chinese environment with its steady income rises and increasing urbanization rate^{xcix}, accelerate changes within the retailing industry. In their study of Chinese shopping behavior in Beijing, MAI AND ZHAN (2004: 60-61) conclude that there is a significant increase in supermarket shoppers compared to previous results. Furthermore, coinciding with findings of GOLDMAN, ET AL. (1999: 136-137), the factor 'income' significantly determines whether Chinese consumers shop at supermarkets.

One interviewed expert recounts:

"There is no doubt as to how fast China is changing. I said to my team: One year in China is ten years in Europe if you talk about development. Everything is changing so fast. Companies have to stay really alert and have to be aware of what's going on in the market" (INTERVIEW VI, 2015).

^{xcix} Although China's urbanization rate is still much lower than many developing countries, let alone developed nations (WEN, 2000: 435), it is however steadily increasing. By the end of 2013, 53.7 % of the total Chinese population lived in urban areas, a rate that rose from 26 % in 1990. According to official forecast the urbanization rate will reach 60 % by 2020. China's leaders recently announced an urbanisation target of 70 % (approximately 900 million people) by 2025 (HILLMAN & UNGER, 2013: 3).

4.2 Development and Evolvement of Store Formats

4.2.1 The Hypermarket Concept

As reasoned above, the hypermarket format was the first modern retailing format introduced to the Chinese market by international enterprises. The Vice President of an international retailer is convinced that

“the hypermarket has revolutionized the Chinese market and demonstrated what’s possible“(INTERVIEW III, 2015).

Carrefour (see chapter 3.3.1, p. 95) is the second largest retailer in the world and currently operating 237 stores in China (as to end of 2014). However, out of *Carrefour’s* global network of nearly 11,000 stores, more than 6,000 are convenience stores and more than 3,000 supermarkets, while the hypermarket format forms a small fracture of the grocery retailing business in Europe (CARREFOUR GROUP, 2015: online). Nevertheless, the French retailer entered the Chinese market with the hypermarket concept in 1995. As one retail analyst and consultant accounts,

“[T]he productivity per square meter in hypermarkets is relatively high and it was assumed that in urban agglomerations there would be enough consumers to come, especially with regard to increasing car usage and growing cooling and freezing equipment in private homes” (INTERVIEW X, 2015).

In regard to hypermarkets in Shanghai for instance, the store format accounted for more than 45 % of the value of sales in the grocery sector (DELOITTE, 2009: 9). The 82 foreign hypermarkets in situ constituted for 78.6 % of the total hypermarket sales volume back in 2008 (GAIN, 2013: 6). Since then, illustrating the strongest competitors within the hypermarket sector,

Figure 31 (p. 158) reveals that *Carrefour* and *Walmart* have both been constantly loosing share throughout the last years, while local competitors, such as *CRE* (recent consolidation with *Tesco*), *Yonghui* and Sun Art Retail Group (partnership between local *RT Mart* and foreign *Auchan*), reveal increasing shares.

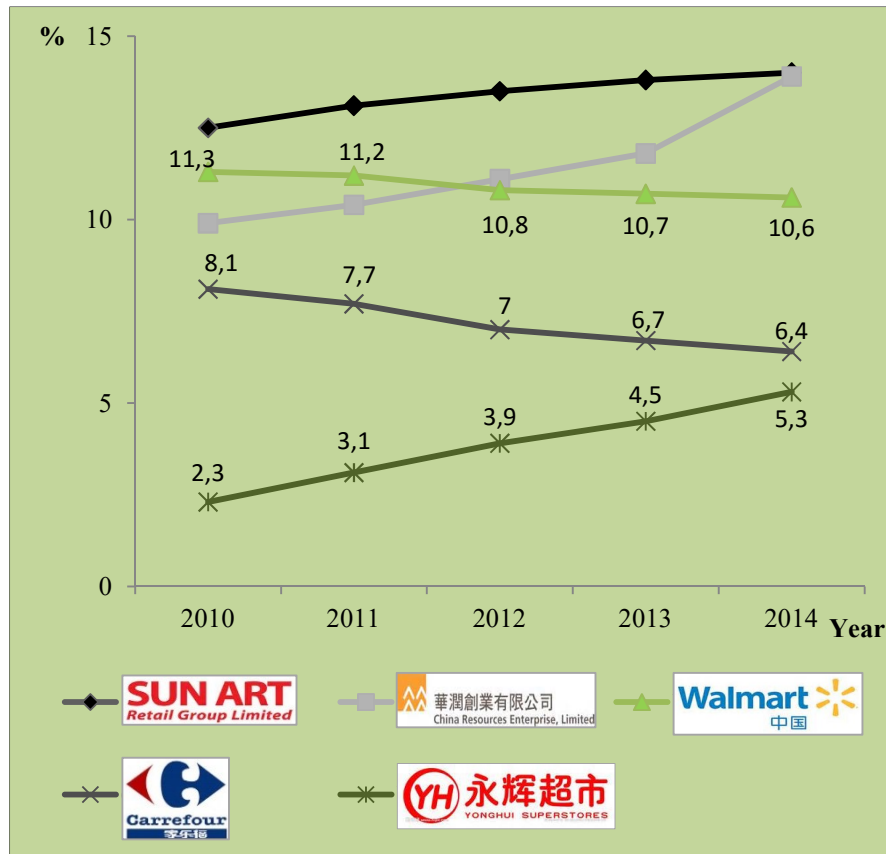


Figure 31 Evolving Market Share of Top 5 Hypermarket Players from 2010 – 2014 (own illustration, data from EUROMONITOR, 2015)

One interviewee, an international retailer, provides one adequate explanation for some retailers’ struggles, arguing that

“hypermarkets reveal many operational weaknesses. Not only did rental costs increase sixfold during the last ten years, but often three employees per 100 m² and high listing fees contribute to an inefficient operation” (INTERVIEW II, 2015).

Indeed, the high rental costs are one major challenge named by the majority of interviewed experts. Without sub-leases some rental costs could not be covered, as two retailer experts acknowledge (INTERVIEW I, 2015; INTERVIEW II, 2015). Furthermore, major contracts are expiring, leaving open how much costs will increase in the future. Similarly, a local retailer reasons that *“[T]he role of hypermarkets is clearly declining already over the last years,”* providing reasons such as the strong growth of online retailing, and related changing shopping behaviours of Chinese consumers. *“Especially in the non-food sector, there is almost no retailer that is growing in that aspect. The business is already declining for five*

or eight years. Because people buy now differently, if you want to buy an iPad, you go to the internet and compare the prices and buy it and that is even more extreme in China I'd say" (INTERVIEW VI, 2015). The CEO of *Sun Art Retail Group* reports that 10.000 customers on an ordinary weekday with an average basket size of around 100 Yuan, shop in *Auchan's* headquarters hypermarket in Shanghai, more on weekends. Offering 35.000 SKUs on 14.000 m², 40 % of sales derive from non-food, 60 % from food (if cosmetics calculated in then 70 % food) with around 1/4 representing fresh produce (INTERVIEW I, 2015). A Chinese retail analyst argues that despite hypermarkets losing customers, their shopping baskets are growing (INTERVIEW VII, 2015). In 2014, *Sun Art Group's* (*Auchan* and *RT-Mart*) turnover increased by 6.6 % yoy to RMB 91.86 billion (US\$ 14.66 billion), while opening 49 stores in the same year, bringing the total number of stores to 372 (IGD, 2015d: online). According to IGD (2015b: online), *Carrefour* is expected to open 15 new hypermarkets in China in 2015. Thierry Garnier, executive director of *Carrefour China*, said that "*[T]he hypermarket format is not going to end. There will be a lot of opportunities in many cities for a long time and it has a great future in China*" (IGD, 2015b: online). Nevertheless, the head of business strategy at one of the PRC's biggest retailers, foresees "*not a very smart future for hypermarkets, compared to shopping centres or convenience stores. Nowadays very few customers find it enjoyable to go shopping in hypermarkets*" (INTERVIEW IV, 2015). In regard to the companies currently struggling and losing market share, another interviewee acknowledges that

"I think they forgot some fundamentals of the hypermarket format. They extended perhaps a little bit too fast without having yet consolidated their formats or business models. Probably this took place during the 2000s, when everyone was very much eager to gain market share, and so probably expansion was put as the priority, before fine-tuning the business model" (INTERVIEW IX, 2015).

He further argues that

"[...] at some point in time, players like Walmart and Carrefour were so eager to grow fast that they were somehow opening and purchasing any kind of sites. They believed that in China there are so many people, that regardless of where and what you open, it will be successful, which is wrong" (INTERVIEW IX, 2015).

One of the biggest Chinese retailers divides the PRC in three sections when outlining the future of hypermarkets. While in the western areas of China the hypermarket sector is very small and the market generally not very large in comparison to the East of China, the expert highlights the centre of China, where economic growth is supposed to be very high within the next ten to 20 years (INTERVIEW VIII, 2015). Describing and therewith confirming the stages of the Chinese market's development in regard to format expansion, the interviewee reveals that formats first appeared in the East of the PRC, and then developed through the centre of China before arriving in the West. Accordingly, he concedes that *“hypermarkets will have good prospects in the middle (centre – author’s note) and Western China. But even in the middle, many hypermarkets have set up business, so competition is fierce.”*

4.2.2 The Diversification of the Conventional Supermarket

According to the Head of Business Development of an international retailer, the handling of conventional supermarkets in the PRC is quite complicated. In contrast to supermarkets around the world, and especially Europe, supermarkets in China are not stand alone stores; rather they are combined and integrated in department stores or other business.

“The reality is if you want to pay for 2,000 to 4,000 m² retail space ground floor in downtown in big cities, you cannot afford it, so local players found it as a kind of model, that they put the stores underground in order to manage the profitability of the store by putting different floors of department stores above. This whole mix finally happens to be manageable” (INTERVIEW II, 2015).

WANG, ET AL. (2007: 334-335) argue that the supermarket format *“does not seem to be a competitive format”* within the Chinese retailing market. Examples provided by Dutch *Ahold*, who established a supermarket chain (*The Tops*) in 1996 in Shanghai, failed and had to withdraw completely after five years in the market. In 2004, *Carrefour* introduced eight *Champion Supermarkets* in Beijing, but sold them off in 2006 to focus on its hypermarkets (LI, 2006a, cited in WANG, ET AL., 2007: 334-335). Yet, still a large number of independent supermarkets, as well as so-called intermediate supermarkets (see *chapter 4.1.5*, p. 154) exist, meaning that Chinese players dominate the format. Especially small

supermarkets and neighbourhood stores reveal a very good proximity, while being able „to offer unrivalled prices“, as working hours in family run stores are not calculated. In small, family-run neighbourhood stores, family members often watch TV or only come in the store when a customer is entering (INTERVIEW II, 2015). However, one retail analyst encounters that particularly

“mid-size stores within neighbourhoods are poorly organized and reveal high potential in regard to appearance.”

The expert sees here opportunities, where alternatives could offer a solution. Concentrating on a small region within the regional cluster strategy makes the market more tangible (INTERVIEW X, 2015). However, interview participants acknowledge the role of wet markets, which dominate the sale of fruits and vegetables, is still important, (GAIN, 2012: 9). The opening of *CRV's Ole*, a high-end retail format, reveals a reaction to the increasing consumer income levels, with the supermarket offering a wide range of imported products (more than 70 % of total SKUs). Similarly, *CitySuper* and *Taste*, two Hong Kong-based retailers opened their first stores in Shanghai (both in 2010). Furthermore, food importers are opening up stores, expanding their business portfolios and introducing new import products in order to cater to the growing demand of better quality products and thereby diversifying the supermarket format (see *chapter 4.4*, p. 182).

4.2.3 The Convenience Store – Saturation or Format Modification?

PRASAD AND ARYASRI (2011: 69), while naming the “*ever changing consumers' psychographic variables like values, activities, interests, opinions, motives and lifestyles*”, explain therewith the growth of store format typologies such as convenience stores. As incomes in China are increasing, convenience stores are growing and neighborhood stores are becoming popular (INTERVIEW VII, 2015). Former head of business at *Metro* (2015) is of the opinion that convenience stores and the e-commerce sector will definitely continue to grow at the fastest pace. But even with the existing amount of convenience stores in the big cities, the coverage per 1,000 inhabitants is still considerably low and there is still space, even in cities such as Shanghai (INTERVIEW V, 2015). This is a view shared by a retail analyst from CCFA, who is of the opinion that convenience stores definitely will

reveal the biggest growth in the upcoming years. However, he demands a more basic assortment in order to satisfy customer's needs (INTERVIEW IV, 2015).



Different Convenience Stores in Shanghai: Limited Assortment and a Strong Focus on Ready-Meals
Own pictures, March 2015, Shanghai

While some argue that the convenience store sector is relatively saturated, it is said that the average number of convenience stores per thousand people in Shanghai is even higher than the number in many developed countries (GAIN, 2012: 10). However, the CEO of *Auchan China* remarks that convenience stores are currently not operating on a profitable basis, due to high rental costs and the often very limited offer, which includes mainly ready meals (INTERVIEW II, 2015). The vigorous growth in convenience stores and its strong orientation towards ready food is also observed by other interviewees (INTERVIEW II, 2015; INTERVIEW III, 2015; INTERVIEW V, 2015; INTERVIEW VI, 2015; INTERVIEW VII, 2015). The growth of the convenience sector is often simultaneously contemplated with the decrease in the hypermarket business. The head of commercial at *Shanghai City Supermarket* argues that hypermarkets “are often far away, whereas the convenience store is great for getting what you need at the moment, milk or papers.” The hypermarket in contrast, is “too big, it is too difficult to choose, and you need a car, as it is not easy to reach with local transport” (INTERVIEW XI, 2015). Referring to the convenience store sector in Taiwan, which “is

probably 15 - 20 years ahead” of mainland China, the interviewee from 7Eleven is convinced that the expansion of the latter will happen on a much larger scale in China. He explains the bright future of convenience stores with the rise in consumption, which in turn supports “*customers adopting their shopping motives from only price to price with a little more convenience, which is natural in every market.*” Referring to the Chinese “*24 – hour lifestyle*”, CEO from 7Eleven South China further acknowledges that despite low car ownership and small shopping baskets even in the PRC’s richest cities, the convenience sector “*is bringing something new to the market*” (INTERVIEW IX, 2015). A study conducted by the FUNG BUSINESS INTELLIGENCE CENTRE (2013: 31-32) reveals the strong increase in value added service offers, which are constantly being extended in order to differentiate from competitors. Also acknowledged by several of the interviewees, it’s the opportunity that convenience store services might include “*selling admission tickets for specific shows or tourist sites, top-up services for mobile phone users and bill payment schemes*”, for the purpose of enhancing consumer traffic and therewith driving impulse buying. In fact, the amount of not only pre-packed ready-meals, but increasingly on-the-go meals are growing, with some convenience store players adding their own on-site catering. For example, *Circle K* provides in-store catering under its own ‘Hot & In’ brand in some of its stores, contributing up to approximately 40 % of the sales mix in 2012. *Family Mart* introduced its own store brand ‘Fami’ and 7-Eleven has established foods under its ‘7-Fresh’ brand, as profit margins for catering services are generally higher than for many other categories of merchandise. Nevertheless, the CEO from 7Eleven China concedes that

“[We] are still far away from meeting customer’s needs. We are still doing a basic form of convenience, very far way. We are selling beverages, very limited offer of fresh items and quick meals. There is still a lot of space compared to the Japanese market for instance” (INTERVIEW IX, 2015).

In regard to the geographical spread of convenience stores, the format highly concentrates along the East coast. While hypermarkets, such as *Carrefour*, operate stores as far West as Urumqi, the CEO from 7Eleven China acknowledges:

“I don’t think it makes sense to go that far currently for convenience stores”
(INTERVIEW IX, 2015).

With *Tesco Express* and *Walmart’s Smart Choice*, international retailers follow the trend of opening up convenience stores. However, the above described trend of consolidation

also takes place in Shanghai, where *7-Eleven* partnered with *Uni-President* from Taiwan, and *FamilyMart* with another Taiwan based company named *Ting Hisin International Group* (GAIN, 2012: 32-33). In regard to the future of convenience stores, the interviewed expert from *7Eleven* points out the relatively small group of potential customers, such as white collar, business man, and students. Yet, few Chinese cities (around 10 - 20) are inhabited by a sufficient size of the suitable consumer group. Furthermore, an expert from a big Chinese retailer argues that vast differences between the North, with its cold weather conditions and less complex market, and the South, with its more moderate climate and diverse consumer market, point to a growth mainly in the South East in the distant future (INTERVIEW VIII, 2015).

4.2.4 Wet Markets – The End is Near?

The Chinese consumers' fondness for fresh products has been widely cited. Yet, different reasons contribute to the popularity of wet market. Back in 2000, in GOLDMAN'S (2000: 1) study on the Shanghai grocery retail sector, it is concluded that even "*consumers who regularly shop in supermarkets continue to purchase fresh food in traditional outlets.*" MR. QUI highlights very competitive prices, "*as sometimes 100 stands sell the same*". Moreover, personal relationships to the store vendors as well as the freshness of the products are cited (INTERVIEW VII, 2015). The retail expert from *Shanghai City Supermarket* is of the opinion that the government's intention to move the wet markets inside occurs in accordance with the Chinese consumer, who "*prefer it to be moved inside the building, as the streets are noisy and dirty.*" She further argues that traditional wet markets will continue to exist, but will not grow. Nevertheless she points out the importance of trust (see *chapter 4.3.5*, p. 180), which supports the Chinese customer's shopping at wet markets, where they have "*personal relationships and are familiar with the store vendor who they trust*" (INTERVIEW XI, 2015). The commercial director of *ParkNShop China* remarks that "*the Chinese government is trying to push out the wet market because one of the biggest concerns of the Chinese government is a way to improve the hygiene and food standards in China.*" While acknowledging the fact that it remains tradition for many Chinese families to go to wet markets, as they have done for centuries, the retail expert from *ParkNShop* refers to the younger generation when predicting that safety concerns will stop consumers from buying

at wet markets, as *“they don’t know where the food is coming from”* (INTERVIEW VI, 2015). Referring to consumer interviews conducted within the framework of testing possibilities of market entry, the international retailers assume that the demand for wet markets is decreasing. Especially younger consumers complain about the lack of transparency in regard to pricing: They feel that they pay more than older people who maybe benefit from a personal relationship with the store vendor (INTERVIEW III, 2015) Reporting from his own experience of living in Shanghai, the retail expert from 7Eleven observes the disappearance of wet markets, noticing that *“you won’t find wet markets any more like 15 years ago”*; yet, confirming their role as competitors for fresh fruit in regard to quality and price. Nevertheless, he doesn’t perceive freshness as a major advantage for wet markets, predicting that *“in the long run, their share is probably going to shrink”* (INTERVIEW IX, 2015). A view shared by a consultant and retail analyst, currently living in Shanghai: *“In the meantime, wet markets are located outside of the first inner ring road, and are equipped with own refrigerated warehouses, but lack resonance”* (INTERVIEW V, 2015). The majority of interviewed experts agree that the wet market sector is not as big it was ten years ago. However, opinions vary to a great deal in terms of the future of wet markets in the PRC’s grocery retailing sector.



Traditional markets in the city centre of Hong Kong and Shanghai
Own pictures, March 2015, Shanghai and Hong Kong

The comments partly concur with suggestions given by BAI, ET AL. (2008: 19) and GAIN (2012: 9), namely that the small grocery stores and traditional wet markets “*may fill an important niche of providing fresh produce and meat for a long period of time*”, indicating that present compulsive policies to close them in some cities might not be sound strategy. BAI, ET AL. (2006: 16-17) argue that due to the fact that the selection and quality of vegetables in most supermarkets is poor and that the hypermarkets are often too far away to be convenient for daily and immediate shopping, wet markets continue to satisfy a demand for fresh vegetables at low prices. However, geographically there seem to be huge differences in the way wet markets are handled by the government and by consumers. Tier-1 cities such as Shanghai will very likely continue to see a decrease in wet markets in the coming years. Nevertheless, in cities with a less advanced retailing structure, wet markets are likely to continue to dominate parts of the retailing sector.

“Wet markets play a very significant role. Maybe there will be more control and they will have to be more organized, but they won’t be disappearing for a very long time” (INTERVIEW II, 2015).

Similarly, according to a Chinese professor “*wet markets and modern markets can co-exist*”, however, regulations in Shanghai and Beijing will be stricter in small villages wet markets will continue to exist for a long time, due to affordable prices (INTERVIEW XII, 2015).

4.2.5 The Discount Format

While common agreement exists that the discount format (see *chapter 2.4.1*, p. 73), as present in Europe for instance and represented by companies such as *Lidl* or *Aldi Süd*, does not exist in China, experts disagree in regards to the format’s future in the PRC. The national retail environment is crucial to the development of international retail companies as well as of different store formats. As ALEXANDER (1997: 74) acknowledges, some markets “*may not be ready for certain retail formats.*” As market penetration requires long-term efforts, an early entry in regard to obtaining a strong position in the market is necessary (TURBAN AND WOLF, 2008: 20). TURBAN AND WOLF (2008: 21) further remark that “*Aldi has been the only discounter being successful in markets outside of Europe, such*

as the USA [...] and Australia [...]” Following a global internationalization strategy, German discounters highly standardize their domestic concept in foreign markets, implying “*cross-border synergies in lieu of adapting to specific circumstances in the hosting country*” (WORTMANN, 2010: 7). According to KPMG, comparing Aldi’s assortment of products in Spain and Germany and measured an overlap of 70 % (cited in WORTMANN, 2010: 7). It has recently been reported, that Aldi is considering entry into the Chinese market (HANDELSBLATT, 2014: online). However, doubts are evidently present:

“Which consumers are not price sensitive? So far, only advanced and mature markets have been entered by the discount format, with usually an oligopoly hierarchy being evident and prices and revealing a stable and higher level” (INTERVIEW X, 2015).

The interviewed retail expert from CCFA clearly reasons that “*everyone is a discounter somehow*” and that it is “*not the right thing for the Chinese market*” (INTERVIEW IV, 2015).

“Maybe in China ‘discount’ has a different meaning. Everyone has to offer discount, as it all depends on the offer” (INTERVIEW II, 2015).

The limited convenience and uninspiring shopping experience provided by discount stores, coupled with high rental costs and a supply chain which is difficult to manage, might hinder the growth of the discount format (INTERVIEW II, 2015). The interviewed Chinese professor clearly states that there is “*no need for discount stores*”, inter alia due to the low price level at wet markets and the lack of advantages to go shopping in a discount store, “*which doesn’t offer any uniqueness to its customer*” (INTERVIEW XII, 2015). Furthermore, the introduction of own brands “*needs so much effort to control: firstly, the production, then the distribution. We don’t have food-only-brands, because we thought it is too risky. But we have our own laboratories, which are very expensive*” (INTERVIEW II, 2015). The retail analyst from Planet Retail, for instance clearly states that

“discount stores are not working in China, as private labels are not accepted” (INTERVIEW VII, 2015).

However, he further reveals that “*it’s not about the format itself; it is still a very new format.*” Yet, he claims the lack of trust (see *chapter 4.3.5*, p. 180) in no name brands as the main reason for the unworkability of discount stores. Nevertheless, he highlights the opportunity for international players to convince Chinese consumers of the trustworthiness of private brands, thus transforming them as acceptable new brands (INTERVIEW VII, 2015).

Two interviewees highlight the example of *Costco*, an American retailer that recently tested the water in the Chinese market by offering private labels on the internet. Selling out within three days, several experts agree that the retailer's brand reputation and customers awareness was the main reason for its success, as many Chinese tourists travelling to the USA knew the brand (INTERVIEW II, 2015; INTERVIEW VII, 2015). The difficulties in regard to own brands are omnipresent, as one interviewed expert refers to *Dia*, a discount format that has been introduced to the Chinese market „with high expectations, which could not be met at all“, due to the inability to achieve competitive prices (INTERVIEW V, 2015). One interviewee noticed that the difficulties *Dia* is facing derive, among other things, from „bad locations“ (INTERVIEW III, 2015). Furthermore, own brands make up approximately 50 % of products offered and these are constantly reduced. Still, the interviewed experts do not demonstrate consensus with regard to the format's future. The CEO of *7Eleven* in South China sees potential opportunities in the formats main competitive factor, price:

“[...] the current players [...] are still very much price-orientated, and that doesn't give much space to discounters right now. But again, you don't know what the reality will be in a few years from now. [...] the hypers will probably lose market share, as they are usually higher margin retailers, they might have to get money back from their food products which will question their ability to stick to low-price-positioning? There is a risk that this will give market share to discounters. Again, it might depend on whether they stick to the aggressive price-strategy or not, I guess” (INTERVIEW IX, 2015).

The commercial director from *ParkNShop* China provides a more pragmatic answer:

“Discount stores? I would say yes. There is a market for everything in China. [...] But if they come, it should be soon, and they should operate in budget areas” (INTERVIEW XI, 2015).

Nevertheless, the expert's opinion on the Chinese consumer's brand fondness is clear:

“So if I think about Aldi and Lidl, they are successful because originally they serve the lower class customers that really say I don't need a brand, I want a good price and an ok quality. But Chinese customers really want brands. They are so brand sensitive; therefore in China we have many retailers that have difficulties to launch their own brands [...] So if it's not a brand, they don't consider it. They don't know it, so it's not good” (INTERVIEW XI, 2015).

4.2.6 E-Commerce

The interviewed experts unanimously agree that the internet grocery retail sector is rapidly developing and growing. As recently acknowledged by MCKINSEY, “*the e-grocery model has taken much longer to get it right than others areas of retail*” (MCKINSEY, 2013a: 4). Nevertheless, experts agree, that

“*Ecommerce cannot be ignored*”(INTERVIEW III, 2015).

The retail analyst from CCFA referring to how easy and cheap the delivery is when ordering groceries online, likewise predicts a bright future for online shopping, as there is “*no need to go through hypermarkets, which are often too far away and where it is not as easy and convenient*” (INTERVIEW VI, 2015). For *Shanghai City Supermarket*, the ecommerce sector plays a “*very very important role*” (INTERVIEW XI, 2015). Although consisting of currently only 10 % of turnover, MRS. XIE (2015), head of merchandising, speaks of “*good prospects*” for her Shanghai-based high-end supermarket chain. How quickly the market is evolving and changing reveals the example of *Feiniu*, which was officially launched in 2014. By the end of 2014, *Feiniu* had almost 1.4 million registered users, of which more than 400,000 were active and carried 145,658 total self-operated SKUs. According to IGD (2015d: online), the online retailer explored online and offline opportunities, launched apps on both IOS and Android platforms, and also started the delivery of fresh products in Shanghai within only one year. Yet, experts agree to a large degree that there is no profit yet to be made, while several experts estimate that many online retailers “*will die*” (INTERVIEW VII, 2015) due to huge consolidation processes which are expected in the near future. Similarly, MCKINSEY (2013a: 64) forecasts partnerships to emerge as the ‘last mile’ delivery has to be efficiently managed in regard to cost and capacity. Commercial director from *ParkNShop* highlights the weakness of online grocery shopping in regard to fresh produce: “*People don’t want to buy tomatoes online, because they want to see the quality before they buy*” (INTERVIEW VI, 2015). In other areas, such as electronics, he acknowledges that the business “*will not come back*” for in-store retailing, but is lost to online retailing, thereby influencing the retailer’s choice of assortment (see *chapter 4.4*, p. 182).

4.3 Challenges and Opportunities within the Chinese Market

As revealed within the previous chapters, different store formats face diverse challenges. There are clearly several obstacles for international as well as local players, which leads to the situation of the absence of clear market leaders with a nation-wide retail chain. Due to the complexity of the market and the difficulty of obtaining a lean retail model, big retailers are troubled (CHUANG, ET AL., 2011: 453; WALL STREET JOURNAL, 2006: online). Reporting on several recent store closures in Hangzhou, CCFA (2014a: online) explains this development through rising rental costs, growing online competition, as well as the difficulty to predict further market developments.

The CEO China of an international retail chain acknowledges that

“the past challenges differ widely from challenges today. Retrospectively, the challenges weren’t so bad at all compared to nowadays”,

referring to fierce competition, high rental and labour costs in current times (INTERVIEW I, 2015). Especially the interviewed experts from international retailers list a wide range of obstacles when operating in the Chinese market. The interviewee from *ParkNShop* generally notices that:

“one of the biggest challenges is because it is a big market, and every big international retailer wants to be in China. But actually there are only very few that are making a profit. Many lose money and they are here for the long-term future and so one of the biggest challenges is extension. How to open more stores in the right places in an affordable way, because China is very expensive. When I worked at Metro it was much more financially interesting to open stores in Russia, and the Eastern European countries, like the ex-Soviet countries, because the return of investment was much faster and quicker than in China, for several reasons. Other business in China takes longer to become adjusted to the retail business; real estate is very expensive, especially in the big cities, and in the location where you want to be to do good business. It is very important to adapt international retail experience and strategy to the

Chinese market. Because we always have expats, from Germany, Netherlands, etc. who come with the best-practice power-point-presentation from their countries. But many great business successes from those European countries they didn't work in China for different reasons” (INTERVIEW VI, 2015).

Due to the absence of economies of scale and the huge amount of competition, expansion is difficult, *“as everywhere you go, someone is already there.”* Moreover, *“every region confronts you with different competition, which is very difficult to evaluate”*, according to one of the interviewed retail analyst (INTERVIEW X, 2015). Furthermore, high distribution costs are especially experienced in geographically spread out rural markets with widely dispersed populations, as argued by VELAYUDHAN (2014: 151). An international retail expert highlights the requirement for the adaption of local parts of the assortment, which is quite significant. Furthermore, high real estate and a *“purchasing power of the Chinese customers which cannot yet be compared with Western markets, or even some Asian markets”* is existent. Compared to the home market of an international retailer, for instance, savings cannot be made from the low cost of your network, however, revenue is not increased (INTERVIEW II, 2015). Further, the legal framework still counts as one major challenge having to be faced as *“there is no jurisdiction for multinational companies (MNC – author’s note), as the court always decides in favour of the party, respectively the country”* (INTERVIEW III, 2015). Referring to research conducted in China, one retailer states that *“20% of income originates from ‘grey sources’, which was shown in the case of a regional manager at NGS who offered to sell us data”* (INTERVIEW III, 2015). It was reported that *“staff training has to take place in China, as in the case of Tesco, 60 % of staff send to the UK stayed or took on other jobs. In any case did they not return to China”* (INTERVIEW III, 2015). According to the head of merchandising of a local Chinese retailer, international players *“do not know how to handle a Chinese working group”* (INTERVIEW XI, 2015), while a European retailer comments: *“What you consider an ethical way of doing business in Western countries, is not exactly the same definition here [in China – author’s note]”,* referring to guanxi (see chapter 3.4.4, p. 137).

Generally, interview partners enumerated a wide range of challenges in regard to their Chinese retail operations. The most mentioned reasons are divided into the following sections. Noteworthy, international retailers, which represented the majority of interviewees, reported far more challenges than their Chinese counterparts. A separate

chapter is devoted to the realization of Chinese retailer's advantages, in relation to the disadvantages of international players.

4.3.1 Location, Location, Location

“Location, location, location is still the key, but they are hard to get”
(INTERVIEW V, 2015).

“The name of the game is to make an early entry into emerging markets and rapidly establish a major, preferably leading presence in key locations, like twenty-first-century retail conquistadors” (BLYTHMAN, 2004: 232 cited in COE & HESS, 2005: 458). In fact, several international retailers entered the Chinese market obtaining prime sites, as the example of *Walmart* reveals. The American retailer's initial locations in the PRC, unlike their strategy adopted in their home market, where *Walmart* starts market penetration in economically weaker areas, were located in the *“most commercially developed and wealthiest districts”*^c (CHUANG, ET AL., 2011: 452). However, it has to be acknowledged that at the time of *Walmart*'s entry into the Chinese market, tier-3 and tier-4 cities would have confronted the American player with both a lack of purchasing power and functioning infrastructure. A particular format must be supported not only by the right location but also by available and affordable real estate. Several companies which are usually acquiring land at selected locations and building own stores in their home market, tend to lease properties from either local retailers or domestic real estate developers in order to minimize sunk costs and leasing space from other developers. *Walmart* for instance formed strategic alliances with two major developers, while *Metro* made this decision due to its difficulties in obtaining suitable premises from local developers. Latecomers to the Chinese market

^c In Beijing for instance, the *Walmart* Supercenter Jianguo Road Branch is located in an area which now boasts high status domestic and foreign stores including Tiffanys, Louis Vuitton, Montblanc, and Dior. However, CHUANG, ET AL. (2011: 452) argue that *Walmart*'s brand identity has little appeal for the affluent Beijing consumers who know the difference between luxury and discount (see *chapter 4.2.5*, pp. 166-168).

face further challenges, such as unavailability of prime sites^{ci} in first-tier cities, often leading to the investment of existing chains. TACCONELLI AND WRIGLEY (2009: 65) interpret *Tesco's* entry in 2005 and its acquisition of a 50 % - stake in *Hymall* as well as *Walmart's* acquisition of a 35 % - stake in *Trust Mart* in 2007 as strategic, allowing to obtain retail spaces that would have been difficult to access otherwise. Similarly, CHUANG, ET AL. (2011: 443) reveal a correlation between the formation of partnership alliances and an impact on store location choice. Yet, it is argued in this dissertation that the above mentioned first-mover advantage of obtaining prime sites, can represent a curse in hindsight. The interviewees strongly agree that rental costs are escalating, representing a major challenge. Two of the interviewed international retailers acknowledge that, as mentioned in *chapter 4.2.1* (pp. 157-158), without sub-lease some rental costs could not be covered (INTERVIEW I, 2015; INTERVIEW III, 2015). Moreover, retailers are increasingly forced to accept store locations which do not represent first choice, such as underground locations, as revealed in the following pictures.



Left Wellcome Supermarket in Hong Kong
Right Sign and Entrance to Shanghai City Supermarket
 Own pictures, March 2015, Hong Kong, Shanghai

^{ci} Whereas Western retailers tend to locate their stores in urban fringes close to highways, in China peripheral locations have not been able to attract as many customers due to very limited car ownership even in large urban areas. More stores therefore are located in residential areas on major bus routes, such as French *Carrefour's* stores in Beijing, Shanghai and Qingdao. Sometimes even free buses are provided (WANG, 2003: 127).

Especially in Shanghai, Hong Kong and Chongqing, basement locations are not unusual. Moreover, an issue especially relevant for hypermarket operators, is “*that traditionally all retailers started in very big stores, let’s say between 8,000 and 15,000 square meters.*” However, as the Commercial Director (INTERVIEW VI, 2015) of *ParkNShop* further argues, “*[M]ost of the stores are too big, and therefore too expensive, [...] what most retailers learnt, is that it is better to have ten stores that are smaller than three stores that a bigger [...] Last week I was in Chengdu. It took me an hour to go from one place to another within one city. So if you have more stores in city you can maximise brand awareness and use synergies which is much better to have 10 stores geographically spread out all over the city, than to have just a few big stores. Because for a lot of potential customers the traffic in the Chinese big cities makes the travelling time too long*” (INTERVIEW VI, 2015). Several interview partners share this view, conceding that smaller store formats present higher flexibility (INTERVIEW I, 2015; INTERVIEW VII, 2015). Several factors contribute to the challenge of obtaining favourable store locations. Generally, it is claimed, that “*[T]he first decision is the traditional store location choice problem*” (POPKOWSKI LESZCZYC, ET AL., 2000: 324). Doubtless, store location represents one of the most essential and initial decisions. However, as it is argued in this thesis, the market and geographical scope of such an analysis highly influences the importance of a locational decision. It is argued that in some regions of the PRC, the very first decision is not necessarily where the store shall be located, but whether the consumer does or does not shop at traditional formats due to loyalty or trust reasons (see *chapter 4.3.5*, pp. 180-181); therefore deciding for or against modern store formats. This means customer behavior is the prime consideration of incoming international retailers. Furthermore, it is argued that, when examined in a larger context, store locations in residential areas are increasingly in demand. With China’s urbanization rate continually increasing, sites are still available outside the main city centers. Interviewed retailers agree that housing development areas reveal several advantages. Not only are residential areas obliged to offer shopping facilities, they often welcome retailers to operate stores, as developers themselves lack the necessary managerial expertise (INTERVIEW III, 2015). These circumstances mean that retailers have an incentive to locate their stores outside of the city centres.

4.3.2 Localization, Localization, Localization

Whereas fashion trends tend to occur at a global level, grocery retailing faces a much more complex market, as eating habits, even within a market, are predisposed to be diverse (EUROMONITOR INTERNATIONAL, 2013b: online). As illustrated in *chapter 2.3.7* (p. 67), the PRC reveals immense regional differences in regard to a wide range of aspects, such as consumer habits, regulations, economic development (see *chapter 2.3.6*, p. 64), weather conditions, etc. As clearly discussed and revealed in *chapter 4.1* (p. 142), the PRC lacks one uniform national market, due to the reasons mentioned above there exists several markets. Also the different stages of retailing development in *chapter 4.1.5* (p. 154), as to how modern store formats are represented, are constituted. Consequently, one interviewee defines the problem succinctly, when stating that:

“[T]he size of China is both, the biggest opportunity and the biggest challenge”
(INTERVIEW VI, 2015).

The need for localization was mentioned without exception by all interviewed experts. Yet, the degree of localization differs markedly. While some retailers merely adapt their assortment, others adopt a holistic localization approach to their whole business strategy Hong Kong-based retailer *ParkNShop* states that within mainland China

“[W]hat we do is we only focus on Guangdong province. Many people say: why this? It is not very big. But do you how how many people live here? There is enough market and I actually believe that more and more retailers will focus their attention to certain parts along the East of China, because that is where the money is” (INTERVIEW VI, 2015).

Referring to his time at *Metro*, the *ParkNShop* representative reports that *“actually we dramatically localized and we reduced the numbers of expats and foreigners, and we tried to localize Metro as an international company, but with 95 % Chinese management”* (INTERVIEW VI, 2015). The slow expansion of *Walmart* (opening only eight stores within the first five years in the PRC), was mainly due to a lack of cultural adaption to the local Chinese market, as the Market Development Manager of *Walmart China*, Mr. Ma Jun revealed (cited in ZHEN, 2007: 10). CHUANG, ET AL. (2011: 451) argue that *Walmart* owes its struggle with localization to the wrong choice of store location during their early entry

into the Chinese market. As illustrated in *Map 3* (p. 49), initial store locations were highly influenced by Chinese liberalization policies. In their valuable research on *Carrefour's* and *Walmart's* experiences in the PRC, CHUANG, ET AL. (2011: 450) reveal distinctive differences in regard to the retailers' strategies. Whereas *Carrefour* operates its stores more decentralized than *Walmart*, the latter struggles to adapt to local differing tastes. *Carrefour* however, grants their managers the freedom of undertaking their own procurement, therewith more easily adapting to local markets. the Commercial Director *ParkNShop China* refers to his current company's strategy as follows:

“What we do is we try to focus. And many retailers learnt a hard lesson and tried to be everywhere in China, which is nearly impossible” (INTERVIEW VI, 2015).

An international retailer not yet operating in China, states that in case of market entry

„a total adaption to the market is necessary. Even parts of the corporate culture and philosophy have to be adjusted“(INTERVIEW III, 2015).

One aspect highlighted by an international competitor is the relatively high responsibility of branch managers at *Auchan*, who are able to suggest new products to list (INTERVIEW III, 2015), increasing the possibilities of adaption to the local market.

„Flexibility is everything. And adaption is enormously important, even more important than in any other markets“ (INTERVIEW III, 2015).

This correlates with YU AND RAMANATHAN'S (2012: 227) argument that *“it is impossible to run all stores from one central office.”* The above discussed need for localization provides one further reason as to why discount stores are not successfully represented at this time. As COLLA (2003: 58) argues, mainly the discounter (such as *Aldi*, *Lidl* or *Netto*) reveal strong international presence, however employing a mono-format and a global concept, which is usually modified and adjusted only to a very small degree, as *“Aldi usually educates its consumers, which is very unlikely to work in the Chinese market”* (INTERVIEW III, 2015).

4.3.3 Advantages of Local Players

The need for adaption to the Chinese market, as evaluated in the preceding chapter, is mainly applicable from an international retailer's point of view. According to LIU (cited in BLOOMBERG, 2012: online), regional chains “*know local practice better and that allows them to be more nimble and pragmatic in areas such as supply-chain management.*” One interview partner (INTERVIEW VI, 2015) points out that local retailers are “*better connected to the Chinese government*”, and reveal better relations which allows them to expand faster than their international counterparts. Further, he argues that “*they make fewer mistakes than international retailers. Because lots have no understanding what it means to do business in China. We don't have to teach Chinese companies how to do that*” (INTERVIEW VI, 2015). Similarly, an international retailer comments in regard to local players that “*they have some advantages, [...] as [they] find ways to make things happen quicker and can escape normal charges which usually have to be covered*” (INTERVIEW II, 2015). One retail analyst reports of major problems of international retailers communicating with their headquarters back in their home markets, which delays decision making by up to 6 months (INTERVIEW VII, 2015). A weakness that is also acknowledged by consultant and former Head of Business Development at *Metro China*, who states that “*Metro is not the quickest, not flexible enough*” (INTERVIEW V, 2015).

“The amount of very localized players is immense. They know the customers and the market very well and already own the best sites. Due to their good relations they know quicker when good spaces become available, not only through bribing” (INTERVIEW X, 2015).

In July 2004, the MOFCOM established the ‘national team’, a selection of 20 domestic retailers that is provided special assistance from the Chinese government. The selection includes the Shanghai-based *Brilliance Group*, which was created by the Shanghai Municipal Government in 2003 through the merger of four stated-owned corporations. Ranging from convenience stores and supermarkets to hypermarkets and shopping centres, the group owns over 7,000 retail stores across the PRC (WANG, ET AL., 2007: 341). The connections of these local retailers enable them to profit from synergies and knowledge. Yet, the Head of Business Strategy of one the biggest Chinese retailers argues that

“[T]he most important advantage of Chinese companies is flexibility”
(INTERVIEW VIII, 2015).

He acknowledges flexibility, despite the size of his company, as a main point of advantage, describing the ability to adopt very quickly in accordance with changes in environment and business conditions. Furthermore, he argues for local retailers to know what the consumer thinks, because of the familiarity with Chinese custom. In contrast to foreign competitors, he points out that

“[...] most of the foreign retailer’s localization is very poor” (INTERVIEW VIII, 2015).

Speaking of *Walmart* as an example, the same interviewee claims that the US retailer made

“many Americans come to China to work. [...] They think that the company’s bad performance since 2008 is because they don’t do in China what they do in the USA. Partially that is right, but I don’t think that the company is doing the right thing; they just use a lot of Americans in China. I think in the long run they must employ more Chinese at the management level, to allow them better expertise in regard to local customers” (INTERVIEW VIII, 2015).

Generally, Chinese interview partners are much straighter and ample about international retailer’s operational mistakes than the international players themselves. The interviewed expert from CCFA states that:

“international retailers have trouble to adapt to ever-changing needs of the Chinese market. You have problems when you cover big parts of China, because it is difficult for foreigners to adapt to them” (INTERVIEW IV, 2015).

As the second most important advantage of local retailers, a Chinese retailer acknowledges their learning ability, arguing that:

“[...] many Chinese retailers didn’t know about the business 20 years ago. But nowadays, everything has changed. They became the teacher and tutor of the international retailers” (INTERVIEW VIII, 2015) (see chapter 4.5, p. 192).

4.3.4 Joint Ventures – Blessing or Curse?

As evaluated within the previous chapter, domestic and international players face different challenges, despite operating in the same market. While during most of the retailers' entries into the Chinese market were through means of JV partnerships with local enterprises (see *chapter 2.3.2*, p. 42, and *Appendix 4*, p. 273), a number of foreign retailers were wrangling for greater 'independence' in an effort to consolidate their power in decision making. WANG, ET AL. (2007: 341) list inter alia the establishment of *Carrefour's* wholly-owned subsidiary in Haikou of Hainan Province, and bought out its Chinese partners in Kunming, Urumqi, and Changsha. Likewise in 2005, *Lotus* opened its first wholly-owned store in Jinan, while buying out its Chinese partners in Beijing, Tianjin and Shanghai; similarly to German *Metro* which increased its China ownership from 60 % to 90 %. The establishment of JV partnerships with Chinese retailers could be regarded as a possibility to overcome the challenges listed above, such as lack of localization and adaption to the market. Considering the example of *Auchan* and *RT-Mart*, one of the most recent and well-known partnerships in form of the *Sun Art Retail Group*, both companies are operating and expanding successfully (see *figure 21*, p. 158). Nevertheless, the CEO of *Auchan China* indicates that "expectations on partnership vary significantly" between Chinese and non-Chinese participators. In the case of the successful partnership between European *Auchan* and Chinese *RT-Mart*, he speaks of a "benchmarking partner" with which geographical markets are divided. While *RT-Mart* is mainly operating in the North and West, *Auchan* will further expand into Central-Western China (INTERVIEW I, 2015). It is reported that in 2014, almost 40 % of buying turnover was negotiated through common negotiation of the two partners, which helped reduce purchase prices through economies of scale. Sales of private label brands increased 21 % over 2013, as suppliers developed 33 items exclusive to *Auchan* and *RT-Mart*, providing better choices and lower prices based on customer demand and enhanced shopper loyalty (IGD, 2015d: online). However, also the former Head of Business Development at *Metro* critically evaluates the role of JV. He shares *Auchan's* expert's opinion on expectations of partnerships, because JVs usually represent „two totally different parties, where one acts as a silent partner“, without contributing. With meetings once in a year, both interviewees encounter several problems which have to be faced due to different expectations (INTERVIEW I, 2015; INTERVIEW V,

2015). Nevertheless, former research, such as undertaken by CHUANG, ET AL. (2011: 453), conclude that *Carrefour's* adopted JV strategy (using several local JV partnerships) represents a crucial element in *Carrefour's* early success. Higher flexibility and a better handling of local protectionism issues are listed among the advantages deriving from the local JV partnerships. In the case of *Tesco*, which according to LEBENSMITTELZEITUNG (2013a: online; 2013b: online), was not only underestimating competition, but apparently decided for the wrong choice of location, a JV might represent the easiest and cheapest way out of the market. On 28 May 2014, the company announced a JV formation with *CRE* with its chief executive officer Mr. Hong Jie stating that the JV is welcomed, *“though the Group continued to be faced with challenges from the slowdown of economic growth in China. The joint venture is set to boost our market leadership, brand value, e-commerce platform, global sourcing and operational standards which reinforce our confidence in seizing future growth opportunities”* (cited in CRE, 2014: 2). Generally, from the international retailer's point of view, the majority of interviewees did not positively express oneself on partnerships with Chinese companies, highlighting the differing expectations and the lack of a profound relationship. One interviewee questions:

„What is the partner actually doing better and where are the advantages? It is difficult to measure if a benefit is really gained” (INTERVIEW III, 2015).

4.3.5 The Chinese Consumer and Trust

Another factor to crystallize out of the conducted interviews is the role of the Chinese consumer. One Chinese retail analyst is convinced that price remains the main factor of competition within the Chinese grocery retailing market (INTERVIEW VII, 2015). The interviewed expert from CCFA portends the fact that China is still an agricultural country, where, despite growing incomes, customers check the products very carefully and *“price remains a major choosing point.”* Moreover, he points out that

“Chinese consumers have no loyalty at all” (INTERVIEW IV, 2015);

thereby inter alia referring to the price sensitivity and cautiousness of Chinese consumers in regard to quality. The interviewed Chinese retail analyst confirms this customer habit,

and classifies quality and safety as main determinants of buying decisions as subsidiary to price (INTERVIEW VII, 2015). All interviewees acknowledge the Chinese consumers' high level of product knowledge, arguing that *"consumers in the big cities get smarter, as they inform themselves before they go shopping"* (INTERVIEW IV, 2015). The interviewee from *Sun Art Retail Group* highlights the amount and scale of food safety scandals which implicate a very low level of trust. Moreover, Chinese consumers reveal more and more high maintenance tendencies, as the level of fragmentation and fierce competition is growing (INTERVIEW I, 2015). The Commercial Director of *ParkNShop*, having worked in very different retail markets around the world, forwards several reasons for the brand-consciousness:

"Chinese consumers are very much quality and food safety conscious, with all the food scandals and the fake products, more than in any other country that I have worked in. They care a lot about whether they can trust the product, and they are very much brand orientated, and this is something I have seen in many countries with communist backgrounds where people used to have no money. They couldn't spend and buy for prolonged periods, but the moment they have money, they want to spend the money! I'd say officially China is still a communist country, but it is the most capitalistic country that I have worked in. If they have money, they want to show it. So brands are extremely important. They don't want own brands if they have money" (INTERVIEW VI, 2015).

Respectively, difficulties to build own brands within the grocery retailing industry (see *chapter 4.2.5*, p. 166) might also result from a lack of trust within the Chinese consumers, which is also noticed by the CEO South China of *7Eleven*:

"It is difficult to prove that local brands provide equal quality for less money. This is very difficult. This is probably rooted in the difficulty that customers lack trust because of deaths resulting from food scandals. They have been cheated for so many years on the quality. So they are very very conscious about the quality and are aware of quality issues. Chinese customers are extremely cautious and so that's probably the reason why" (INTERVIEW IX, 2015).

According to the Assistant Director at CCFA, foreign brands in China are not only more expensive, but more trusted, as they are almost automatically associated with better quality.

Therefore, a Chinese retailer is arguing that “*it is easier for foreign brands to enter the Chinese market*” (INTERVIEW IV, 2015). According to SWOBODA, ET AL.’S (2012: 72) investigation on brand perceptions of Western, Asian and Chinese retailers, results reveal that retailers benefit from perceived brand globalness, while Western and Asian retailers’ patronage only affects consumers' functional and psychological values.

4.4 The Adjustment of Retail Formats

Within the previous sections, several Chinese specific characteristics and challenges have been evaluated. As discussed in *chapter 2.4* (p. 68), the market environment heavily influences format transfer strategies, and adjustments might be necessary as new formats evolve (AU-YEUNG, 2003: 130). Moreover, as mentioned by one of the interviewees,

“apart from the hypermarket format, all other retail formats in China were introduced at once. They did not have time to develop” (INTERVIEW I, 2015).

In fact, China does flaunt a wide array of retail formats, each at a different level of evolution and development, while new ones are about to emerge or already have.

The hypermarket, providing an all-under-one-roof concept was innovative at the time of market entry. According to a representative of *Carrefour*, the French retailer

“managed to make it happen in a Chinese way [...], not having one floor with 10,000 m² [...], like the ones we find in Europe, but [...] several floors, located in downtown, not in the suburb. We entered directly in downtown [...] with a retail order and layout fitting Chinese norms. The idea was not to reproduce, not to copy and paste, but to think about it and to bring it all under the same roof, while adapting to the Chinese reality” (INTERVIEW II, 2015).

In contrast to Western markets, where hypermarkets usually exist in more suburb locations, the hypermarket format in China is often represented in high density, downtown areas, where it can easily gain access a huge amount of potential customers (INTERVIEW II, 2015). It is argued in this thesis, that one of the reasons lies in the early entry point of hypermarkets into the Chinese market, where prime sites were still available and

affordable, as discussed in *chapter 4.2.1* (p. 157). Experts agree to a large extent, that for the hypermarket format

“downtowns are saturated; you cannot open big hypermarkets anymore”
(INTERVIEW II, 2015).

Another interviewed expert argues that the

“the format of a hypermarket is not possible any more like it was at its introduction due to a lack of appropriate and affordable locations. It is important for hypermarkets to bring other retailers in, such as cafes, etc. in order to afford the location costs” (INTERVIEW I, 2015).

The readjustment of the hypermarket format has been indicated elsewhere (GAIN, 2013: 2), however, solely on the grounds of extended imported food assortments. Similarly, the C+C format is facing challenges. *Metro’s* warehouse-style retail outlets typically require a one-floor configuration surrounded by spacious parking lots. In times of enormous rental costs, lack of space and multi-storey properties, it might be challenging to find developers who are willing to invest in this type of construction. An apprehension that has already been expressed by WANG, ET AL. (2007: 335-336). *“Metro realized that it cannot be a typical C + C business as it is in Germany”* (INTERVIEW , 2015). A conclusion that it similarly drawn by *Metro’s* former Head of Business Development, who puts on the record that *“[I]nitially, the format was transferred and implemented 1:1, beforehand it had to be adapted forcedly, from a global to a localized format, more a hypermarket model than the original C+C format”* (INTERVIEW V, 2015). Nowadays, *Metro*, which builds its own stand-alone properties on its own real estate, is opening so-called Junior Stores, which are with 6500 m² and therefore much smaller in size (compared to the originally opened stores with spaces of around 20,000 m²) (INTERVIEW V, 2015). Back in 2007, when *Metro* and *Makro* exclusively focused on the warehouse membership club format, which was then open only to registered members, WANG, ET AL. (2007: 334-335) already raised concerns as to whether this format could serve the Chinese market. Up until then, *Walmart* was operating only four *Sam’s Clubs* in the whole of the PRC and had to convert one of the four stores, which was launched as a *Sam’s Club*, to a supercentre shortly afterwards (WANG, ET AL., 2007: 334-335). Generally, it can be concluded that the concept of C+C stores seems to merge with the hypermarket format. Technically, the C+C format as originally introduced by *Metro*, does not exist anymore. In regard to supermarkets, the format is also adjusted

constantly, as the example of *Shanghai City Supermarket* presents. It uses small chain stores - a shop size of around 2,000 – 4,000 m² - that target high-end-consumers. According to *Shanghai City Supermarket's* Head of Merchandising, one store is 10,000 m², but consists of only 4,000 m² of sales area, while the other 6,000 m² contains an experience area and restaurant. Whereas the product range and quantities are almost the same as in the other stores, the supermarket chain is planning to provide a “*future experience area with cooking classes [...] to attract customers*” (INTERVIEW XI, 2015). Similarly to other supermarkets, the share of fresh produce is considerably high, with approximately 7,000 - 8,000 products, around one quarter is fresh produce. The interviewee is of the opinion that:

“the supermarket area will become smaller in the future and experience areas will become bigger, while shopping online will increase” (INTERVIEW XI, 2015).

Another essential factor having influenced all grocery retailing formats is the Chinese preference for fresh fruits and vegetables and the consequent competition of wet markets (see *chapter 4.2.4*, p. 164). The interview results confirm the author's own observations as well as observations conducted by GAIN (2012: 9), namely that supermarkets in Shanghai enlarge their fresh section^{cii} in order to compete with wet markets as well as hypermarkets. According to one interviewed retail expert and partner at A.T. Kearney, foreign retailers adopted quite well in regard to assortment. Especially the big fresh produce sections give the impression of shopping at a wet market (INTERVIEW X, 2015). Despite a comparatively low amount of imported products, interviewees agree in the more modern markets, such as Shanghai, consumers are increasingly demanding imported foods. A development that could be confirmed within the framework of observations, as illustrated in the pictures below. Many of the international retailers have begun including a natural section in their stores with healthy products in order to meet increasing consumer demand. Furthermore specialized import sections are introduced to satisfy the augmenting request for high-end food items (GAIN, 2012: 41), as the interviewed expert from *ParkNShop* confirms:

“We have stores where people are very rich and they don't care about the price, they want good and safe quality and they are very interested in eating and drinking products from Europe or America” (INTERVIEW VI, 2015)

^{cii} According to estimates of MERRILL LYNCH, “[H]alf of every dollar spent on food in China goes to live and fresh products”(cited in WALL STREET JOURNAL, 2006: online).



Various Fresh Fish, Fruits and Vegetable Sections (*Auchan, Carrefour, CRV, Metro*)
Own pictures, Shanghai, Chongqing, Hohhot, March 2015

With regard to the increasing online sector (see *chapter 4.2.6*, p. 169), the interviewee from *ParkNShop* remarks the importance of constantly adapt to the ever-changing circumstances:

“So what we do is we focus what is happening online and adjust our stores accordingly. For instance electronics is an area where online retailing is very strong and we are losing a lot of business and so we look at other areas to compensate the losses in electronics” (INTERVIEW VI, 2015).

As revealed above, purchasing fresh produce online is critically discussed and is developing into a centre of focus for grocery retailers. Interviewees agree to a large extent that the assortment is changing due to the competition faced by e-commerce. One retail expert highlights the opportunity for brick and mortar retailers in regard to fresh goods, as this is *“where retailers still believe that they can do business compared to internet business”* (INTERVIEW VI, 2015).

4.4.1 Diversification: Multi-Format

Due to fierce competition and the several challenges evaluated above, not only do retailers adapt their formats, they also seem to increasingly diversify into several differing formats. Coherent with findings in the previous chapter, *Carrefour* will launch more convenience stores, under the *Easy Carrefour* banner, which started trial operations in 2014 and is aimed at local communities. The proximity stores provide services and fresh foods to nearby communities and occupy a larger space than usual convenience stores, offering a wider range of merchandise (IGD, 2015b: online). The operation of small supermarkets with floor spaces of around 300 m² *“is only a start, it’s a way for us to keep people happy, but if you look at a cities such as Shanghai, the downtowns are saturated, you cannot open big hypermarkets anymore, so yes, we are developing a new format, and the idea is to combine the networks”* (INTERVIEW II, 2015). Similarly, *Auchan* is planning to open two supermarket formats (INTERVIEW I, 2015), and according to the former Head of Business Development, *Metro* is developing into five different channels. One of them will be a convenience store, which is going to open in May 2015 in Shenzhen. Furthermore, welfare stores, e-commerce, as well as food and service delivery are being planned; yet, *“e-commerce is not a priority, as the last mile is extremely expensive”* (INTERVIEW V, 2015).

The long travelling times in the big cities are often cited as one major challenge attracting consumers, as people usually need a car. Hence, one retail expert highlights the importance of more convenience for the customer, as they do not wish to travel for one or two hours in order to complete their shopping.

“And also in ParkNShop we have therefore different formats. Our biggest store is 7.000 to 8,000 m², and the smallest store is around 700 to 800 m². So we also have what we call residential supermarkets, there are so many big apartments sections under construction. And there are more and more smaller retailers which open smaller format stores to cater to customers and they anticipate the chance that these consumers will not spend a lot of time to go shopping somewhere, either because they don’t have a car and going by taxi is increasingly expensive” (INTERVIEW VI, 2015).

Similarly, the Head of Business Development of an international retailer argues that

“if you want to fit the lifestyle and be part of the evolution, you have to diversify. It is not one format against the other, but different times and different needs require different locations, and you have to become smaller” (INTERVIEW II, 2015).

With *Walmart’s* acquisition of *Trust Mart*, the American retailer primarily operates a supermarket format in the PRC, next to its supercentres. The first stores opened in Zhangshu, within the Eastern province of Jiangxi and are supposed to reach consumers in less urban areas (LEBENSMITTELZEITUNG, 2010: online). Yet, not all adjusted formats find acceptance, as the case of *Metro* reveals. In October 2010, *Metro Group* announced the opening of ‘*Metro for HoReCa*^{ciii}’ in Shanghai, its 46th store and an adjusted version of the C+C format in Shanghai in order to “*expand market share and accelerate expansion*”, according to Tino Zeiske, President of *Metro C+C China* (METRO GROUP, 2010: online). Exclusively tailored to the need of the hospitality industry, the outlet was smaller in size (sales area of 2,100m², only one-third of a typical cash & carry store’s in China) and located in the city center (Huaihai Road business circle) providing a “*unique ‘all under one roof’ solution*” (METRO GROUP, 2010: online). Zeiske added that “*with the new store format located downtown we once more showcase the flexibility of our concept and our ability to adapt to local market needs. This is the key to continue our path of profitable*

^{ciii} HoReCa, as for **H**otels, **R**estaurants and **C**aterers.

growth” (cited in METRO GROUP, 2010: online). Offering 6,000 products, food products make up 90 % of all goods, with fresh groceries accounting for 45 %. Opening times were adjusted to the convenience of professional customers (6am – 7pm), with three chefs being employed to provide consultancy for customers. However, it was reported in 2013, that the “*management of Metro C & C China has decided to pull out of Metro for HoReCa format [...] “ and further that “the trail in the past two years is that proximity for HoReCa does not mean the same as for private consumers, for chefs this means speed and quality of delivery*” (cited CHINA DAILY, 2013b: online). Nevertheless, a trend towards smaller and more diversified retail formats is clearly visible and can be explained among the factors described above, through the fierce competition:

“International players have to be innovative. You can’t say I have something new and then lean back” (INTERVIEW II, 2015).

ParkNShop for instance launched several new formats within the last years, including *Taste*, *GREAT*, *International* by *ParkNShop* as well as *Fusion* (PARKNSHOP, 2015: online). The Commercial Director from *ParkNShop China* explains that

“the reason why we have different store formats is to focus on different customer profiles, which are the reality” (INTERVIEW VI, 2015).

Operating 32 stores in Guangzhou, he points out that they include different store formats, “*as we look at the customer profile and calculate their income, we look at the apartment prices and based on this we position our store format. We ask, should it be a high-end which is ‘Taste’, should it be low-end, which is ‘ParkNShop’ store, because otherwise there is no match and you are not targeted to the customers you want to attract*” (INTERVIEW VI, 2015). Applying a multi-format strategy has been undertaken by several players within the grocery retailing industry. Experimenting with smaller supermarket formats, Japanese *AEON Group* introduced *AEON*, a smaller supermarket, whereas *Walmart* has launched new formats such as *Smart Choice*, a discounted compact store. *CRV* has opened various retail formats including *Vango*, a 24-hour convenience store; *Better Life*, a small community market; and *Voila*, a wine cellar outlet (GAIN, 2012: 41). *Lianhua’s* diversification strategy includes hypermarkets, supermarkets and convenience stores (ZHEN, 2007: 188).

4.4.2 Face-Lift instead of Expansion?

As the previous chapter has revealed, retailers tend to focus on the adjustment and diversification of their formats. A further trend which identified within the framework of the expert interviews is the emphasis which is put on store improvements. For example, *Metro* rather concentrates on face-lifting the existing stores, “*in order enhance customer experience with 360 degree views*” (INTERVIEW V, 2015). Currently, retailers are generally selective and cautious about store openings and expansions (SAVILLS WORLD RESEARCH, 2014: 2). *Auchan* and *RT-Mart* are actively improving their hypermarket stores, while attempting to achieve a better shopping experience, and increased rental income (IGD, 2015d: online). It is reported that in 2015, *Easy Carrefour* will function as the delivery and collection centres for online orders, providing an online extension of the existing and expanding store networks. In 2014, the French retailer built its first DC in East China and in 2015 more DCs will be set up in Chengdu, Wuhan, Beijing/Tianjin. By 2016, two more in Northeast and South China will be added, each covering about 20,000 m². The retailer will continue to modernise and renovate 75 of its existing stores in China. It is also planning to open its first shopping mall in Beijing (IGD, 2015b: online). Expansion is reduced also in the case of *Metro*, as “*rental costs are ever increasing and the right franchise concept might be necessary in order to receive the right ROI*” (INTERVIEW V, 2015). In general it is argued that currently, aggressive store expansion is replaced by improving store productivity and focusing on enhancing core competencies, while unprofitable stores are closed (FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 4; AAFC, 2013: 6). In regard to the expansion via franchise, as remarked upon by one interviewee, the CEO of *7Eleven* South China acknowledges that it is not necessarily the key to adapt quicker to the market. “*Whereas it is the key to expand faster*” (INTERVIEW IX, 2015), The latter further highlights the opportunity to decrease the pressure of capital. “*At the same time, it is not that easy to control, as the franchisees are very creative; you need to have a strong control of what happens in the stores.*” Nevertheless, he is convinced that

“[...] franchisee is probably a very nice solution to expand faster, and it is true and we can see that if a franchisee runs their own stores, they achieve higher sales. The difficulty lies in the fact that when people have money enough to invest into a store, they might not necessarily be willing to run it. When you

have the 100.000 Euro necessary to open a store, you may just as well be an investor and not a shopkeeper” (INTERVIEW IX, 2015).

Franchising^{civ} in China is a considerably young phenomenon^{cv}. In his article on pros and cons of franchising in the PRC, William Edwards (CHINA BUSINESS REVIEW, 2011: online) reports of relatively high licensing fees (typically running US\$ 250,000 - US\$ 750,000 in the PRC, compared to the USA with unit franchise licenses around US\$ 10,000 - US\$ 50,000, and country or regional licenses costing US\$ 200,000 - US\$ 500,000), and problems of finding adequate licensee partners due to local managers' lack of strong management skills. Further, intellectual property protection and the diversity of Chinese regions reveal obstacles. Nevertheless, several factors, as already described earlier, such as the high recognition of Western brands and rising incomes indicate that the Chinese market is *“ripe for franchise”* (CHINA BUSINESS REVIEW, 2011: online).

^{civ} Franchising describes a business development method for expanding a company and distributing goods and services using an established business system and a recognized brand name. On the one hand, franchises give individuals an opportunity to start a business with a proven success rate at minimal risk. The franchisor (owner of the business that provides the product or service) gives the franchisee (independent party) training, support, and marketing programs. In addition, the business can be a highly recognized foreign brand known for quality and service. However, on the other side, to open a franchise a franchisee must pay an initial fee to acquire the brand, business system, and other resources; pay on-going royalties; and follow the franchise system (CHINA BUSINESS REVIEW, 2011: online).

^{cv} Up until the early 1990s, the word ‘franchise’ did not have a direct translation into Chinese; the closest translation was ‘chain of stores’. The Chinese government, intending to further develop the industry, issued the ‘Interim Measures on Regulating Commercial Franchise Operations’ in 1997. Moreover, the China Chain Store and Franchise Association (CCFA), *“a quasi-government non-profit membership association for Chinese and foreign retailers, franchisors, and well-known foreign brands”* was founded (cited in CHINA BUSINESS REVIEW: 2011: ONLINE). According to CCFA, the organization has more than 1,000 enterprise members with over 300,000 outlets and counts with 2.5 trillion CNY for 11 % of the entire social consumables retail sales in 2013 (CCFA: 2015: online).

4.4.3 The Outlook of Food Retailing Systems and Consumption: Lower Tier Cities as the New Frontier?

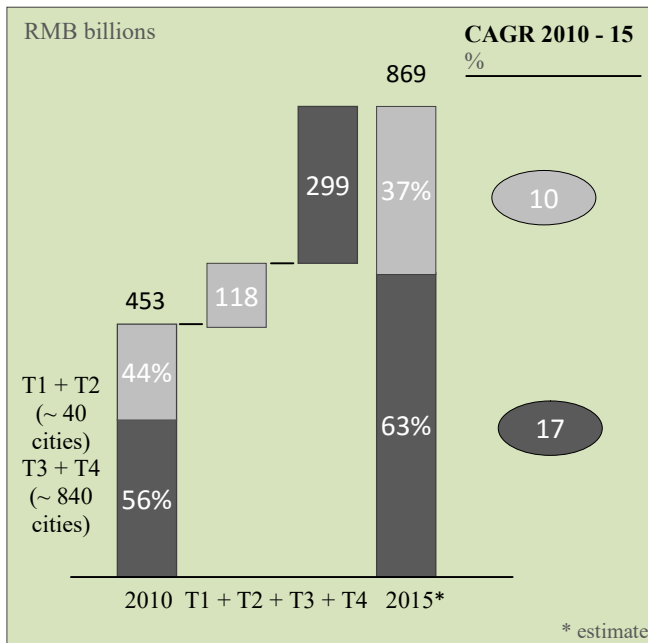


Figure 32 Tier by Tier: Where the Growth is Coming from FMCG Market Growth Breakdown (own illustration, after MCKINSEY, 2012: 1)

With one major problem named in *chapter 4.2.1* (p. 157) above, limited space availability drives many retailers outside of tier-1 cities. It is argued that tier-3 and tier-4 cities become the main focus of development for several reasons, which were discussed and compiled throughout the previous chapters. With ongoing urbanization (*chapter 4.1.5*, p. 154), rising incomes (*chapter 3.4.2*, p. 130; *Appendix 20*, p. 287), fierce competition in tier-1 and tier-2 cities (*chapter 3.3*, p. 95) and consumption growing fast in lower tier cities, as illustrated in *Figure 32*,

tier-3 and tier-4 cities are expected to represent the key focus for the PRC’s retail business development within the coming years. It seemd very unlikely that more international retailers will enter the market in Urumqi for instance. The case study has revealed that the city in the very Western part of China still indicates a high level of traditional retailing. Further, the majority of interviewed experts agree that a market so very far away is uninteresting due to logistical also cultural factors, as *ParkNShop’s* statement reveals:

“what most retailers share are three focus areas of expansion: The South, which is traditionally quite rich, such as Shenzhen, and then Shanghai and Greater Shanghai, with Wuhan, etc. and the North, let’s say Greater Beijing, and that is where they focus their expansion. When you look at the rest of China, the good thing is it is cheap. The locations are cheap and there is not so much competition, but it is also very difficult to make good money. Because the salaries are low and people are pretty poor so it is very difficult to do good business there” (INTERVIEW VI, 2015).

The only exception is represented by *Carrefour*, which currently operates two stores in the capital of Xinjiang province. Too many tier-3 and tier-4 cities in the East of China offer great potential and hinder the expansion into the very west of China. Successful retailers such as *Auchan* and *RT-Mart* have already concentrated their operations on all tier-levels. The CEO from *Auchan China*, stated in a recent interview the importance of “*expansion of our geographical coverage by opening new stores. This involves both by implanting hypermarkets in cities of the second and third categories and the opening of new stores in cities where we are already present*” (CHINA INSTITUTE, 2011: 4). At the end of 2014, approximately 9 % of Sun Art Retail Group’s stores were located in tier-1 cities, 17 % in second-tier cities, 46 % and therewith the majority in tier-3 cities, and 21 % in fourth-tier cities as well as 7 % in fifth-tier cities. It has been reported that 162 sites have been secured to open more hypermarket complexes in the future. 116 are currently under construction, not only ensuring sufficient land reserves in the next three years for the retail group, but also indicating the direction of development: Of the contracted sites, only 3 % are located in tier-1 cities, 18 % in second-tier cities, 48 % in third-tier cities, 24 % in tier-4 cities and 7 % in fifth-tier cities (IGD, 2015d: online). Nevertheless, there are players, mainly deriving from smaller formats, which will continue their focus on tier-1 cities, as the example of *Shanghai City Supermarket* reveals. For the Head of Merchandising of the Shanghai-based high-end supermarket chain, Shanghai and Beijing still remain the retailer’s sole locations, with plans to open two more shops in Shanghai in 2015. As business had begun by targeting foreigners living in China, the supermarket chain is focusing on white-collar-workers. However, the share of Chinese customers is also growing (nowadays 60 % foreigners, down from 80 % in recent years), as incomes are rising and imported products are increasingly demanded (70 % of products are imported). According to the retail expert, only tier-1 cities contain of the appropriate clientele for the high-end supermarket chain (INTERVIEW XI, 2015).

4.5 The Changing Role of International Players

As analysed and illustrated above (*see chapter 2.3, pp. 36-39*), the process of internationalization in the early 1990s, saw the introduction of the first foreign retailers into the Chinese market. Yet, it remains questionable as to what extent foreign retailers

have influenced the Chinese grocery retailing sector, and as to how their role has changed within the last 30 years. The interviewees agree that the presence of international players played an important role at the beginning of the internationalization of the Chinese market. As one retail analyst and consultant put it:

“The international players have exerted a relatively strong influence upon modern trade by introducing several new formats. They have set examples and showed how it works. They introduced and build up capabilities” (INTERVIEW X, 2015).

According to a Chinese retailer:

“Before the international retailers entered, China had no hypermarkets, so when Walmart came everyone said “wow, that retail company is very good”. So the whole country started to compete with Walmart. At the start, many local stores closed because of the competition, but some came back, and that is because they became very good students of Walmart” (INTERVIEW VIII, 2015).

Pointing out the Chinese ability to quickly learn from their Western competitors, he further depicts the importance of different strategies adopted by international companies, which could be monitored:

“Walmart and Carrefour play a very important role as to teach Chinese companies retail business (...) these two companies do different kinds of business. And these differences allowed Chinese retailers to learn a lot. Carrefour, for example, concentrates on its operation. Walmart focuses on resourcing and merchandising. They are very good examples for the local retailers. But firstly, they both taught retailers about sales profit” (INTERVIEW VIII, 2015).

Besides money and successful management style, as mentioned by the interviewed expert of CCFA (INTERVIEW IV, 2015), international retailers also brought something new to the market in more recent years. Former Head of Business Development at *Metro China*, claims that

“(...) the level of food safety increased through the international players, as higher standards through own academies, such as ‘Metro Star Farm’^{cvi}, which exists since 2006, have been established” (INTERVIEW V, 2015).

Another retail expert also highlights the impact on food safety, referring to co-operation between farmers and companies. Furthermore, she indicates the talent and management, which was brought to China through international retailers (INTERVIEW XII, 2015). Indeed, international players educated their Chinese counterparts, who hired their staff from MNC, as stated by the CEO of *Auchan China* (INTERVIEW I, 2015).

The former role of international retailers entering the Chinese market seems distinctive. Still, current numbers reveal that multinational grocery retailers are struggling in the market; somehow not having been able to make use of their retail experience and technological advantages. According to one retail expert:

“The position of [I]nternational retailers remains relatively small, as it remains very difficult to build up a business in this highly fragmented and competitive market” (INTERVIEW X, 2015).

Experts note differences within the roles of different formats, as the two following statements from two big international retailers reveal:

“[...] maybe 15 years ago the international retailers were helpful in somehow showing the way; but is it still the case right now? I am not so sure. If we talk about the convenience stores, because this format is more relevant than it was 15 years ago, then perhaps within this format the international players still have something to teach local companies. And I say this without any arrogance. But if you look at 7-Eleven, FamilyMart or Lawson, they are still ahead of the local players. Which is not the case for hypermarkets. Because they had already time to copy and study the best players. For the newer formats I think that 7-Eleven, FamilyMart, Lawson are still ahead of the game” (INTERVIEW IX, 2015).

As acknowledged by the CEO of *7Eleven South China*, the hypermarket format was the first introduction and was the major choice of format for entering the market, as revealed in

^{cvi} Exploring a way to secure food quality by sourcing products directly from the trained farmers, *Metro* is aiming to control the entire supply chain, and therewith intending to enhance customer’ trust and confidence through the Star Farm project.

chapter 2.3.4 (p. 55). Hence, differences in the length of time competitors had to study their foreign counterparts may indeed form one of the reasons why some international retailers, especially operating the hypermarket format, are struggling. In regard to the hypermarket sector in particular, another international player's head of strategy remarks:

“The role of the international players should be innovation; they have no choice but to bring innovation to the market. The difficulty for them is not to consider the Chinese market as only one market, first, and to simply innovate. But for a lot of companies it is not that easy. They still have an important role, but less important than in the 90s. Today you have local retailers in every province and they have already absorbed the innovations brought by foreign companies. I think foreign retailers still bring something new, but the time for their leadership will become shorter and shorter” (INTERVIEW II, 2015).

Nevertheless, not every MNC seems to succeed. While companies from all over the world try to enter the market (INTERVIEW X, 2015), several are struggling or had to withdraw from the PRC altogether. British M&S had to fight major drawbacks when opening its first store on the Chinese mainland in Shanghai, due to food supply problems and lack of appropriate market research (FINANCIAL TIMES, 2009: online). Only a few years later, according to FUNG BUSINESS INTELLIGENCE CENTRE (2013: 18), *Tesco* as well as *ParkNShop* closed stores in Shanghai in 2012/2013. Speculations of *Carrefour* wanting to sell off parts of its business are circulating for quite a while now (INTERVIEW I, 2015; INTERVIEW X, 2015). In 2009, THE TELEGRAPH (2009: online) had reported of *Tesco*'s expansion in China, claiming that “[A]nalysts believe that China could easily become *Tesco*'s largest country over time.” Yet, in May 2014, *Tesco* announced its JV agreement^{cvii} with *CRE*, speaking of the creation of China's leading multi-format retailer (TESCO, 2014c: online). However, with a 20 % stake, the brand *Tesco* is very likely to disappear. One retail analyst remarks that it might have been a global portfolio decision, pointing out the difficulties the British retailer is facing in its home market (INTERVIEW X, 2015). Furthermore, the withdrawal from its US *Fresh & Easy* venture, as well as a drop in sales in almost all international markets, including 4.9 % in China in 2012 (THE GUARDIAN, 2013: online), might have contributed to the decision. Indeed, as illustrated in *Figure 21* (p. 158), *Carrefour* and

^{cvii} The Anti-Monopoly Bureau of the MOFCOM approved unconditionally the transactions contemplated by the investment agreement on 12 May 2014.

Walmart have been constantly losing market share during the last years. Chinese retailers, with the exception of *Auchan*, which forms *Sun Art Retail Group* together with *RT-Mart*, are increasing their share of the market. *CRE*'s relatively strong gains derive inter alia from its formed partnership with *Tesco*, whereas *Tesco* holds only 20 % stake in the JV. The director of strategy planning of one of China's biggest retailers provides his own clear reasons:

“After 2008, these two companies [Walmart and Carrefour – author’s note] are breaking in. When Walmart’s’ operation team was very poor, they expanded and they set up many regional offices; in every city they put up a merchandising center, one to organize the local organization. But when Walmart did this, the expenses went up, and they had to encounter many new operations and problems. So their privileges in merchandising have been weakened. On the contrary, Carrefour’s merchandising is very weak; they just connect the stores; Carrefour raises the power of the headquarters and weakens the power of the stores, which makes a bad impression to the store managers and the teams. After 2008, Walmart and Carrefour gave up on what they are good at, they wanted to change, and they changed too much. [...] And the other international retailers, for example Tesco and Metro, they represent two very different examples. For instance Metro’s store expanding is very slow. So it is focusing on one or two stores in the very big cities. I think this is a very good strategy, because Metro’s retailing is different. [...] Up to now, Metros’ financial performance is very good. But Tesco, Lotus, etc., what they are good at in their home markets, they don’t manage to localize. Maybe they are good in their own country, but they don’t use their privileges in China” (INTERVIEW VIII, 2015).

The Head of Business Development of a huge international player is of the opinion that foreign companies *“still have something new. But for how long does it remain new? You have to keep innovating. You can’t say I have something new and then it’s over. It won’t last for a very long time”* (INTERVIEW II, 2015). Similarly, the expert from *ParkNShop* argues that modern retailing was introduced by international retailers. He further acknowledges the increasing role of local retailers who were able to make up ground.

“I would say actually they are even more successful than the international players, because they understand the Chinese culture and the Chinese habits

better than most of the international players. So many international players come to China and try to implement their business in a European or American way. And that doesn't necessarily work. You don't have to teach Chinese business, because they did it 2000 years earlier than we did in Europe" (INTERVIEW VI, 2015).

DICKEN'S (2003:3) comment on international retailers having been "*the movers and shapers*" of the global economy, and often the facilitators of changes in market structures, cannot completely be applied to international retailers operations in the PRC. It can be concluded that without doubt have they played an outstanding role within their initial operations in the beginning of China's opening up. Summarized however, the interviews lead to the conclusion that the role of international players has been decreasing over time due to several reasons, which will be further evaluated within the next chapters. Nevertheless, European and American retailers are still holding relatively big market share within the hypermarket sector (see *Figure 31*, p. 158), clearly revealing that the hypermarket is the format primarily operated. Yet, the hesitancy of the CEO of *7Eleven* South China is representative of a large consensus among the interviewees:

"When I came to China 17 years ago, the questions was do they really need international retailers for organizing the retailing sector. The question is still there" (INTERVIEW IX, 2015).

In the meantime, the Chinese government's goal is clearly to create big local players that are able to compete with international players (see *chapter 4.3.3*, p. 177). Huang Guoxiong, a professor of economics at People's University in Beijing was quoted as follows: "*China's market should be mainly dominated by Chinese retailers. It is not possible to allow foreign retailers to take the dominant position*" (cited in BLOOMBERG, 2005: online).

4.6 A Retail Hierarchy in the Making?

The general decreasing role of several international players, as discussed and outlined within the previous chapter, confirms the fierce level of competition. The high fragmentation of the market, as named above, proposes strong retailers at the regional level.

An interviewed Chinese retail analyst speaks of “usually two strong retailers regionally, who have around 10 – 12 % share of the market” (INTERVIEW VII, 2015). Another interviewee however, points out how insignificant the publication of market share numbers sometimes is, as they are often played with in a fast and loose fashion (INTERVIEW X, 2015). Nevertheless, most interviewees agree with the opinion of one expansion manager (European retailer), who states that:

“the market is very scattered, even today you don’t have a player that is the unique leader of the market, depending on which province, which city, it is very scattered” (INTERVIEW II, 2015).

Nevertheless, it is evident that some players expand more successfully than others, while some competitors even left the market, as the recent example of *Tesco* reveals (see *chapter 3.3.1*, pp. 95-99). Although a nation-wide number one is not clearly outstanding, the CEO of *7Eleven* South China remarks that:

“Some retailers have expanded very rapid and widely over here, but not too many of them successfully. Actually, currently, you have only two players which are successful. One is really international, because it comes from Europe, which is Auchan. And the other one is hardly local, RT-Mart from Taiwan, so whether it is local or not is debatable” (INTERVIEW IX, 2015).

However, especially the local retailers are expanding heavily, as the examples of *CRV* and *Suguo* reveal (INTERVIEW IX, 2015). Even, despite fierce competition, in apparently saturated cities like Shanghai and Beijing, the example of *Yonghui* reveals existing opportunities for new or enhanced formats. Prior to September 2011, *Yonghui* had virtually no presence in Beijing. Within three months KANTAR WORLDPANEL (2012: 2) claims that 28 % of Beijing’s households have visited the stores of *Yonghui*. Nevertheless, experts agree to a very large extent that currently no retailer has clear price or quality leadership. While single experts point out that *Yonghui* is possibly taking a leading position within the quality of fresh produce (INTERVIEW IX, 2015) or *Metro* in regard to food quality in general (INTERVIEW V, 2015). However, these reveal personal opinions, which are open to debate. While it is widely agreed that many SOEs are not being operated in a profitable way, consolidation speculations will keep the market on the move. One interviewed expert indicates that:

“[...] the debate is still open [...] if these SOEs are being sold or will consolidate. But ten years ago we were already wondering and speculating how the market would consolidate, but not much has happened” (INTERVIEW X, 2015).

However, it is clearly evident that a couple of Chinese retailers are expanding faster than international players. One interviewee suggests that *“it is more and more important to differentiate yourself in regard to competition”*, inter alia because

“Chinese are world champions in copying everything”; “So a lot of Chinese retailers are successful nowadays, because they copy and paste the good things from international retailers and they make it better. And better means that they better understand the culture and the habits of the Chinese customer” (INTERVIEW VI, 2015).

5 Discussion and Implications

This research focuses on China as an empirical setting for three major reasons. Firstly, the PRC represents one of the most lucrative and rapidly growing retail markets in the world, as portrayed in *chapter 1* (pp. 1-5). Most global retailing enterprises realize that they will need China to power their growth in the next decades. Secondly, as discussed within the first chapters of this research, the Chinese retail market is characterized by continuous change in regard to political, economic and social-cultural framework conditions, revealing great complexity and intensified competition. International players as well as local retailers' strategies in regard to format and geographical coverage are in a constant state of change and vary distinctly. Third, the presence of many important international retailers against the historical backdrop of developments within the retail industry (*chapter 2.3*, p. 36), coupled further with regional differences, provide numerous potential research sites. These were investigated within the framework of four case studies and a wide range of expert interviews. Thus, for researchers, the PRC provides a compelling context for investigating and refining our understanding of how international and domestic retailers respond to the pressures from the institutional environment in an emerging market. It also enables an investigation of how formats in the course of time have developed in regard to their characteristics and geographical allocation.

Given the absence of published academic literature and empirical findings relating to store formats development in a wider context and geographical scope within the grocery retailing industry in the PRC, this study may serve as a departure point for future studies in this area of concern. The research is also relevant to retail marketers in terms of format development and reorientation of marketing strategies in the vastly growing Chinese retail market. Representing a grocery retail landscape which without doubt, is evolving quickly, the PRC comprises a wide range of different store formats and chains. Yet, it remains doubtful what a future expansion will look like. How have and how will store formats evolve, adjust or disappear? The present findings contribute to the understanding of format choice and development in grocery retailing in the PRC, an area that has received scant attention within the academic literature. On the foundation of interview-based fieldwork conducted in China in March 2015, as well as extensive observations in the PRC, this thesis deduces several arguments.

5.1 Discussion and Summary of Findings

First, intending to gain a better understanding of the PRC's historic economic liberalization, especially in regard to the current and future grocery retailing market (see *chapter 1.2*, pp. 16-17), this thesis argues for a strong correlation between China's historic economic liberalization and its current development of modern retailing. The regional development policies described in *chapter 2.3.1* (pp. 37-39) are significant pillars of China's historic economic liberalization. This provides not only an overall framework, but sets the context for embedding and explaining the history and development of the grocery retailing industry. In *section 2.3.2* the beginnings of modern food retailing in China are portrayed in order to grasp an understanding of the long yet rapid track the Chinese grocery retailing industry has already navigated. The expansion of modern food retailing is then unfolded in *chapter 2.3.3*. It is especially noted that China's WTO entry in 2001 marks an essential but also controversial climax within the liberalization of the PRC. It is clearly revealed within the mentioned chapters, that China's SEZs and OCCs paved the way for its current grocery retailing industry, directing the geographical scope of its development. The former SEZs and OCCs did not only function as entry points for foreign retailers (see *map 3*, p. 49), therewith initiating the internationalization process of the Chinese grocery retailing industry, but represent still today the most advanced markets of the PRC. Portraying China's development from a socialist economy to a market economy with Chinese characteristics, this thesis highlights the interaction of several factors from the vantage point of the present (see *chapter 2.3.4*, pp. 55-59). Macroeconomic stabilization at the beginning of the PRC's foundation, liberalization, which goes hand in hand with privatization, as well as the increasing amounts of FDI and the entrance into WTO, gradually prepared the grounds for China's 'supermarket revolution' (see *figure 13*, p. 58). Second, compiling unique characteristics of the Chinese grocery retailing market in order to better understand the forces of change for the Chinese retail industry (see *chapter 1.2*, pp. 16-17), this study focuses upon two main aspects. The first aspect is the historical, economic change, as described above, which facilitates societal changes and shifts in demand. The second is the role of the Chinese consumer itself with regard to behavioral aspects and preferences (see *chapter 3.4.3*, p. 134 and *chapter 4.3.5*, p. 180). It is clearly revealed that due to the far-reaching extent of food scandals, the Chinese consumer lacks

trust, which represents one reason for the absence of loyalty. Furthermore, this thesis argues that the lack of trust epitomizes one of two major explanations for the missing demand of no-name-products / own brands, as outline in *chapter 4.3.5* (p. 180). It is additionally submitted that the augmenting demand for convenience and the apparent wish to spend money on brands, as highlighted by several of the interviewed experts, forms the basis of store format decisions. The implications to this reality are given in the following chapter.

Third, outlining development activities and their variations across regions in order to establish how regional contexts shape the pathways of development and evolvement (see *chapter 1.2*, pp. 16-17), this thesis points out the highly varying regional differences within China (see *chapter 2.3.6*, pp. 64-66 and *chapter 2.3.7*, p. 67). As extensively discussed in *chapter 4.1* (pp. 142-144), the four case studies not only expose highly differing levels of internationalization and modernization of retailing, but also highlight agreement between the interviewed experts that there is no single China market. The case of Urumqi supports the fact that traditional retail still represents a huge part in some of the PRC's regions. Interviewees generally agree on the huge differences within different regions of the PRC in regard to a wide range of aspects, such as economic development, spending power, consumer buying habits, and so forth. Accentuating the Western Development Strategy (WDS), as discussed in *chapter 2.3.6* (pp. 65-66), this study argues that the highest growth rates and the biggest opportunities for the future often lie in the lower tier cities and regions, as demonstrated in *chapter 4.4.3* (pp. 191-193).

Fourth, one major aspect of this work is the evaluation of the past and future roles of foreign and local companies (see *chapter 1.2*, pp. 16-17). In the context of historical economic liberalization and China's WTO entry, the expansion of foreign food retailers is explored. The 'Wheel of Retailing', as described by MCNAIR (1958: 17-18) and illustrated in *figure 21* (p. 83), provides a useful framework in which retail change and structural change may be described. Retailers upgrade their strategies in order to increase sales and profit within the three-stage development of formats. Initially, operating from a low status position, the retailer evolves from a traditional position to a mature, high status. ZHEN (2007: 16) acknowledges the fact that the evolution of retail format is increasingly accelerated, hence, shortening the life cycle of retail formats, which finds confirmation within the Chinese context. GONZÁLEZ-BENITO, ET AL. (2005: 59) briefly describe the transformation of store formats as a consecutive process with the introduction of supermarkets as the initial step, followed by the larger versions of hypermarkets and the

adjacent development of the discount store. It has been evaluated in *chapter 4.1.5* (p. 154), that in view of the Chinese market, such a consecutive process is only apparent to a very limited degree. The Chinese market has witnessed the entrance of modern store formats, rather than experience a domestic development from within. Also, within a short period of time, several formats have been introduced, enabling a simultaneous rather than consecutive development. Even in the PRC's modern markets (such as Shanghai), traditional formats are still present. The stages, as illustrated within the 'Wheel of Retailing', therefore co-exist, firstly with regard to the whole of China, and secondly, on a more detailed basis, such as the city-level and as revealed within the case studies. It has been clearly revealed that foreign retailers have brought with them new formats, predominantly the hypermarket format in the start phase, thereby initiating a dramatic alteration of the Chinese retailing landscape. The PRC's WTO entry at the beginning of 2000 accelerated expansion and squeezed many local retailers out of business. This created a pressure towards consolidation for retailers, especially the SOEs which ultimately remained. However, in contrast to WANG, ET AL.'s (2007: 341) prediction in 2007 that „foreign retailers, especially the western retailers, will become powerful players, reshaping the corporate and physical landscape of retailing in China”, it is argued that in most cases the opposite is the case. It has been clearly shown in this thesis (see *chapter 4.5*, p. 192) that generally, the importance of international retailers has decreased considerably. While all interview partners coincide on the pioneering role of international players throughout the beginning of modern retailing in the PRC, they also mainly agree (Chinese interviewees especially), that the Chinese ability to learn, copy and even improve international retailing operations is important. Because of the Chinese ability to replicate and improve, international players no longer outnumber their domestic counterparts. Several challenges, such as lack of localization, as portrayed within *chapter 4.3* (pp. 170-172) contributed to this development. Thus, WANG, ET AL.'s (2007: 341) evaluation, which includes that, “[C]learly, the Western retailers, which possess the most resources and advanced information technologies and do business in new retail format, are taking the lead in penetrating the Chinese market”, cannot be shared. On the basis of this study's findings, it is argued that Western retailers are losing, and in some cases have already lost, leadership. Already 15 years ago, GOLDMAN (2000: 1) represents the only (as to the author's knowledge), scholar who argued that in regard to Shanghai “local supermarket chains, not foreign ones, drive the process.”

5.2 Practical Implications and Outlook

The author also sought to broaden the area of study, which has been limited in terms of geographic scope, to include both, local and international retailing firms across a diverse range of cities. Within the framework of four case studies and respectively own observations as well as leading retailing experts, several implications can be revealed.

The lack of flexibility in international retailers operations, as already acknowledged by WANG, ET AL. (2007: 339), who concluded that it represents one main factor negatively affecting expansion, as for instance the approval of new locations by the headquarters in the home markets is required. More specifically, the dynamic and complex environment, as exposed and discussed throughout this study, forces international retailers to adapt to the Chinese market at a high level. These findings are consistent with earlier investigations undertaken by EVANS AND BRIDSON (2005), EVANS, ET AL. (2008) and YU AND RAMANATHAN (2012: 230), revealing that the retailers internationalisation strategy is highly influenced by the foreign market's environmental circumstances. As investigated and revealed in *chapter 4.4* (p. 182), several format adoptions as well as expansion decisions have been undertaken under constraint, and were more or less dictated by the Chinese market and its consumers. As portrayed in the above named chapter, the C+C format for instance was forced to change specific characteristics (originally it exclusively focused on the warehouse membership club format), therewith emerging with the hypermarket format. Consequently, the C+C format as described in *chapter 2.4.1* (p. 70) does not exist in the PRC anymore. However, according to the NNSRFC (*Table 9*, p. 110), the exclusiveness of selling to members is not pointed out as a characteristic for the C+C format. Thus, the classification of the C+C format finds appropriate application to its Chinese appearing. It can be claimed that there exists a positive correlation between the decreasing role of international players within the Chinese market and the declining importance of the hypermarket format. This leads to the conclusion that international retailers are not necessarily only struggling due to circumstances evident in the market, such as a high fragmentation of competition and the need for strong localization. But rather they have adopted incorrect expansion strategies. It is commonly knowledge that grocery retailing is a low-margin business and companies have to expand rapidly in order to gain market share. In the 1990s, *Carrefour's* strategy was a global one, intending to quickly

enter every market, “*which might have been a big mistake, as the company was pushing its teams to go very fast and they might have not paid enough attention on the fundamentals of the business model*” (INTERVIEW IX, 2015). Further, a lack of strong price positioning is acknowledged. Again, *Auchan* and *RT-Mart* reveal exemplary success, “*as they very much insisted on the basic hypermarket format to be successful*”, naming location and range as factors more important than expansion (INTERVIEW IX, 2015). These conclusions also coincide with findings of CHUANG, ET AL. (2011: 460), who identified “*key standardization and localization issues faced by the two leading global retail MNCs in China.*” Next to problems regarding partnership alliances, guanxi culture and protectionism are mentioned. All of these critical points have been mentioned by almost all the international retailers interviewed.

In regard to different store formats, several conclusion are drawn. In 2007, WANG, ET AL. (2007: 334-335) remarked that “*[E]vidently, all Western retailers choose the big box format to ground their retail capital and expand in China. This has allowed them to dominate specific retail sectors with little competition in the local market. It seems that the hypermarket [...] proves to serve the local markets better than the competing formats such as the department store and the supermarket.*” It is argued in this study that the hypermarket format has substantially and continually lost importance since its introduction to the Chinese market in the early 1990s. As revealed within the analytical part of this research, hypermarkets find it increasingly difficult to obtain appropriate retail space in first and second tier cities, mainly due to their size and the immensely augmenting rental costs. Furthermore, one major critique which international players are facing is their inflexibility, which is also compounded by the size of the hypermarket format. It is argued in this thesis that there is a connection between the size and inflexibility of the hypermarket format, their presence in predominantly tier-1 and tier-2 cities and the slowing growth of most of the international operators. While several first and second tier cities reveal saturation level of hypermarkets, the operating circumstances in these regions, as well as the decreasing changes in consumer demand for convenience, complicate the operation of hypermarkets and impede their expansion. Therefore, it is argued that the main growth potentials for hypermarkets are provided by third and fourth tier cities. Without specifying or offering any proof for their assumption, HINGLEY ET AL. (2008: 23) suggest that “*hypermarkets are not suitable in many regions of China*”, while “*[i]n some first-tier cities, this format is reaching saturation.*” Furthermore, in their opinion, domestic retailers are likely to enter and deepen the hypermarket business whilst retaining market

growth in the supermarket and convenience formats. This thesis argues that their assumptions have proved true.

Despite the often cited and argued price sensitivity of Chinese customers (see *chapter 3.4.3* (p. 134), retail discounters are not (yet) popular. Technically, discount stores as described in *chapter 2.4.1* (p. 70) do not exist in China to date. Discussed within a Chinese context in *chapter 4.2.5* (p. 166), the conducted expert interviews revealed high disagreement in regard to the format's future in the PRC. Whereas some retailers foresee a possible niche for discount stores, the Chinese interviewees express common incomprehension of the format, stating that it is not suitable for the Chinese consumer. Predictions as to the promising future of the format in the PRC are difficult. Yet, this thesis argues for three major reasons as to why the discount format has not hitherto gained a foothold in the Chinese market. Firstly, due to the characteristics and challenges of the PRC's market, such as high fragmentation, fierce competition, need for strong localization as well as infrastructural issues, a high standardization of the format, as existent in Europe for instance, is not possible. This is an essential difficulty that all retailers, irrelevant of the adopted format, have to face. Nevertheless, the discounter represents an extremely low-margin operation and strives for price leadership, which leads to the second argument. As remarked by several interviewed experts, the price level in China is already very low, and "*everyone has to be a discounter somehow*" (INTERVIEW II, 2015), confiscating one of the discounter's major competitive advantages. Thirdly, the majority of experts agree that the discount format is facing a lack of consumer acceptance. As demonstrated in *chapter 4.3.5* (p. 180), the absent of trust combined with the desire to demonstrate wealth, make it difficult for retailers to establish own brands, which represents one of the major characteristic of the discount format. Moreover, in light of the increasing role of convenience, the discount format seems not to fit into the Chinese retailing landscape. Regarding the criteria of choice of country for discount retailers (mainly hard discounters), COLLA (2003: 64) argues that mature markets with a dominance of supermarkets and strong brands is usually chosen when internationalizing; hence, providing a possible explanation for absence within the Chinese market. With reference to the 'new eastern states' which were reclaimed as part of the German Republic in the 1990s, ALEXANDER (1997: 33) notes that even regions which may not appear economically attractive in some respects, "*may attract retailers who provide appropriate retail formats and suitably priced merchandise.*" Hence, stimulating thoughts about the future of discount stores in less developed parts of China.

In regard to wet markets, this study argues that wet markets will significantly decrease, however, co-exist with modern grocery retailing in the long run. As described earlier, the first wave of food penetration includes processed food (such as edible oil, rice, noodles), then followed by semiprocessed food (such as dairy products and foods with minimal packaging). REARDON AND GULATI (2008: 7) argue that the third wave, “*by far the slowest and longest in starting in developing countries, is into the vegetable market [...]*” A study undertaken in six large Chinese cities by GOLDMAN AND VANHONACKER (2006) confirm these diffusion phases, revealing that modern retailers have very high market shares in regard to packaged and processed goods and a much smaller share in the sale of fresh produce and vegetables. The changes in regard to wet markets are very likely to accelerate further retail transformation. Problems reported in GOLDMAN’S (2000: 16-17) study in regard to supermarkets’ lack of fresh produce assortment, cannot be confirmed. While back in 2000, GOLDMAN speaks of “*supermarket’s weakness in the fresh-food area*”, expert interviews and observations prove the immense improvements of the fresh produce segment at all store formats. Hence, delivering an explanation for the declining market share of wet markets.

It is concluded that the paradigm shift in consumers’ demographic, socio-economic, and geographical proportions are driving a former traditional small-scale retail sector into organized retail formats, aiming to cater to the evolving needs and tastes of critical consumers. Nevertheless, the needs and tastes differ on an extremely high level, as discussed in several chapters (see *chapter 2.3.6*, p. 64 and *chapter 2.3.7*, p. 67), thereby requiring a high degree of localization, as revealed in *chapter 4.3.2* (p. 175). Conclusively, uneven regional development as a consequence of the discussed retail liberalization is prognosed and still existent to date. The different levels of economic development reflect to a large extent the stages of modern retailing. However, it has to be clearly remarked that the Chinese retailing sector represents a uniqueness, with several retail formats being introduced simultaneously and therefore developing concurrently. With the Western Development Strategy (see *chapter 2.3.6*, p. 64), the Chinese government contributes to the high GDP growth rates of several provinces, therewith accelerating their advancement in modern retailing. Yet, it has been revealed that in the case of Urumqi and Hohhot, two cities away from the main centre of modern retailing focusing along the East coast of the PRC, mainly smaller, local chains are in operation.

In AU-YEUNG’S (2003: 147) research on the transfer of retail know-how from Europe to China, all of the four examined European retailers agreed that adjustment on format was

only made in regard to assortments. For example, selling live fish from aquariums was included, as Chinese people put much emphasis on fresh food. In order to ensure consistencies in regard to store culture and business concept, expatriates are employed (AU-YEUNG, 2003: 147). The adjustment of assortments can be confirmed, as revealed in *chapter 4.4* (p. 182). However, the diversification into smaller retail formats can be observed, mainly as smaller sites are easier to acquire and develop, but also to customize to the Chinese consumers' changing demands. Yet, the adoption of store formats to market circumstances is not something unique to the Chinese market. In the USA for example, *Walmart* has recently launched a small new format called *Marketside* in order to compete directly with small supermarkets mainly located in urban cities (BONNANO, 2010: 239). It is argued in this thesis that due to wide disparities among China's regions and the greatly varying rural-urban purchasing power and income gap, retail demand and therewith the requirements for different store formats varies greatly. It is concluded within this thesis that the adjustment of retail format slowly appears under constraint. The factors affecting Chinese retail, such as the Chinese consumer itself, legal constraints and high rental costs, force grocery retailers to overthink aspects of their store formats. Due to lower mobility, modern supermarkets focus mainly on densely populated rather than suburban areas, an observation that has already been made by MAI AND ZHAN (2004: 57). Nevertheless, as modern retail spreads, REARDON, ET AL. (2007b: 407) forecast the tendency of format diversification to facilitate spatial and consumer segment differentiation. To penetrate the markets of inner cities where space is limited as in the case of huge Chinese cities, retailers use different store formats in order to serve the market. Similar to REARDON AND BERDEGUÉ'S (2002), two-stage development pattern observation in Latin America, companies in China first conquer the more affluent customer segments, before attracting the poorer classes, thereby "*spreading from the large cities to smaller cities, from urbanised areas to rural areas*", and from richer provinces to poorer provinces. It can be concluded that market penetration of foreign retailers has taken place in two directions simultaneously. Firstly, retailers expanded from the eastern coastal region to the western interior. Secondly, expansion was enlarged from large urban centers, such as Shanghai to second- and third-tier cities, and meanwhile to fourth- and fifth-tier cities. According to the author's knowledge, no academic researcher has yet argued for tier-3 and tier-4 cities to become the focus for development regarding modern grocery retailing. Only very few business magazines (FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 42) suggest the concentration of store operations away from saturated first tier cities to lower tier cities.

However, due to rising incomes and the ongoing urbanization, tier-3 and tier-4 cities especially, are growing fast. An essential example is represented by the owner of *Auchan* and *RT-Mart (Sun Art Retail Group)*, operating 10.9 % of its stores in first tier cities, 18.7 % in tier-2 cities, an astonishing 43.7 % in tier-3 cities and 20.0% as well as 6.7 % respectively in tier-4 and even tier-5 cities in 2013 (FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 42). The lower tier cities are becoming much more prosperous, and their growth rates are starting to exceed those of the three large urban areas BER, YRD and PRD. It would be a mistake to overlook these markets and the potential to develop strong market positions in them.

Considering the current circumstances and findings, this thesis reconfirms WANG, ET AL.'S (2007: 321) conclusion that “*none of the foreign retailers in China has passed through the complete model*” as described by DAWSON (2003) “*and their levels of market penetration and performance vary greatly.*” Moreover, WANG, ET AL.'s reasoning is extended to also include domestic retailers. Nevertheless, the presence and expansion in the form of retail chains has helped consolidate the long-fragmented local markets, and an integrated national market is in development. In regard to the geographical distribution of modern retailing, several observations are made. Shanghai's cosmopolitan character, sophisticated and affluent consumers, and highly educated and skilled labor force have made it very attractive to overseas investors throughout the PRC's liberalization history, as constituted in *chapter 2.3.2* (pp. 42-44). It remains unclear why Beijing received much less attention than Shanghai. Very few large retailers chose Beijing as their initial port of entry into the PRC. WANG (2003: 127), in attempting trying to answer this mystery states that, “[*O*ne explanation is that because their entry in China was not approved by the state government (except for Walmart), they avoided having their first operations established in Beijing, which is under close watch of the state government.” While high concentrations along the Eastern coastline, especially in SEZ and OCC, have been clearly demonstrated, the agglomeration of stores in Guangdong and Fujian might be explained by the fact that overseas Chinese investors descend from these provinces, therefore opening stores in close proximity to parent companies from Hong Kong, Taiwan and Macao.

Considering a recent MCKINSEY survey of major multinational firms, four out of five executives queried remarked that, in emerging markets, their enterprises make decisions at the country rather than the city level. Three in five said their companies perceive cities as “*an irrelevant unit of strategic planning*” (MCKINSEY, 2012: 7). These findings connect with YU AND RAMANATHAN's (2012: 227) conclusions of three regional managing areas,

namely the North and North East region, the Eastern region, and the Southern region in their single-case study on an international retailer operating in China, as different companies are dividing the Chinese markets individually. However, as it is argued in this thesis, it is strongly recommended to downsize the units of strategic planning due to the necessity of localizing strategy, as demonstrated in *chapter 4.3.2* (p. 175).

6 Limitations and Future Research

The study contributes to filling the research gap through an analysis of China's grocery retailing sector in regard to its history and developments relating to geography and store formats. Furthermore, a better understanding of forces of change which are responsible for the retail growth in PRC is discussed as well as distinctive Chinese characteristics revealed. Within the framework of own observations and a wide range of expert interviews, the current and future role of several geographically varying regions across China in regard to the grocery retail industry as well as the role of international and local retailers is discussed and illustrated. Lastly, this research explores store formats with their different roles and developments. Therewith, the goals of this thesis, as illustrated in *chapter 1.2* (pp. 16-17) are addressed. Nevertheless, this dissertation has several limitations. Firstly, one limitation is generalizability. Although having applied a multiple case design, geographically, China has not been covered in depth, as the findings of this thesis are based on observations from four trading areas of the PRC's vastly changing and differing market, as well as expert interviews with a selection of international and domestic retailers, retail analysts and academics. The fact that scholarly attention is situated in few places within China has been acknowledged before (WEI, 2007: 29). Having attracted much scholarly attention, core areas are predominantly globalizing city regions situated along the East coast as well as the YRD, PRD and BER. According to WEI, (2007: 29), “[S]uch a regional bias is due to their advantages in accessibility, data availability, and local collaborators.” The concentrated geographical focus is not only a fact that is noted in regard to the grocery retailing sector. Arguments should be replicated and tested in further Chinese areas, both urban and suburban, to verify that the level of explanatory power is maintained, and to estimate the same parameters in different contexts. Secondly, although the interviewees have been chosen from different backgrounds and chains, the interviews conducted were largely limited to Chinese retail experts, who may, despite their expertise, lead to biased opinions. Thirdly, the inability to fully capture the representation of the grocery retailing landscape reveals a further limitation. The sample used for analysis in this study was drawn only from four cities, namely Shanghai, Hohhot, Urumqi and Chongqing. The generalizability remains to be tested. Therefore, future research can be expanded by attempting a larger sample size throughout the PRC. More generally, research problems as discussed in

chapter 1.1 (p. 8), are likely to negatively impact the research results presented in this study. In their investigation of *Carrefour* and *Walmart's* operations in the PRC, CHUANG, ET AL. (2011: 460) reveal one limitation that presumably finds applicability in this piece of research. They argue that unlike Western regions, such as the EU, “*with their history of free press, academic freedom, and required disclosures for a broad segment of the economy, China remains relatively secretive about its markets and a free press and independent academy is just beginning to emerge.*”

Moreover, this study's author raises questions for further investigations, and argues that many intriguing, significant questions remain understudied, calling for increased attention to the rise and transformation of China's grocery retailing sector. Although this study provides useful insights, its limitations suggest interesting opportunities for future research. More studies, including a quantitative approach, are suggested so as to explore further factors on geographical development in the Chinese market. Furthermore, multi-purpose and multi-destination shopping trips, which seem likely to grow in popularity as Chinese consumers try to minimize their shopping and traveling time and gain more mobility, require further careful study to clarify consumer preferences and store choices. However, the Chinese retail landscape is very different now from how it looked ten years ago. Most likely it will continue to change significantly over the next ten years making long-term predictions a hazardous endeavour. Taking this into consideration, the above outlined possible future trends on the basis of this thesis' research are not intended as comprehensive. A factor that has been disregarded within the framework of this study is the influence of new entrants to the PRC. It remains open to debate which new formats will be brought into the market. Moreover, new entries have the opportunity to learn from antecedent mistakes and might be better prepared for the challenges described in *chapter 4.3* (p. 170-171). Additionally, the impact of demographic change is not considered. It is argued in academic literature that retail format choice is driven by shoppers' demographic and behavioural characteristics. It is usually argued that these characteristics are largely stable over time (i.e., they tend to change slowly, if at all) (GALATA, ET AL., 1999: 4), which might not be applicable to the Chinese market. As discussed and outlined extensively within several contexts (see *chapter 1*, p. 1, *chapter 3.4.3*, p. 134, *chapter 4.3.5*, p. 180), the Chinese population is transforming extensively and at very high pace; therefore, the argument brought forward by GALATA, ET AL. (1999: 4) that “*a great deal of stability in store format choice behaviour*” is expected to be observed, cannot be assumed within the Chinese consumer retailing context and requires confirmation. Nevertheless, the

evolution of retail formats and their usage in a geographic context should be paid scholarly attention as retail formats form an essential component of urban retail structure.

Several further issues need to be considered for future research. Firstly, as this qualitative analysis concentrates on the currently evolving grocery retailing sector, future studies may investigate potential market opportunities within a broader geographical scope by applying quantitative methods. Secondly, in regard to international players, such as *Walmart* or *Carrefour*, the author shares the view of CHUANG, ET AL. (2011: 460), who call for “*research at the granular level which reports specific instances of success and failure*” in regard to the company’s standardization and localization in the PRC. Thirdly, more work is needed to strengthen the argument that retail format change and economic development have strong geographical foundations. Further, as this thesis is mainly based on the views of practitioners and academics, it ignores the consumer side of the grocery retailing industry. However, an understanding of consumer’s behavior in retail format choice is essential knowledge for future developments in the Chinese grocery retailing market and will enable retailers to segment their market and target specific consumer groups with strategies catered to their retail needs. Yet, as TRIPATHI AND SINHA (2008: 2) are of the opinion, “*the literature on store choice has completely ignored format choice, when studying store choice.*” POPKOWSKI LESZCZYC, ET AL. (2000: 234), when citing previous research on the low store loyalty and significance of store switching for grocery retailing purchases, correctly argue for the incorporation of store switching behavior in the study of consumer choice. Studies on the spatial competitive interaction of store formats, as conducted by GONZALES-BENITO (2005: 457), reveal conclusions related to the competition of store formats within the Spanish retail context. It is argued in this thesis that such a consideration for the Chinese market is forfeited, due to the huge differences of the existing Chinese markets. In this regard, WANG, ET AL. (2010: 437) acknowledge not only the need for geographical distinctions, but the exploration of various social classes within the Chinese consumer segment. Similarly, SCHMITT (1999: 75) correctly criticizes “[T]he “*urban-rural*” segmentation is important but a segmentation of the Chinese consumer should not stop here[.]” while bewailing the limited amount of conducted research in this respect. The future will show how Chinese consumers will further develop and diversify, and grow together. As argued throughout this thesis, the variety of Chinese markets will shape store formats, just as the adjustment of store formats is shaped by the variety of Chinese consumers.

Bibliography

ABERCROMBIE, N., HILL, S. & TURNER, B. (2006) *Dictionary of Sociology*. 5th ed. Harmondsworth: Penguin.

ACKER, K. (2007) Internationalisierung im Einzelhandel: Die US-Expansion des Discounters Aldi aus institutionstheoretischer Perspektive. In: *Berichte des Arbeitskreises Geographische Handelsforschung*. Berlin, Germany: Wirtschaftsgeographie der Humboldt-Universität zu Berlin, pp. 9 - 13.

ACKER, K. (2010) *Die US-Expansion des deutschen Discounters Aldi - Eine Fallstudie zur Internationalisierung im Einzelhandel*. Geographische Handelsforschung 16th ed. Passau, Germany: L.I.S. Verlag.

ACKERMANN, D. & TELLIS, G. (2001) Can Culture Affect Prices? A Cross - Cultural Study of Shopping and Retail Prices. *Journal of Retailing*, 77: pp. 57 - 82.

ADLER, N., CAMPBELL, N. & LAURENT, A. (1989) In Search of Appropriate Methodology: From Outside the People's Republic of China Looking In. *Journal of International Business Studies*, 20: pp. 61 - 74.

AGARWAL, J. & WU, T. (2004) China's Entry to WTO: Global Marketing Issues, Impact, and Implications for China. *International Marketing Review*, 21(3): pp. 279 - 300.

AGRICULTURE AND AGRI-FOOD CANADA (2013) *Consumer and Retail Trends in China*. [Online]

Available at: <http://www.ats-sea.agr.gc.ca/asi/pdf/6334-eng.pdf>

[Accessed 16th March 2014]

AHLERT, D., BLUT, M. & EVANSCHITZKY, H. (2006) Current Status and Future Evolution of Retail Formats. In: **M. Krafft & M. K. Mansala** (eds.) *Retailing in the 21st Century - Current and Future Trends*. Heidelberg: Springer, pp. 289 - 311.

AKEHURST, G. & ALEXANDER, N. (1995) Developing a Framework for the Study of the Internationalisation of Retailing. *The Service Industries Journal*, 15(4): pp. 203 - 209.

AKEHURST, G. & ALEXANDER, N. (1995) *The Internationalisation of Retailing*. London: Routledge Chapman & Hall.

AKEHURST, G. & ALEXANDER, N. (1995) The Internationalisation Process in Retailing. *The Service Industries Journal*, 15(4): pp. 1 - 15.

AKHTER, S. & EQUBAL, I. (2012) Organized Retailing in India - Challenges and Opportunities. *International Journal of Multidisciplinary Research*, 2(1): pp. 281 - 291.

ALDI GROUP (2014) *Aldi Group*. [Online]

Available at: www.aldi.com

[Accessed 27th July 2014]

ALDRED, R. (2008) Ethical and Political Issues in Contemporary Research Relationships. *Sociology*, 42(5): pp. 887 - 903.

ALEXANDER, N. (1990) Retailers and International Markets: Motives for Expansion. *International Marketing Review*, 19(4): pp. 75 - 83.

ALEXANDER, N. (1990) Retailing Post-1992. *Service Industries Journal*, 10(1): pp. 172 - 187.

ALEXANDER, N. (1995) Internationalisation: Interpreting the Motives. In: **P. J. MCGOLDRICK & G. DAVIES** (eds.) *International Retailing: Trends and Strategies*. London, UK: Pitman Publishing, pp. 77 - 98.

ALEXANDER, N. (1997) *International Retailing*. London, UK: Wiley Business and Economics.

ALEXANDER, N. & DE LIRA E SILVA, M. (2002) Emerging Markets and the Internationalisation of Retailing: The Brazilian Experience. *International Journal of Retail & Distribution Management*, 30(6): pp. 300 - 314.

ALEXANDER, N. & DOHERTY, A. (2010) International Retail Research - Focus, Methodology and Conceptual Development. *International Journal of Retail and Distribution Management*, 38(11/12): pp. 928 - 942.

ALEXANDER, N. & MYERS, H. (2000) The Retail Internationalisation Process. *International Marketing Review*, 17(4/5): pp. 334 - 353.

ALEXANDER, N. & QUINN, B. (2002) International Retail Divestment. *International Journal of Retail and Distribution Management*, 30(2): pp. 122-123.

ALEXANDER, N., QUINN, B. & CAIRNS, P. (2005) International Retail Divestment Activity. *International Journal of Retail and Distribution Management*, 33(1): pp. 112 - 125.

AMINE, A. & TANFOUS, F. H. B. (2012) Exploring Consumers' Opposition Motives to the Modern Retailing Format in the Tunisian Market. *International Journal of Retail & Distribution Management*, 40(7): pp. 510 - 527.

ANTKIEWICZ, A. & WHALLEY, J. (2005) China's New Regional Trade Agreements. *NBER Working Paper Series*, Working Paper 10992.

AOYAMA, J. (2007) Oligopoly and the Structural Paradox of Retail TNCs: An Assessment of Carrefour and Wal-Mart in Japan. *Journal of Economic Geography*, 7(4): pp. 471 - 490.

APPEL, A. (2014) *Zwischen Basar und Supermarkt: Strukturelle Veränderungen im Lebensmitteleinzelhandel der Türkei unter Berücksichtigung von Globalisierungsprozessen*, Marburg, Germany: Philipps University of Marburg.

APPLE, D. (1972) The Supermarket: Early Development of an Institutional Innovation. *Journal of Retailing*, 48(1): pp. 39 - 53.

ASIA MONITOR (2014a) Too Early To Gauge Full Impact. *Business Monitor International*, 21(1): p. 2.

ASIA MONITOR (2014b) China's Inflationary Forces Evenly Balanced. *Business Monitor International*, 20(2): p. 3.

A.T. KEARNEY (2014a) *The 2014 Global Retail Development Index - Full Steam Ahead for Global Retailers*. [Online]

Available at: <http://www.atkearney.com/documents/10192/4600212/Full+Steam+Ahead+for+Global+Retailers-+2014+Global+Retail+Development+In....pdf/6f55a59b-e855-4236-96cb-464c2ca01e91>

[Accessed 21st April 2015]

A.T. KEARNEY (2014b) *Foreign Direct Investment Confidence Index 2014*. [Online]
Available at: <http://www.atkearney.de/documents/856314/4582949/Ready+for+Takeoff+-+FDICI+2014.pdf/267d1c7b-8ba8-4c46-a9a8-480d19eb45af>
[Accessed 26th November 2014]

AT. KEARNEY (2013) *Global Retailers: Cautiously Aggressive or Aggressively Cautious?*
[Online]
Available at: <http://www.atkearney.com/documents/10192/1315829/Global+Retailers+-+Cautiously+Aggressive+or+Aggressively+Cautious.pdf/b8f528f4-cb6f-411d-8ae6-7afb7fbc7b7e>
[Accessed 14th December 2014]

ATSMON, Y., CHILD, P., DOBBS, R. & NARASIMHAN, L. (2012) Winning the \$30 Trillion Decathlon: Going for Gold in Emerging Markets. *McKinsey Quarterly*, Issue August.

ATSMON, Y. & MAGNI, M. (2012) Meet the Chinese Consumer of 2020. *McKinsey Quarterly*, Issue March.

AU-YEUNG, A. Y. S. & HENLEY, J. (2003) Internationalisation Strategy: In Pursuit of the China Retail Market. *European Business Journal*, 15(1): pp. 10 - 23.

AU-YEUNG, A. Y. S. (2003) International Transfer of Retail Know - How Through Foreign Direct Investment from Europe to China. In: **J. DAWSON, M. MUKOYAMA, S. C. CHOI & R. LARKE** (eds.) *The Internationalisation of Retailing in Asia*. London, UK: RoutledgeCurzon, pp. 136 - 154.

BAI, J., WAHL, T. I. & MCCLUSKEY, J. J. (2006) *Consumer Choice of Retail Food Store Formats in Qingdao, China*. Selected Paper Prepared for Presentation at the American Agricultural Economics Association Annual Meeting.

BAI, J., WAHL, T. I. & MCCLUSKEY, J. J. (2008) Consumer Choice of Retail Food Store Formats in Qingdao, China. *Journal of International Food & Agribusiness Marketing*, 20(2): pp. 89 - 109.

BAILIAN GROUP (2014) *Bailian Group Introduction*. [Online]
Available at: <http://www.bailiangroup.cn/html/english/>
[Accessed 22nd October 2014]

BAIN & COMPANY (2012) *What Chinese Shoppers Really Do But Will Never Tell You*. [Online]

Available at: http://www.bain.com/Images/BAIN_REPORT_What_Chinese_shoppers_really_do_but_will_never_tell_you_.pdf

[Accessed 18th April 2014]

BAKER & MCKENZIE (2013) *China Employment Law Guide*. [Online]

Available at: http://www.bakermckenzie.com/files/Uploads/Documents/North%20America/DoingBusinessGuide/Dallas/br_china_employmentlawguide_13.pdf

[Accessed 25th November 2014]

BANERJEE, A., DUFLO, E. & QIAN, N. (2012) *On the Road: Access to Transportation Infrastructure and Economic Growth in China*. [Online]

Available at: <http://18.7.29.232/bitstream/handle/1721.1/69644/Banerjee12-06.pdf?sequence=2>

[Accessed 16th June 2014]

BASKER, E. & NOEL, M. (2009) The Evolving Food Chain: Competitive Effect of Walmart's Entry into the Supermarket Industry. *Journal of Economics and Management Strategy*, 18(4): pp. 977 - 1009.

BATRA, R. (1999) Marketing Issues and Challenges in Transitional Economies. In: **R. BATRA** (ed.) *Marketing Issues in Transitional Economies*. Dordrecht, Netherlands: Kluwer Academic Publishers, pp. 3 - 35.

BBC NEWS (2012) *China Surpasses US as World's Biggest Grocery Market*. [Online]

Available at: <http://www.bbc.com/news/business-17595963>

[Accessed 15th December 2014]

BEHRENBECK, K. (2013) 'Reshaping Retail': A Conversation with Ahold CEO Dick Boer. *McKinsey Quarterly*, Issue July.

BELK, R. W. (1999) Leaping Luxuries and Transitional Consumers. In: **R. BATRA** (ed.) *Marketing Issues in Transitional Economies*. Dordrecht, Netherlands: Kluwer Academic Publishers, pp. 39 - 54.

BELL, D. R. & LATTIN, J. M. (1998) Shopping Behavior and Consumer Preference for Store Price Format: Why “Large Basket” Shopper Prefers EDLP. *Marketing Science*, 17(1): pp. 66 - 88.

BELL, R. (2000) Food Retailing in United Kingdom. *European Retail Digest*, 28: pp. 22 - 28.

BELL, R. (2001a) Food Retailing in Benelux Region. *European Retail Digest*, 27: pp. 27 - 29.

BELL, R. (2001b) Grocery Retailing in France. *European Retail Digest*, Issue 30: pp. 27 - 31.

BELL, R. (2001c) Grocery Retailing in Germanic Markets. *European Retail Digest*, Issue 29: pp. 25 - 29.

BELL, R. D., DAVIES, R. & HOWARD, E. (1997) The Changing Structure of Food Retailing in Europe: The Implications for Strategy. *Long Range Planning*, 30(6): pp. 853 - 861.

BERKOWITZ, D. & DEJONG, D. N. (2001) *Entrepreneurship and Post-Socialist Growth*. [Online]

Available at: www.wdi.bus.umich.edu

[Accessed 16th June 2014]

BHATNAGA, A. & RATCHFORD, B. T. (2004) A Model of Retail Format Competition for Non-Durable Goods. *International Journal of Research in Marketing*, 21(1): pp. 39 - 59.

BIANCHI, C. & ARNOLD, S. J. (2004) An Institutional Perspective on Retail Internationalization Success: Home Depot in Chile. *International Review of Retail, Distribution, and Consumer Research*, 14(2): pp. 149-169.

BIANCHI, C. & MENA, J. (2004) Defending the Local Market Against Foreign Competitors: The Example of Chilean Retailers. *International Journal of Retail and Distribution Management*, 32(10): pp. 495 - 504.

BIANCHI, C. & OSTALE, E. (2006) Lessons Learned from Unsuccessful Internationalization Attempts: Examples of Multinational Retailers in Chile. *Journal of Business Research*, 59(1): pp. 140 - 147.

BLOOMBERG BUSINESSWEEK (2005) *Let China's Retail Wars Begin*. [Online]
Available at: <http://www.businessweek.com/stories/2005-01-16/let-chinas-retail-wars-beg-in>
[Accessed 26th June 2014].

BLOOMBERG BUSINESSWEEK (2009) *Buying Chinas Consumers*. Issue December 14th.

BLOOMBERG (2012) *Tesco Stumbles With Wal-Mart as China Shoppers Buy Local*. [Online]
Available at: <http://www.bloomberg.com/news/2012-10-18/tesco-stumbles-with-wal-mart-as-china-shoppers-buy-local.html>
[Accessed 22nd October 2014]

BLOOMBERG (2014) *Dairy Farm to Pay \$925 Million for China's Yonghui Stake*. [Online]
Available at: <http://www.bloomberg.com/news/2014-08-11/dairy-farm-buys-china-yonghui-superstores-stake-for-925-million.html>
[Accessed 22nd October 2014]

BONANNO, A. (2010) An Empirical Investigation of Wal-Mart's Expansion into Food Retailing. *Agribusiness*, 26(2): pp. 320 - 342.

BOWLES, R. (1998) Food Retailing Takes Off. *China Business Review*, 25 (5): pp. 30 - 32.

BRADSHAW, M. J. (1996) The Prospects for the Post-Socialist Economies. In: **P. W. DANIELS & W. F. LEVER** (eds.) *The Global Economy in Transition*. Boston, USA: Addison Wesley Longman Limited, pp. 263 - 288.

BRANSTETTER, L. & LARDY, N. (2006) China's Embrace of Globalization. *National Bureau of Economic Research*, Working Paper 12373.

BRESLIN, S. (2003) Reforming China's Embedded Socialist Compromise: China and the WTO. *University of Warwick Institutional Repository*, 15(3): pp. 1 - 40.

BRIGHT FOOD GROUP (2014) About Us. [Online]
Available at: <http://english.people.com.cn/102775/203908/203914/203950/index.html>
[Accessed 22nd October 2014]

- BUCKLEY, P., WANG, C. Q. & CLEGG, J. (2007)** The Impact of Foreign Ownership, Local Ownership and Industry Characteristics on Spillover Benefit from Foreign Direct Investment in China. *International Business Review*, 16(2): pp. 142 - 158.
- BURT, S. (1991)** Trends in the Internationalization of Grocery Retailing: The European Experience. *The International Review of Retail, Distribution and Consumer Research*, 1(4): pp. 487 - 515.
- BURT, S. (1995)** Retail Internationalisation: Evolution of Theory and Practice. In: **P. J. MCGOLDRICK & G. DAVIES** (eds.) *International Retailing - Trends and Strategies*. London, UK: Pitman Publishing, pp. 51 - 73.
- BURT, S. & CARRALERO-ENCINAS, J. (2000)** The Role of Store and Image in Retail Internationalisation. *International Marketing Review*, 17(4/5): pp. 433 - 453.
- BURT, S., DAVIES, K., MCAULEY, A. & SPARKS, L. (2005)** Retail Internationalisation - From Formats to Implants. *European Management Journal*, 23(2): p. 195 – 202.
- BURT, S., DAWSON, J. A. & SPARKS, L. (2003)** Failure in International Markets Research Propositions. *International Review of Retail, Distribution and Consumer Research*, 13(4): pp. 355 - 373.
- BURT, S., DAWSON, J. & LARKE, R. (2006)** Royal Ahold - Multinational, Multi-Channel, Multi-Format Food Provider. In: **J. DAWSON, R. LARKE & M. MUKOYAMA** (eds.) *Strategic Issues in International Retailing*. Abingdon, UK: Dawson, pp. 140 - 169.
- BURT, S., DAWSON, J. & SPARKS, L. (2004)** The International Divestment Activities of European Grocery Retailers. *European Management Journal*, 5: pp. 483 - 492.
- BURT, S., MELLAHI, K., JACKSON, T. P. & SPARKS, L. (2002)** Retail Internationalisation and Retail Failure: Issues from the Case of Marks and Spencer. *International Review of Retail, Distribution and Consumer Research*, 12(2): pp. 191 - 219.
- BURT, S. & SPARKS, L. (2003)** Power and Competition in the UK Retail Grocery Market. *British Journal of Management*, 14: p. 237 – 254.
- CAI, Z. (1997)** The Rise of Wal-Mart in China. *Science and Technology Think Tank*, 11: pp. 13 - 15.

CAO, L. (2011) Dynamic Capabilities in a Turbulent Market Environment: Empirical Evidence from International Retailers in China. *Journal of Strategic Management*, 19(5): pp. 455 - 469.

CAO, L. & DEPUIS, M. (2009) Core Competences, Strategy and Performance: The Case of International Retailers in China. *International Review of Retail, Distribution and Consumer Research*, 19(4): pp. 349 - 369.

CAO, L. & PEDERZOLI, D. (2013) International Retailers Strategic Responses to Institutional Environment of Emerging Market - Multiple Case Studies in China. *International Journal of Retail and Distribution Management*, 41(4): pp. 289 - 310.

CARREFOUR GROUP (2013) *Opening of a New Carrefour Market*. [Online]
Available at: <http://www.carrefour.com/current-news/opening-new-carrefour-hypermarket>
[Accessed 25th April 2014]

CARREFOUR GROUP (2014) *Carrefour Stores Worldwide*. [Online]
Available at: <http://www.carrefour.com/content/carrefour-stores-worldwide>
[Accessed 27th July 2014]

CARREFOUR GROUP (2015) *Store Network Under Banners*. [Online]
Available at: <http://www.carrefour.com/sites/default/files/PARCEN311214.pdf>
[Accessed 1st March 2015]

CAVUSGIL, S. T., GHAURI, P. N. & AKCAL, A. A. (2013) *Doing Business in Emerging Markets*. 2nd ed. London, UK: Sage Publications Ltd.

CBRE (2012) *Shopping Centre Development - The Most Active Global Cities*. [Online]
Available at: <https://researchgateway.cbre.com/Layouts/PublicReportAccess/Default.aspx?PUBID=95027f81-6ed4-417f-806a-8c4a51e792a1>
[Accessed 23rd September 2014].

CHAI, Y., SHEN, J. & LONG, T. (2007) Downtown Retailing Development Under Suburbanisation: A Case Study of Beijing. *Chinese Geographical Science*, 17(1): pp. 1 - 9.

CHAKRAVARTY, V. & CHUA, S. G. (2012) *Asian Mergers and Acquisitions: Riding the Wave*. Singapore: John Wiley & Sons.

- CHANG, C. C. (2005)** *The Role of Retail Sector in Agri-food System - Chinese Taipei*. Presentation at the Pacific Economic Cooperation Council's Pacific Food System Outlook 2005 - 2006 Annual Meeting in Kunming, China, 11th –13th May.
- CHAN, K. W. (1992)** Economic Growth Strategy and Urbanization Policies in China, 1949 – 1982. *International Journal of Urban and Regional Research*, 16(2): pp. 275 - 305.
- CHAO, L. & MYERS, R. (1998)** China's Consumer Revolution: The 1990s and Beyond. *Journal of Contemporary China*, 7(18): pp. 351 - 368.
- CHATURVEDI, R. (2006)** *Wal-Mart's Strategies in China*. Case Study, Ref. 306-085-1, ICFAI Centre for Management Research (ICMR).
- CHEN, C. (2007)** Foreign Direct Investment in China: Trends and Characteristics after WTO Accession. In: **L. G. SONG & R. GARNAUT** (eds.) *China: Linking Markets for Growth*. Canberra, Australia: ANU E Press, pp. 197 - 224.
- CHENG, L. (2005)** *Die Bedeutung des WTO-Beitritts für die wirtschaftliche Entwicklung Chinas: Eine betriebs- und gesamtwirtschaftliche Analyse*. Wiesbaden: Deutscher Universitätsverlag.
- CHEN, J. & LOBO, A. (2012)** Organic Food Products in China: Determinants of Consumers' Purchase Intentions. *The International Review of Retail, Distribution and Consumer Research*, 22(3): pp. 293 - 314.
- CHEN, Y., SEONG, J. & WOETZEL, J. (2015)** *China's Rising Internet Wave: Wired Companies*. [Online]
Available at: http://www.mckinsey.com/insights/high_tech_telecoms_internet/Chinas_rising_Internet_wave_Wired_companies?cid=other-eml-alt-mkq-mck-oth-1501
[Accessed 21st January 2015]
- CHILD, P. N. (2006)** Lessons from a Global Retailer: An Interview with the President of Carrefour China. *McKinsey Quarterly* (Special Edition: Serving the New Chinese Consumer), pp. 70 - 81.

CHINA BUSINESS REVIEW (2010) Economic Development Policies for Central and Western China. [Online]

Available at: <http://www.chinabusinessreview.com/economic-development-policies-for-central-and-western-china/>

[Accessed 10th February 2015]

CHINA BUSINESS REVIEW (2011) *The Pros and Cons of Franchising in China*. [Online]

Available at: <http://www.chinabusinessreview.com/the-pros-and-cons-of-franchising-in-china/>

[Accessed 25th February 2015]

CHINA BUSINESS REVIEW (2015) *China Goes West: The Globalization of Chinese Brands*.

[Online]

Available at: http://www.chinabusinessreview.com/china-goes-west-the-globalization-of-chinese-brands/?utm_source=Master+List&utm_campaign=287b0afa5e-CBR_March_2015&utm_medium=email&utm_term=0_4b44108fc0-287b0afa5e-82984217

[Accessed 15th March 2015]

CHINA CHAIN STORE AND FRANCHISE ASSOCIATION (2014a) *Carrefour Xiaoshan Jincheng Store to Close, Two Stores Left in Hangzhou*. [Online]

Available at: <http://www.chinaretail.org/shownews.asp?id=3243>

[Accessed 12th November 2014]

CHINA CHAIN STORE AND FRANCHISE ASSOCIATION (2014c) *CP Lotus 1H Loss RMB 39 million*. [Online]

Available at: <http://www.chinaretail.org/shownews.asp?id=3226>

[Accessed 11th November 2014]

CHINA CHAIN STORE AND FRANCHISE ASSOCIATION (2014d) *Sam's Club May Open in Second-Tier City*. [Online]

Available at: <http://www.chinaretail.org/shownews.asp?id=2485>

[Accessed 12th November 2014]

CHINA CHAIN STORE AND FRANCHISE ASSOCIATION (2015) *About CCFA*. [Online]

Available at: <http://www.chinaretail.org/about.asp?typeid=1>

[Accessed 25th February 2015]

CHINA CHAIN STORE AND FRANCHISE ASSOCIATION (2014) *TESCO China “Heritage” : Efficient Express Fresh Supply Chain.* [Online]

Available at: <http://www.chinaretail.org/shownews.asp?id=3234>

[Accessed November 11th 2014]

CHINA DAILY (2007) *Yonghui to Have 350 Stores by 2014.* [Online]

Available at: http://www.chinadaily.com.cn/bizchina/2013-02/07/content_16213141.htm

[Accessed 21st October 2014]

CHINA DAILY (2009a) *Wen: China to Continue to Develop Western Region.* [Online]

Available at: http://www.chinadaily.com.cn/china/2009-10/16/content_8803115.htm

[Accessed 13th June 2014].

CHINA DAILY (2009b) *Western China Sees GDP Grow 12.5% from January to September.*

[Online]

Available at: http://www.chinadaily.com.cn/china/westdevelopment/2009-12/22/content_9213762.htm

[Accessed 13th June 2014]

CHINA DAILY (2009c) *Economic Zones Refuel Western Development.* [Online]

Available at: http://www.chinadaily.com.cn/china/westdevelopment/2009-12/22/content_9213006.htm

[Accessed 14th June 2014]

CHINA DAILY (2013a) *Carrefour Shops Around for New Locations in China.* [Online]

Available at: http://usa.chinadaily.com.cn/business/2013-12/06/content_17156365.htm

[Accessed 28th April 2014]

CHINA DAILY (2013b) *Metro Closes Shanghai HoReCa Store.* [Online]

Available at: http://usa.chinadaily.com.cn/business/2013-05/15/content_16502214.htm

[Accessed 25th February 2015]

CHINA DAILY (2014) *Shanghai's Permanent Population Exceeds 24 Million.* [Online]

Available at: http://www.chinadaily.com.cn/china/2014-02/27/content_17311272.htm

[Accessed 8th April 2015]

CHINA ECONOMIC REVIEW (2013) *Chinese Grocers Go on a Shopping Spree*. [Online]
Available at: <http://www.chinaeconomicreview.com/Tesco-CRE-CR-Vanguard-supermarkets-grocers-chains-retail>
[Accessed 20th October 2014]

CHINA INSTITUTE (2011) *Les entretiens du China Institute - Entretien avec M. Bruno Mercier*. [Online]
Available at: http://www.china-institute.org/entretiens/China_Institute-Entretien_avec_Bruno_Mercier.pdf
[Accessed 28th February 2015]

CHINA INTERNET NETWORK INFORMATION CENTER (2012) *The 29th Statistical Report on Internet Development in China*, Beijing, China: China Internet Network Information Center.

CHINA MARKETRESEARCH (2012) *Hohhot Demographic Analysis and Economy Review*. [Online]
Available at: <http://www.china-marketresearch.com/market-review/city-overview/hohhot.htm>
[Accessed 5th April 2015]

CHINA RESOURCE ENTERPRISE (2014) *China Resources Enterprise Announces Interim Results for 2014*, Hong Kong: China Resource Enterprise, Limited.

CHINA RESOURCE ENTERPRISE (2015) *Our Businesses*. [Online]
Available at: <http://www.cre.com.hk/home/obsses/retail/>
[Accessed 5th March 2015]

CHOI, S. C. (2014) Lotte Shopping - Transforming a Korean Retailer Towards Being Global. In: **J. DAWSON & M. MUKOYAMA** (eds.) *Global Strategies in Retailing - Asian and European Experiences*. Abingdon, UK: Routledge, pp. 116 - 136.

CHRISTOPHERSON, S. (2007) Barriers to 'US style' Lean Retailing: The Case of Walmart's Failure in Germany. *Journal of Economic Geography*, 7(4): pp. 451 - 469.

CHUANG, M. - L., DONEGAN, J. J., GANON, M. W. & WEI, K. (2011) Walmart and Carrefour Experiences in China: Resolving the Structural Paradox. *Cross Cultural Management: An International Journal*, 18 (4): pp. 443 - 463.

- CLARKE, I., BENNISON, D. & PAL, J. (1997)** Towards a Contemporary Perspective of Retail Location. *International Journal of Retail & Distribution Management*, 25(2): pp. 59 - 69.
- CODRON, J. M., BOUHSINA, Z., FORT, F. & COUDEL, E. (2004)** Supermarkets in Low Income Mediterranean Countries: Impacts on Horticultural Systems. *Development Policy Review*, 22(5): p. 587 – 602.
- COE, N. & HESS, M. (2005)** The Internationalization of Retailing - Implications for Supply Network Restructuring in East Asia and Eastern Europe. *Journal of Economic Geography*, 5(4): pp. 449 - 473.
- COE, N. & LEE, J. (2006)** The Strategic Localization of Transnational Retailers - The Case of Samsung-Tesco in South Korea. *Economic Geography*, 82(1): pp. 61 - 88.
- COE, N. & LEE, Y.-S. (2013)** "We've Learnt How to Be Local": The Deepening Territorial Embeddedness of Samsung-Tesco in South Korea. *Journal of Economic Geography*, 13(2): pp. 327 - 356.
- COE, N. M. (2004)** The Internationalisation / Globalisation of Retailing: Towards an Economic-Geographical Research Agenda. *Environment and Planning*, 36 (9): pp. 1571 - 1594.
- COE, N. & WRIGLEY, N. (2007)** Host Economy Impacts of Transnational Retail: The Research Agenda. *Journal of Economic Geography*, 7(4): pp. 341 - 371.
- COLLA, E. (2003)** International Expansion and Strategies of Discount Grocery Retailers: The Winning Models. *International Journal of Retail and Distribution Management*, 31(1): pp. 55 - 66.
- COLLA, E. (2004)** The Outlook for European Grocery Retailing: Competition and Format Development. *International Review of Retail, Distribution and Consumer Research*, 14(1): pp. 47 - 69.
- COLLA, E. & DEPUIS, M. (2002)** Research and Managerial Issues on Global Retail Competition - Carrefour / Wal-Mart. *International Journal of Retail & Distribution Management*, 30(2): pp. 103 - 111.

CONSUMER MARKET INSIGHT (2005) *Chain Stores in China*. Market: Asia Pacific, March, p. 4.

CORSTJENS, M. & LAL, R. (2012) Retail Doesn't Cross Borders. Here's Why and What to Do About it. *Harvard Business Review*, April, pp. 104 - 111.

CORT, S. & DOMINGUEZ, L. (1977) Cross-Shopping and Retail Growth. *Journal of Marketing Research*, 14(2): pp. 187 - 192.

COSTCO WHOLESALE CORPORATION (2014) *Wholesale Locations*. [Online]
Available at: <http://www.costco.com/>
[Accessed 28th July 2014]

COX, A. D., COX, D. & ANDERSON, R. D. (2005) Remeasuring the Pleasures of Store Shopping. *Journal of Business Research*, 58(3): pp. 250 - 259.

CUI, G. & LIU, Q. (2000) Regional Market Segments of China: Opportunities and Barriers in a Big Emerging Market. *Journal of Consumer Marketing*, 17(1): pp. 55 - 72.

CURTIS, K. R., MCCLUSKEY, J. J. & WAHL, T. I. (2007) Consumer Preferences for Western-Style Convenience Foods in China. *China Economics Review*, 18(1): pp. 1 - 14.

CUSHMAN & WAKEFIELD CHINA (2014) *Marketbeat - Retail Snapshot: Shanghai, China*. [Online]
Available at: http://www.cushmanwakefield.com/~media/marketbeat/2015/01/shanghai_retail_english_4q14.pdf
[Accessed 8th April 2015]

D'HAESE, M. & VAN HUYLENBROECK, G. (2005) The Rise of Supermarkets and Changing Expenditure Patterns of Poor Rural Households - Case Study in the Transkei Area, South Africa. *Food Policy*, 30(1): p. 97 - 113.

DA ROCHA, A. & DIB, L. A. (2002) The Entry of Wal-Mart in Brazil and the Competitive Responses of Multinational and Domestic Firms. *International Journal of Retail & Distribution Management*, 30(1): pp. 61 - 73.

DATAMONITOR (2010) *Food Retail in China*, London, UK: Datamonitor.

- DAVIES, G. & WHITEHEAD, M. (1995)** The Legislative Environment as a Measure of Attractiveness for Internationalisation. In: **P. J. MCGOLDRICK & G. DAVIES** (eds.) *International Retailing - Trends and Strategies*. London, UK: Pitman Publishing, pp. 117 - 130.
- DAVIS, D. S. (2000)** Introduction: A Revolution in Consumption. In: **D. S. DAVIS** (ed.) *The Consumer Revolution in Urban China*. Los Angeles, USA: University of California Press, pp. 1 - 22.
- DAVIS, L. Y. (2013)** Let Us Go Shopping: Exploring Northwest Chinese Consumers' Shopping Experiences. *International Journal of Consumer Studies*, 37(4): p. 353 – 359.
- DAWSON, J. (1994)** Internationalization of Retailing Operations. *Journal of Marketing Management*, 10(4): pp. 267 - 282.
- DAWSON, J. (2000)** Retailing at Century End: Some Challenges for Management and Research. *International Review of Retail, Distribution and Consumer Research*, 10(2): pp. 119 - 148.
- DAWSON, J. (2001)** Strategy and Opportunism in European Retail Internationalization. *British Journal of Management*, 12(4): pp. 253 - 266.
- DAWSON, J. (2003a)** Introduction. In: **J. DAWSON, M. MUKOYAMA, S. C. CHOI & R. LARKE** (eds) *The Internationalization of Retailing in Asia*. London, UK: RoutledgeCurzon, pp. 1 - 5.
- DAWSON, J. (2003b)** Towards a Model of the Impacts of Retail Internationalisation. In: **J. DAWSON, M. MUKOYAMA, S. C. CHOI & R. LARKE** (eds.) *The Internationalisation of Retailing in Asia*. Los Angeles, USA: RoutledgeCurzon, pp. 189 - 207.
- DAWSON, J. (2004)** New Cultures, New Strategies, New Formats and New Relationships in European Retailing: Some Implication for Asia. *Journal of Global Marketing*, 18(1): pp. 73 - 97.
- DAWSON, J. (2011)** Foreword. In: **L. Q. SIEBERS** (ed.) *Retail Internationalization in China - Expansion of Foreign Retailers*. Hampshire, UK: Palgrave McMillan, pp. xiii - xv.

DAWSON, J., LARKE, R. & CHOI, S. C. (2006) Tesco - Transferring Marketing Success Factors Internationally. In: **J. DAWSON, R. LARKE & M. MUKOYAMA** (eds.) *Strategic Issues in International Retailing*. Abingdon, UK: Routledge, pp. 170 - 195.

DAWSON, J. & MUKOYAMA, M. (2006) Retail Internationalization as a Process. In: **J. DAWSON, R. LARKE & M. MUKOYAMA** (eds.) *Strategic Issues in International Retailing*. New York, USA: Routledge, pp. 31 - 50.

DAWSON, J. & MUKOYAMA, M. (2006) The Increase in International Activity by Retailers. In: **J. DAWSON, R. LARKE & M. MUKOYAMA** (eds.) *Strategic Issues in International Retailing*. Abingdon, UK: Routledge, pp. 1 - 30.

DAWSON, J. & MUKOYAMA, M. (2014a) Building International Strategy with Formats and Formulae. In: **J. DAWSON & M. MUKOYAMA** (eds.) *Global Strategies in Retailing - Asian and European Experiences*. New York, USA: Routledge, pp. 37 - 54.

DAWSON, J. & MUKOYAMA, M. (2014b) Future Directions of Retailer Internationalization. In: **J. DAWSON & M. MUKOYAMA** (eds.) *Global Strategies in Retailing - Asian and European Experiences*. New York, USA: Routledge, pp. 227 - 238.

DAWSON, J. & MUKOYAMA, M. (2014c) Introduction. In: **J. DAWSON & M. MUKOYAMA** (eds.) *Global Strategies in Retailing - Asian and European Experiences*. New York, USA: Routledge, pp. 1 - 4.

DAWSON, J. & MUKOYAMA, M. (2014d) Recent Developments in Retail Internationalization. In: **J. DAWSON & M. MUKOYAMA** (eds.) *Global Strategies in Retailing - Asian and European Experiences*. New York, USA: Routledge, pp. 5 - 36.

DEJONG, A., DEJONG, D. V., MERTENS, G. & ROOSENBOOM, P. (2005) *Royal Ahold: A Failure of Corporate Governance*. [Online]
Available at: http://tippie.uiowa.edu/accounting/mcgladrey/workingpapers/royal_ahold.pdf
[Accessed 18th June 2014]

DELOITTE (2009) *China's Consumer Market - What Next?* [Online]
Available at: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cb-China-consumer-markets-2013.pdf>
[Accessed 8th February 2014]

DELOITTE (2012) *The China Factor: Doing Business in China*. [Online]
Available at: http://www.deloitte.com/assets/Dcom-Germany/Local%20Assets/Documents/03_CountryServices/2012/CSG_The_China_Factor.pdf

[Accessed 3rd February 2014]

DELOITTE (2013a) *China Trends - Neue Investitionsstandorte in China*. [Online]
Available at: <http://www2.deloitte.com/content/dam/Deloitte/de/Documents/Country%20Services%20Group/CSG%20China/Doing%20Business%20with%20China/CSG-Neue-Investitionsstandorte-China.pdf>

[Accessed 2nd February 2014]

DELOITTE (2013b) *Measuring Value - Global Capital Markets, Sectors, and Trends*. [Online]

Available at: http://www.deloitte.com/assets/Dcom-Germany/Local%20Assets/Documents/03_CountryServices/2013/CSG_MeasuringValue_16.pdf

[Accessed 3rd February 2013]

DELOITTE (2013c) *2012 Report on Cooperative Development between Shopping Centers and Chain Brand Merchants in China*. [Online]

Available at: <http://www2.deloitte.com/content/dam/Deloitte/cn/Documents/real-estate/deloitte-cn-re-china-mall-chain-brand-report2012-en-210113.pdf>

[Accessed 2nd March 2014]

DELOITTE (2014) *Global Powers of Retailing 2014 - Retail Beyond Begins*. [Online]

Available at: http://www.deloitte.com/assets/Dcom-Chile/Local%20Assets/Documents/Nuevos/Estudios/CB_GlobalPowersofRetailing2014.pdf

[Accessed 12th June 2014]

DENG, X., HUANG, J., ROZELLE, S. & UCHIDA, E. (2010) Economic Growth and the Expansion of Urban Land in China. *Urban Studies*, 47(4): pp. 813 - 843 .

DERESKY, H. (2014) *International Management - Managing Across Borders and Cultures*. 8th ed. Essex, England: Pearson.

DIAMANTE, T. (2013) *Effective Interviewing and Information Gathering - Proven Tactics to Improve Your Questioning Skills*. New York, USA: Business Expert Press.

DIAZ, A., MAGNI, M. & POH, F. (2012) *From Oxcart to Wal-Mart: Four Keys to Reaching Emerging-Market Consumers*. [Online]

Available at: http://www.mckinsey.com/insights/winning_in_emerging_markets/from_oxcart_to_wal-mart_four_keys_to_reaching_emerging-market_consumers

[Accessed 28th February 2014]

DICKEN, P. (2003) *Global Shift: Reshaping the Global Economic Map in the 21st Century*. London, UK: Sage.

DRTINA, T. (1995) The Internationalisation of Retailing in the Czech and Slovak Republics. *The Service Industries Journal*, 15(4): pp. 191 - 203.

DUNFEE, T. & WARREN, D. (2001) Is Guanxi Ethical? A Normative Analysis of Doing Business in China. *Journal of Business Ethics*, 32(3): pp. 191 - 204.

DUPUIS, M., CHOI, S. C. & LARKE, R. (2006) Carrefour - Being Aware of the Domestic Market!. In: **J. DAWSON, R. LARKE & M. MUKOYAMA** (eds.) *Strategic Issues in International Retailing*. Abingdon, UK: Routledge, pp. 91 - 113.

DUPUIS, M. & FOURNIOUX, J. (2006) Building an International Retail Strategy. In: **J. DAWSON, R. LARKE & M. MUKOYAMA** (eds.) *Strategic Issues in International Retailing*. Abingdon, UK: Routledge, pp. 51 - 70.

DUPUIS, M. & PRIME, N. (1996) Business Distance and Global Retailing: A Model for Analysis of Key Success / Failure Factors. *International Journal of Retail & Distribution Management*, 24(11): pp. 30 - 38.

ELICKSON, P. B. & GRIECO, P. L. E. (2013) Wal-Mart and the Geography of Grocery Retailing. *Journal of Urban Economics*, 75: pp. 1 - 14.

ENDERWICK, P. (2007) *Understanding Emerging Markets - China and India*. New York, USA: Routledge.

EUROMONITOR INTERNATIONAL (2009) *Retailing - China*. [Online]

Available at: <http://wenku.baidu.com/view/53338422482fb4daa58d4b6f.html>

[Accessed 2nd September 2014]

EUROMONITOR INTERNATIONAL (2013a) *Grocery Retailers in China*. [Online]
Available at: <http://www.euromonitor.com/grocery-retailers-in-china/report>
[Accessed 15th March 2013]

EUROMONITOR INTERNATIONAL (2013b) *The Internationalization of Retailing - Success, Failure and the Importance of Adapting to the Market*. [Online]
Available at: http://web.euromonitor.com/Portals/71592/docs/FINAL_The_Internationalisation_of_Retail_DigitalVersion.pdf
[Accessed 8th June 2014]

EUROMONITOR INTERNATIONAL (2014) *Refrigeration Appliances in China*. [Online]
Available at: <http://www.euromonitor.com/refrigeration-appliances-in-china/report>
[Accessed 15th March 2014]

EVANS, J. & BRIDSON, K. (2005) Explaining Retail Offer Adaptation through Psychic Distance. *International Journal of Retail & Distribution Management*, 33(1): pp. 69 - 78.

EVANS, J., BRIDSON, K., BYROM, J. & MEDWAY, D. (2008) Revisiting Retail Internationalisation - Drivers, Impediments and Business Strategy. *International Journal of Retail & Distribution Management*, 36(4): pp. 260 - 280.

EVANS, J. & MAVONDO, E. T. (2002) Psychic Distance and Organizational Performance: An Empirical Examination of International Retailing Operations. *Journal of International Business Studies*, 33(3): pp. 515 - 532.

EVANS, J., MAVONDO, F. T. & BRIDSON, K. (2008) Psychic Distance: Antecedents, Retail Strategy Implications and Performance Outcomes. *Journal of International Marketing*, 16(2): pp. 32 - 63.

FAIGUENBAUM, S., BERDEGUÉ, J. A. & REARDON, T. (2002) The Rise of Supermarkets in Chile: Effects on Producers in the Horticulture, Dairy, and Beef Chains. *Development Policy Review*, 20(4): pp. 459 - 471.

FAN, C. C. (1995) Of Belts and Ladders: State Policy and Uneven Regional Development in Post-Mao China. *Annals of the Association of American Geographers*, 85(3): pp. 421 - 449.

- FAN, C. C. (1997)** Uneven Development and Beyond: Regional Development Theory in Post-Mao China. *International Journal of Urban and Regional Research*, 21(4): pp. 620 - 639.
- FAN, C. C. & SUN, M. (2008)** Regional Inequality in China, 1978 – 2006. *Eurasian Geography and Economics*, 49(1): pp. 1 - 20.
- FARHANGMEHR, M., MARQUES, S. & SILVA, J. (2001)** Consumer and Retailer Perceptions of Hypermarkets and Traditional Retail Stores in Portugal. *Journal of Retailing and Consumer Services*, 7(4): pp. 197 - 206.
- FARQUHAR, J. D. (2012)** *Case Study Research for Business*. London, UK: Sage Publications.
- FARRELL, D., GERSCH, U. A. & STEPHENSON, E. (2006)** The Value of China's Emerging Middle Class. *The McKinsey Quarterly* (Special Edition, June), pp. 60 - 69.
- FEI, L., BU, M., GAO, W. & XIAN, L. (2010)** An Empirical Study on the Positioning Point of Successful Retail Enterprises in China. *Nankai Business Review International*, 1(2): pp. 152 - 165.
- FERNIE, J., FERNIE, S. & MOORE, C. (2003)** *Principles of Retailing*. Oxford, UK: Butterworth-Heinemann.
- FERNIE, J., HAHN, B., GERHARD, U. & PIOCH, E. (2006)** The Impact of Wal-Mart's Entry into the German and UK Grocery Markets. *Agribusiness*, 22 (2): pp. 247 - 266.
- FIGUIÉ, M. & MOUSTIER, P. (2009)** Market Appeal in an Emerging Economy: Supermarkets and Poor Consumers in Vietnam. *Food Policy*, 34(2): pp. 210 - 217.
- FLICK, U. (2011)** Triangulation. In: **G. OELERICH & H. - W. OTTO** (eds.) *Empirische Forschung und Soziale Arbeit - Ein Studienbuch*. Wiesbaden: VS Verlag für Sozialwissenschaften, pp. 27 - 50.
- FLYVBJERG, B. (2006)** Five Misunderstandings About Case-Study Research. *Qualitative Inquiry*, 12(2): pp. 219 - 245.

- FOCUS (2010)** *Griechenland-Pleite für Aldi.* [Online]
Available at: http://www.focus.de/finanzen/news/discounter-griechenland-pleite-fuer-aldi_aid_531296.html
[Accessed 27th June 2014]
- FORBES INSIGHTS (2011)** *Marketing to the New Chinese Consumer.* [Online]
Available at: http://images.forbes.com/forbesinsights/StudyPDFs/Marketing_to_the_Chinese_Consumer.pdf
[Accessed 3rd February 2014]
- FORTHERINGHAM , A. S. & TREW, R. (1993)** Chain Image and Store-Choice Modelling: The Effects of Income and Race. *Environment and Planning A*, 25(2): pp. 179 - 196.
- FOX, E. J., MONTGOMERY, A. L., ALAN, L. & LODISH, L. M. (2002)** *Consumer Shopping and Spending Across Retail Formats.* Pittsburgh, PA, USA: Carnegie Mellon University.
- FOX, E. J. & SETHURAMAN, R. (2006)** Retail Competition. In: **M. KRAFFT & M. K. MANTRALA** (eds.) *Retailing in the 21st century - Current and Future Trends.* Heidelberg: Springer Verlag, pp. 193 - 208.
- FRANK, B., ABULAITI, G. & ENKAWA, T. (2014)** Regional Differences in Consumer Preference Structures within China. *Journal of Retailing and Consumer Services*, 21(2): pp. 203 - 210.
- FRANZ, M. (2010)** The Role of Resistance in a Retail Production Network - Protests Against Supermarkets in India. *Singapore Journal of Tropical Geography*, 31(3): pp. 317 - 329.
- FU, G., FU, W. & LIU, D. (2012)** Empirical Study on Financial Risk Factors: Capital Structure, Operation Ability, Profitability, and Solvency — Evidence from Listed Companies China. *E3 Journal of Business Management and Economics*, 3(5): pp. 173 - 178.
- FUNG BUSINESS INTELLIGENCE CENTRE (2013)** *Retail Market in China.* [Online]
Available at: http://www.funggroup.com/eng/knowledge/research/china_dis_issue114.pdf
[Accessed 9th October 2014]

FUNG BUSINESS INTELLIGENCE CENTRE (2015) *China Retail - Hypermarkets and Supermarkets in China*. [Online]

Available at: http://www.funggroup.com/eng/knowledge/research/china_dis_issue125.pdf
[Accessed 21st April 2015]

GALATA, G., BUCKLIN, R. E. & HANSSENS, D. M. (1999) *On the Stability of Store Format Choice*. Los Angeles, USA: University of California.

GALVIN, J., HEXTER, J. & HIRT, M. (2010) Building a Second Home in China. *McKinsey Quarterly*, Issue June.

GAMBLE, J. (2011a) Introduction. In: **J. GAMBLE** (ed.) *Multinational Retailers and Consumers in China - Transferring Organizational Practices from the United Kingdom and Japan*. Hampshire, UK: Palgrave Macmillan, pp. 1 - 17.

GAMBLE, J. (2011b) China's Retail Sector in Context. In: **J. GAMBLE** (ed.) *Multinational Retailers and Consumers in China - Transferring Organizational Practices from the United Kingdom and Japan*. Hampshire, UK: Palgrave Macmillan, pp. 18 - 31.

GARREAU, J. (1981) *The Nine Nations of North America*. Boston, USA: Houghton Mifflin.

GAURI, D. K., TRIVEDI, M. & GREWAL, D. (2008) Understanding the Determinants of Retail Strategy: An Empirical Analysis. *Journal of Retailing*, 84 (3): pp. 256 - 267.

GERHARD, U. & HAHN, B. (2004) Wal-Mart and Aldi: Two Retail Giants in Germany. *GeoJournal*, 62(1-2): pp. 12 - 26.

GERMAN, G. A., WU, J. & CHAI, M. L. (1996) *Supermarket Development in China*, New York: Food Industry Management Program, Department of Agricultural, Resource, and Managerial Economics.

GERMANY TRADE & INVEST (2014a) *Chinesische Lebensmittelbranche im Wandel*. [Online]

Available at: <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1086824.html>
[Accessed 21st January 2015]

GERMANY TRADE AND INVEST (2014b) *Neue Standards sollen Chinas Lebensmittelsicherheit erhöhen.* [Online]

Available at: <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1066662.html>
[Accessed 21st January 2015]

GERMANY TRADE AND INVEST (2014c) *Mittelschicht - Lebensmittelsicherheit - Urbanisierung in Asien-Pazifik - Special zur Asien-Pazifik Konferenz 2014, Bonn, Germany: Germany Trade and Invest.*

GHAURI, P. (2004) Designing and Conducting Case Studies in International Business Research. In: **R. PIEKKARI & C. WELCH** (eds.) *Handbook of Qualitative Research Methods for International Business.* Cheltenham, UK: Edward Elgar Publishing, pp. 109 - 124.

GIELENS, K. & DEKIMPE, M. G. (2002) European Grocery Retailers Caught by Internationalisation Fever. *European Retail Digest*, 35(1): p. 1.

GLOBAL AGRICULTURAL INFORMATION NETWORK (2008) *Retail Food Sector - All China Annual Report.* [Online]

Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Retail%20Annual%20Report_Shanghai%20ATO_China%20-%20Peoples%20Republic%20of_1-26-2011.pdf

[Accessed 11th November 2014]

GLOBAL AGRICULTURAL INFORMATION NETWORK (2012) *China Retail Report.* [Online]

Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Retail%20Report_Shanghai%20ATO_China%20-%20Peoples%20Republic%20of_6-15-2012.pdf

[Accessed 2nd January 2015]

GLOBAL AGRICULTURAL INFORMATION NETWORK (2013) *South China 2013 Retail Annual Report.* [Online]

Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/South%20China%202013%20Retail%20Annual%20Report_Guangzhou_China%20-%20Peoples%20Republic%20of_5-3-2013.pdf

[Accessed 11th November 2014]

GOLDMAN, A. (1996) *Supermarket in China - Entry Limitations and Strategic Dilemas*, Hong Kong: Hong Kong University of Science and Technology.

GOLDMAN, A. (2000) Supermarkets in China: The Case of Shanghai. *The International Review of Retail, Distribution and Consumer Research*, 10(1): pp. 1 - 21.

GOLDMAN, A., KRIDE, R. & RAMASWAMI, S. (1999) Persistent Competitive Advantage of Traditional Food Retailers in Asia: Wet Markets Continued Dominance in Hong Kong. *Journal of Marcomarketing*, 19(2): pp. 126 - 139.

GOLDMAN, A. & QIN, Z. (1998) Intermediate Supermarkets in China - Origins, Evolution and Prospects. *Journal of Marketing Channels*, 6(3 - 4): pp. 87 - 108.

GOLDMAN, A., RAMASWAMI, S. & KRIEDER, R. (2002) Barriers to the Advancement of Modern Food Retail Formats: Theory and Measurement. *Journal of Retailing*, Issue 78(4), pp. 281 - 295.

GOLDMAN, A. & VANHONACKER, W. (2006) *The Food Retail System in China: Strategic Dilemmas and Lessons for Retail Internationalization / Modernization*. Paper presented at the 'Globalizing Retail' Conference, University of Surrey, 17th – 18th July 2006.

GOLDMANN, A. (2001) The Transfer of Retail Formats into Developing Countries: The Example of China. *Journal of Retailing*, 77(2): pp. 221 - 241.

GOLDMANN, A. & HINO, H. (2005) Supermarkets vs. Traditional Retail Stores: Diagnosing the Barriers to Supermarkets Market Share Growth in an Ethnic Minority Community. *Journal of Retailing and Consumer Service*, 12(4): pp. 273 - 284.

GOLUB, S. S. (2009) Openness to Foreign Direct Investment in Services: An International Analysis. *The World Economy*, 32(8): pp. 1245 - 1268.

GONZÁLES-BENITO, Ó. (2005) Spatial Competitive Interaction of Retail Store Formats: Modeling Proposal and Empirical Results. *Journal of Business Research*, 58(4): pp. 457 - 466.

GONZÁLEZ-BENITO, Ó., MUNOZ-GALLEGO, P. & KOPALLE, P. K. (2005) Asymmetric Competition in Retail Store Formats: Evaluating Inter- and Intra-Format Spatial Effects. *Journal of Retailing*, 81 (1): pp. 59 - 73.

GOTTWALD, J. - C. & DUGGAN, N. (2011) Expectations and Adaption: China's Foreign Policies in a Changing Global Environment. *International Journal of China Studies*, 2(1): pp. 1 - 26.

GRAFF, T. O. (2006) Unequal Competition Among Chains of Supercenters - Kmart, Target, and Wal-Mart. *The Professional Geographer*, 58(1): pp. 54 - 64.

GRANOVETTER, M. (1985) Economic Action and Social Structure: The Problem of Embeddedness. *American Journal of Sociology*, 91(3): pp. 481 - 510.

GROUPE AUCHAN (2014) *Groupe Auchan Financial Report 2013*. [Online] Available at: http://www.groupe-auchan.com/en/pied-de-page/pdf-dynamique/rapports-annuels/rapport-financier-2013/?no_cache=1
[Accessed 28th February 2015]

GROUPE AUCHAN (2015a) *Groupe Auchan Around the World*. [Online] Available at: <http://www.groupe-auchan.com/en/who-is-auchan/international-presence/>
[Accessed 28th February 2015]

GROUPE AUCHAN (2015b) *Hypermarket*. [Online] Available at: <http://www.groupe-auchan.com/en/our-businesses/hypermarket/>
[Accessed 28th February 2015]

HAGEN, J. M. (2002) *Causes and Consequences of Food Retailing Innovation in Developing Countries: Supermarkets in Vietnam*. Working Paper, Department of Applied Economics and Management, Cornell University, New York, USA.

HAHN, B. (2009) *Welthandel: Geschichte - Konzepte - Perspektiven*. Darmstadt, Germany: Wissenschaftliche Buchgesellschaft.

HALPETE, J., IYER, K. V. S. & PARK, S. C. (2008) Walmart in India: A Success or Failure? *International Journal of Retail & Distribution Management*, 36(9): pp. 701 - 713.

HAMILTON, G. G. & PETROVIC, M. (2011) Introduction. In: **G. G. HAMILTON, M. PETROVIC & B. SENAUER** (eds.) *The Market Makers - How Retailers are Reshaping the Global Economy*. Oxford, UK: Oxford University Press, pp. 1 - 28.

- HANDELSBLATT (2010)** *Aldi verlässt Griechenland.* [Online]
Available at: <http://www.handelsblatt.com/unternehmen/handel-dienstleister/rueckzug-aldi-verlaesst-griechenland/3492242.html>
[Accessed 17th June 2014]
- HANDELSBLATT (2014)** *Aldi liebäugelt mit China.* [Online]
Available at: <http://www.handelsblatt.com/unternehmen/handel-konsumgueter/discounter-aldi-liebaeugelt-mit-china/11008050.html>
[Accessed 11th January 2015]
- HANG, H. & GODLEY, A. (2009)** Revisiting the Psychic Paradox: International Retailing in China in the Long Run (1840 - 2005). *Business History*, 51(3): pp. 383 - 400.
- HANSER, A. (2005)** Made in PRC: China's Consumer Revolution. *Current History*, 104(683): pp. 272 - 277.
- HAN, S. & PANNELL, C. W. (1999)** The Geography of Privatization in China, 1978 - 1996. *Economic Geography*, 75(3): pp. 272 - 296.
- HARDING, H. (1987)** *Chinas Second Revolution - Reform after Mao.* Washington D.C., USA: The Brookings Institution.
- HARWIT, E. (2001)** The Impact of WTO Membership on the Automobile Industry in China. *The China Quarterly*, Issue Fall: pp. 655 - 670.
- HASSAN, H., SADE, A. B. & RAHMAN, M. S. (2013)** Malaysian Hypermarket Retailing Development and Expansion. *International Journal of Retail & Distribution Management*, 41(8): pp. 584 - 595.
- HAUSMAN, J. & LEIBTAG, E. S. (2007)** Consumer Benefits from Increased Competition in Shopping Outlets: Measuring the Effect of Wal-Mart. *Journal of Applied Econometrics*, 22(7): pp. 1157 - 1177.
- HAWKES, C. (2008)** Dietary Implications of Supermarket Development - A Global Perspective. *Development Policy Review*, 26(6): pp. 657 - 692.
- HE, H. & MUKHERJEE, A. (2007)** I Am, Ergo I Shop - Does Store Image Congruity Explain Shopping Behaviour of Chinese Consumers? *Journal of Marketing Management*, 23(5/6): pp. 443 - 460.

- HE, J., ZHANG, D. & MAO, Y. (2013)** An Empirical Study on Consumer Intention to Participate in Mobile Marketing in China. *E3 Journal of Business Management and Economics*, 4(7): pp. 156 - 165.
- HESS, M. (2004)** "Spatial" Relationships? Towards a Reconceptualization of Embeddedness. *Progress in Human Geography*, 28(2): pp. 165 - 186.
- HEXTER, J. & WOETZEL, J. R. (2007)** Bringing Best Practice to China. *The McKinsey Quarterly*, 4: pp. 1 - 7.
- HILLMAN, B. & UNGER, J. (2013)** *Editorial - China Perspectives*. [Online] Available at: <http://chinaperspectives.revues.org/6235> [Accessed 13th February 2015]
- HINGLEY, M., LINDGREEN, A. & CHEN, L. (2008)** Development of the Grocery Retail Market in China: A Qualitative Study of How Foreign and Domestic Retailers Seek to Increase Market Share. *British Food Journal*, 111(1): pp. 44 - 55.
- HKTDC RESEARCH (2013)** *China's Packaged Food Market: Capitalising on the Rising Demand for Premium Imported Items*. [Online] Available at: <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/China-s-packaged-food-market-capitalising-on-the-rising-demand-for-premium-imported-items/rp/en/1/1X000000/1X09V7A5.htm> [Accessed 26th June 2014]
- HKTDC RESEARCH (2014)** *Shanghai: Market Profile*. [Online] Available at: <http://china-trade-research.hktdc.com/business-news/article/Fast-Facts/SHANGHAI-MUNICIPALITY/ff/en/1/1X000000/1X06BVOR.htm> [Accessed 3rd April 2015]
- HKTDC RESEARCH (2015)** *Chongqing: Market Profile*. [Online] Available at: <http://china-trade-research.hktdc.com/business-news/article/Fast-Facts/Chongqing-Market-Profile/ff/en/1/1X000000/1X06BPV2.htm> [Accessed 4th April 2015]
- HO, D. & LEIGH, N. (1994)** A Retail Revolution. *The China Business Review*, 21(1): pp. 22 - 27.

- HOFSTEDE, G. (1980)** *Culture's Consequences*. Thousand Oaks, Canada: Sage.
- HOFSTEDE, G. (1997)** *Cultures and Organizations: Software of the Mind*. USA: McGraw - Hill.
- HOFSTEDE, G. (2001)** *Culture's Consequences*. 2nd ed. Thousand Oaks, Canada: Sage.
- HOLLANDER, S. (1970)** *Multinational Retailing*. East Lansing, USA: Michigan State University.
- HOME DEPOT (2014)** *Global Presence*. [Online]
Available at: <https://corporate.homedepot.com/OurCompany/GlobalPresence/Pages/default.aspx>
[Accessed 28th July 2014]
- HONG, W. & CHAN, R. C. K. (2003)** The Role of Government in Creating Competitive Advantage in the Globalized Economy - The Case of Shanghai, China. In: **J. DAWSON, M. MUKOYAMA, S. C. CHOI & R. LARKE** (eds.) *The Internationalisation of Retailing in Asia*. Los Angeles, USA: RoutledgeCurzon, pp. 169 - 188.
- HOWELL, A. & FAN, C. C. (2011)** Migration and Inequality in Xinjiang: A Survey of Han and Uyghur Migrants in Urumqi. *Eurasian Geography and Economics*, 52(1): pp. 119 - 139.
- HSIEH, M.-Y. (2012)** Is it Time to Withdraw from China? *E3 Journal of Business Management and Economics*, 3(1): pp. 26 - 43.
- HUANG, X. (2009)** The Influence of National Culture, History and Institution on Strategic Management in Chinese Firms - A Complexity Based. *International Journal of Business Studies*, 17 (1): pp. 1 - 18.
- HUANG, Y. & STERNQUIST, B. (2007)** Retailers' Foreign Market Entry Decisions: An Institutional Perspective. *International Business Review*, 16(5): pp. 613 - 629.
- HU, D., REARDON, T., ROZELLE, S. & TIMMER, P. (2004)** The Emergence of Supermarkets with Chinese Characteristics: Challenges and Opportunities for China's Agricultural Development. *Development Policy Review*, 22(5): pp. 557 - 586.

HUMPHREY, J. (2007) The Supermarket Revolution in Developing Countries: Tidal Wave or Tough Competitive Struggle? *Journal of Economic Geography*, 7(4): p. 433 – 450.

HUTCHINSON, K., ALEXANDER, N., QUINN, B. & DOHERTY, A. M. (2007) Internationalization Motives and Facilitating Factors: Qualitative Evidence from Smaller Specialist Retailers. *Journal of International Marketing*, 15(3): pp. 96 - 122.

HUTCHINSON, K., QUINN, B. & ALEXANDER, N. (2006) SME Retailer Internationalization: Case Study Evidence from British Retailers. *International Marketing Review*, 23(1): pp. 25 - 53.

IANCHOVICHINA, E. & WALMSLEY, T. (2003) *The Impact of China's WTO Accession on East Asia*. Policy Research Working Paper 3109, The World Bank.

IGD (2012) *China's Grocery Market Overtakes the US as Biggest in the World*. [Online] Available at: <http://igd.com/Media/IGD-news-and-press-releases/Chinas-grocery-market-overtakes-the-US-as-biggest-in-the-world/>
[Accessed 27th June 2014]

IGD (2014a) *Carrefour Exiting India*. [Online] Available at: <http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=12738&ecid=10686&uid=296571>
[Accessed 11th July 2014]

IGD (2014b) *Leading Retailers Review: Carrefour, Walmart, Tesco, Metro*. [Online] Available at: <http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=12747&ecid=10686&uid=296571>
[Accessed 11th July 2014]

IGD (2014c) *Yihaodian Partners with Family Mart*. [Online] Available at: <http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=12736&ecid=10686&uid=296571>
[Accessed 11th July 2014]

IGD (2014d) *Tackling India's Modern Grocery Sector*. [Online] Available at: <http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=12725&ecid=10654&uid=296571>
[Accessed 2nd July 2014]

IGD (2015a) *China's Retail Sales Rise 12% in 2014.* [Online]
Available at: <http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=13458&ecid=11565&uid=296571>

[Accessed 24th January 2015]

IGD (2015b) *Carrefour's New China Strategy.* [Online]
Available at: <http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=13637&ecid=11763&uid=296571>

[Accessed 14th March 2015]

IGD (2015c) *Auchan's 2014 Growth Driven by Consolidation.* [Online]
Available at: <http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=13639&ecid=11763&uid=296571>

[Accessed 14th March 2015]

IGD (2015d) *Auchan Achieves Another Successful Year in China.* [Online]
Available at: <http://retailanalysis.igd.com/Hub.aspx?id=13&tid=1&rid=4&nid=13601>

[Accessed 14th March 2015]

JACKSON, T. P. & SPARKS, L. (2005) Retail internationalisation: Marks and Spencer in Hong Kong. *International Journal of Retail and Distribution Management*, 33(10): pp. 766 - 783.

JIANG, B. & PRATER, E. (2002) Distribution and Logistics Management in China - The Revolution has Begun. *International Journal of Physical Distribution & Logistics Management*, 32 (9): pp. 783 - 798.

JICK, T. D. (1979) Mixing Qualitative and Quantitative Methods: Triangulation in Action. *Administrative Science Quarterly*, 24(4): pp. 602 - 611.

JING, L. (2013) Analysis of China's Large Supermarket Service Competition Strategy. *Modern Management*, 3: pp. 147 - 151.

JINGLUN, H. (2003) The Reform of the Distribution System in China - Opening the System to the Outside World. In: **J. DAWSON, M. MUKOYAMA, S. C. CHOI & R. LARKE** (eds.) *The Internationalisation of Retailing in Asia*. Los Angeles, USA: RoutledgeCurzon, pp. 155 - 168.

JONES LANG LASALLE (2012) *China50 Retail - A Significant Real Estate Opportunity*. [Online]

Available at: <http://www.joneslanglasalle.com/China50/en-gb/Pages/China50-Retail.aspx>
[Accessed 26th January 2015]

KACZMAREK, T. (2009) Die globalen Marktführer des Einzelhandels - Wirkungsbereich und Standortstrategien. In: **E. KULKE & K. PÄTZOLD** (eds.) *Internationalisierung des Einzelhandels - Unternehmensstrategien und Anpassungsmechanismen*. Passau, Germany: Geographische Handelsforschung 15, L.I.S. Verlag, pp. 11 - 30.

KADITI, E. A. (2013) Market Dynamics in Supply Chains: The Impact of Globalization and Consolidation on Food Companies' Mark-Ups. *Agribusiness - An International Journal*, 29(4): pp. 410 - 425.

KALISH, A. (2014) China: Stepping into the Unknown. *Global Economic Outlook*, Issue 1st Quarter: pp. 6 - 11.

KANTAR WORLDPANEL (2012) *FMCG Growth Slows Again as Leading Players' Shares Erode*. [Online]

Available at: <http://www.kantarworldpanel.com/cn-en/news/FMCG-growth-slows-again-in-China>
[Accessed 10th October 2014]

KENG, C. W. K. (2007) China's Unbalanced Economic Growth. *Journal of Contemporary China*, 15(46): pp. 183 - 214.

KERIN, R. A., VARADARAJAN, P. R. & PETERSON, R. A. (1992) First-Mover Advantage: A Synthesis, Conceptual Framework, and Research Propositions. *Journal of Marketing*, 56(October): pp. 33 - 52.

KHANNA, T. & PALEPU, K. G. (2010) *Winning in Emerging Markets: A Road Map for Strategy and Execution*. Massachusetts, USA: Harvard Business Publishing.

KHARAS, H. (2010) *The Emerging Middle Class in Developing Countries*, Working Paper No. 285: OECD Development Centre.

KOGUT, B. & SINGH, H. (1988) The Effect of National Culture on the Choice of Entry Mode. *Journal of International Business Studies*, 19(3): pp. 411 - 432.

KPMG (2006) *Strategic & Commercial Intelligence: Grocery Retailing in Asia Pacific*, Hong Kong: KPMG International.

KULKE, E. (2008) *Wirtschaftsgeographie*. 3rd ed. Paderborn, Germany: Schöningh.

KULKE, E. & PÄTZOLD, K. (2009) Vorwort. In: **E. KULKE & K. PÄTZOLD** (eds.) *Internationalisierung des Einzelhandels - Unternehmensstrategien und Anpassungsmechanismen*. Geographische Handelsforschung 15. Passau, Germany: L.I.S. Verlag, pp. 7 - 10.

KUMAR, N. (1997) The Revolution in Retailing: From Market Driven to Market Driving. *Long Range Planning*, 30(6): p. 830 – 835.

LAM, H. -. M., REMAIS, J., FUNG, M. -. C. & XU, L. (2013) Food Supply and Food Safety Issues in China. *Lancet*, 381(9882): p. 2044 – 53.

LARKE, R. (2006) Trends in Retailing in East Asia. In: **M. KRAFFT & M. K. MANTRALA**, (eds.) *Retailing in the 21st Century - Current and Future Trends*. Heidelberg, Germany: Springer, pp. 77 - 93.

LAULAJAINENA, R. (1991) Two Retailers Go Global – The Geographical Dimension. *The International Review of Retail, Distribution and Consumer Research*, 1(5): pp. 607 - 626.

LEBENSMITTELZEITUNG (2006) *Top-Firmen wachsen im Ausland*. [Online] Available at: http://www.lebensmittelzeitung.net/login/login.php?fg=1&url=http%3A%2F%2Fwww%2Elebensmittelzeitung%2Enet%2Fnews%2Fnewsarchiv%2Fprotected%2FEuropa-Top-Firmen-wachsen-im-Ausland_64606%2Ehtml
[Accessed 3rd August 2014]

LEBENSMITTELZEITUNG (2010) *Walmart probt in China neues Format*. [Online] Available at: http://www.lebensmittelzeitung.net/login/login.php?fg=1&url=http%3A%2F%2Fwww%2Elebensmittelzeitung%2Enet%2Fnews%2Ftop%2Fprotected%2F-Probt-in-China-neues-Format_83813%2Ehtml
[Accessed 3rd August 2014]

LEBENSMITTELZEITUNG (2011) *Metro C+C öffnet neues Format in China.* [Online] Available at: http://www.lebensmittelzeitung.net/login/login.php?fg=1&url=http%3A%2F%2Fwww%2Elevensmittelzeitung%2Eenet%2Fnews%2Ftop%2Fprotected%2FMetro-CC-oeffnet-neues-Format-in-China_90779%2Ehtml

[Accessed 3rd August 2014]

LEBENSMITTELZEITUNG (2013a) Tesco nimmt Indiens Einzelhandel ins Visier. *Lebensmittelzeitung*, No. 51: p. 6.

LEBENSMITTELZEITUNG (2013b) Tesco will in China fusionieren. *Lebensmittelzeitung*, No. 33: p. 8.

LEBENSMITTELZEITUNG (2013c) China macht Europäern zu schaffen. *Lebensmittelzeitung*, No. 26: p. 8.

LEBENSMITTELZEITUNG (2013d) *Walmart will mehr Sam's Clubs in China.* [Online] Available at: http://www.lebensmittelzeitung.net/login/login.php?fg=1&url=http%3A%2F%2Fwww%2Elevensmittelzeitung%2Eenet%2Fnews%2Ftop%2Fprotected%2FWalmart-will-mehr-Sams-Clubs-in-China_102840%2Ehtml%3Fid%3D102840

[Accessed 4th August 2014]

LEBENSMITTELZEITUNG (2014) *Plus startet 2015 im Raum Moskau.* [Online] Available at: http://www.lebensmittelzeitung.net/login/login.php?fg=1&url=http%3A%2F%2Fwww%2Elevensmittelzeitung%2Eenet%2Fnews%2Ftop%2Fprotected%2FPlus-startet-2015-im-Raum-Moskau_107985%2Ehtml

[Accessed 27th November 2014]

LEVY, M., GREWAL, D., PETERSON, R. A. & CONNOLLY, B. (2005) The Concept of the 'Big Middle'. *Journal of Retailing*, 81(2): pp. 83 - 88.

LIEBERMANN, M. B. & MONTGOMERY, D. B. (1988) First-Mover Advantages. *Strategic Management Journal*, 9(Special Issue: Strategy Content Research): pp. 41 - 58.

LIEFNER, I. & WEI, Y. D. H. (2014) Introduction: Innovation and Regional Development in China. In: **LIEFNER, I. & WEI, Y. D. H. (eds.)** *Innovation and Regional Development in China*. London, UK: Routledge, pp. 1 - 18.

- LINGENFELDER, M. & DÜERKOP, H. (2012)** Internationale Marktbearbeitung. In: **J. ZENTES, B. SWOBODA, D. MORSCHETT & B. SCHRAMM-KLEIN** (eds.) *Handbuch Handel: Strategien - Perspektiven - Internationaler Wettbewerb*. Wiesbaden, Germany: Springer Gabler, pp. 63 - 87.
- LING, L. & SHI-QING, L. (2010)** New Growth Pole for Chinese Economy - Discussion on Certain Issues in Building of Chengdu-Chongqing Growth Pole. *Sichuan Academy of Social Science*, pp. 1 - 8.
- LIU, K. (2007)** Unfolding the Post-Transition Era: The Landscape and Mindscape of China's Retail Industry after 2004. *Asia Pacific Journal of Marketing and Logistics*, 19(4): pp. 398 - 412.
- LI, Y. & DORSTEN, L. (2010)** Regional and Urban / Rural Differences of Public Health in China. *Global Journal of Health Science*, 2(1): pp. 20 - 30.
- LORENTZ, H. & HILMOLA, O. P. (2008)** Supply Chain Management in Emerging Market Economies: A Review of the Literature and Analysis of the Russian Grocery Retail Sector. *International Journal of Integrated Supply Management*, 4(2): pp. 201 - 229.
- LO, T. W.-C., LAU, H. & LIN, G.-S. (2001)** Problems and Prospects of Supermarket Development in China. *International Journal of Retail and Distribution Management*, 29(2): pp. 66 - 77.
- LOWE, M. & WRIGLEY, N. (2010)** The “Continuously Morphing” Retail TNC During Market Entry Interpreting Tesco’s Expansion into the United States. *Economic Geography*, 86(4): pp. 381 - 408.
- LU, S. (2010)** Understanding China's Retail Market. *China Business Review*, Issue May - June: pp. 16 - 27.
- LU, Z. & DENG, X. (2011)** *China's Western Development Strategy: Policies, Effects and Prospects*, MPRA Paper No. 35201, posted 5th December 2011: MPRA - Munich Personal RePEc Archive.
- MAGNI, M. & POH, F. (2013)** Winning the Battle for China’s New Middle Class. *McKinsey Quarterly*, Issue June.

- MAI, L. W. & ZHAN, H. (2004)** The Characteristics of Supermarket Shoppers in Beijing. *International Journal of Retail & Distribution Management*, 32(1): pp. 56 - 62.
- MA, L. J. C. (2002)** Urban Transformation in China, 1949 - 2000: A Review and Research Agenda. *Environment and Planning A*, 34(9): p. 1545 – 1569.
- MARKETLINE (2012)** *Food Retail in China*, London, UK: MarketLine Industry Profile.
- MARKETLINE (2013)** *Food Retail in China*, London, UK: MarketLine Industry Profile.
- MARUYAMA, M. & TRUNG, L. V. (2007)** Supermarkets in Vietnam: Opportunities and Obstacles. *Asian Economic Journal*, 21(1): pp. 19 - 46.
- MARUYAMA, M. & WU, L. (2014)** Quantifying Barriers Impeding the Diffusion of Supermarkets in China: The Role of Shopping Habits. *Journal of Retailing and Consumer Services*, 21(3): p. 383 – 393.
- MATUSITZ, J. & LEANZA, K. (2009)** Walmart: An Analysis of the Glocalization of the Cathedral of Consumption in China. *Globalizations*, 6(2): pp. 187 - 205.
- MCGOLDRICK, P. J. (1995)** Introduction to International Retailing. In: **P. J. MCGOLDRICK & G. DAVIES** (eds.) *International Retailing - Trends and Strategies*. London, UK: Pitman Publishing, pp. 1 - 14.
- MCGOLDRICK, P. J. & BLAIR, D. (1995)** International Market Appraisal and Positioning. In: **P. J. MCGOLDRICK & G. DAVIES** (eds.) *International Retailing - Trends and Strategies*. London, UK: Pitman Publishing, pp. 168 - 190.
- MCGOLDRICK, P. J. & HO, S. S. L. (1992)** International Positioning: Japanese Department Stores in Hong Kong. *European Journal of Marketing*, 26(8/9): pp. 61 - 73.
- MCKINSEY (2006a)** *From "Made in China" to "Sold in China": The Rise of the Chinese Urban Consumer*. [Online]
Available at: http://www.mckinsey.com/insights/urbanization/from_made_in_china_to_sold_in_china
[Accessed 13th June 2014]

MCKINSEY (2006b) *Lessons from a Global Retailer: An Interview with the President of Carrefour China.* [Online]

Available at: <http://ww2.cfo.com/strategy/2006/07/lessons-from-a-global-retailer-an-interview-with-the-president-of-careefour-china/>

[Accessed 13th June 2014]

MCKINSEY (2009) *2009 Annual Chinese Consumer Study - Part II.* [Online]

Available at: https://solutions.mckinsey.com/insightschina/_SiteNote/WWW/GetFile.aspx?uri=/insightschina/default/en-us/aboutus/news/Files/wp2055036759/Insights_Cluster_FNL_web_4da74e92-e518-4a10-9528-862e75339b3b.pdf

[Accessed 2nd April 2015]

MCKINSEY (2011) *Is your Emerging-Market Strategy Local Enough?* [Online]

Available at: http://www.mckinsey.com/insights/growth/is_your_emerging-market_strategy_local_enough

[Accessed 16th March 2015]

MCKINSEY (2012) *Going to Market in China.* [Online]

Available at: <http://csi.mckinsey.com>

[Accessed 8th February 2014]

MCKINSEY (2013a) *Retail 4.0: The Future of Retail Grocery in a Digital World.* [Online]

Available at: [http://www.mckinsey.com/~media/mckinsey/dotcom/client_service/retail/articles/the_future_of_retail_grocery_in_digital_world%20\(3\).ashx](http://www.mckinsey.com/~media/mckinsey/dotcom/client_service/retail/articles/the_future_of_retail_grocery_in_digital_world%20(3).ashx)

[Accessed 13th June 2014]

MCKINSEY (2013b) *The Future of Online Grocery in Europe. Perspectives on Retail and Consumer Goods*, Spring 2013: pp. 21 - 31.

MCKINSEY (2014) *What Could Happen in China in 2015?* [Online]

Available at: http://www.mckinsey.com/insights/strategy/what_could_happen_in_china_in_2015?cid=other-eml-nsl-mip-mck-oth-1501

[Accessed 3rd January 2015]

MCKINSEY (1958) Significant Trends and Developments in the Post War Period. In: **A. SMITH** (ed.) *Competitive Distribution in a Free High Level Economy and its Implications for the University*. Pittsburg, USA: University of Pittsburg Press, pp. 1 - 25.

METRO GROUP (2010) *METRO Cash & Carry China Opens “METRO for HoReCa” Store in Shanghai.* [Online]

Available at: http://www.metro-mga.de/internet/site/mcc/get/documents/metrogroup_international/extended/mcc/media/press-releases/releases%202010/PM-MCCI-10-11-02-Shanghai-opening.pdf.

[Accessed 25th February 2015]

METRO GROUP (2014) *Sales Brands.* [Online]

Available at: <http://www.metrogroup.de/internet/site/metrogroup/node/11163/len/index.html>

[Accessed 27th July 2014]

MILLER, C. E., REARDON, J. & MCCORKLE, D. (1999) The Effects of Competition on Retail Structure: An Examination of Intratype, Intertype and Intercategory Competition. *Journal of Marketing*, 63(4): pp. 107 - 120.

MINISTRY OF COMMERCE (PEOPLE'S REPUBLIC OF CHINA) (2004) *Circular of the Ministry of Commerce on the Implementatin of the National Standard of Retail Format Classification*, Beijing, China: People's Republic of China.

MOORE, C. M., FERNIE, J. & BURT, S. (2000) Brands Without Boundaries – The Internationalisation of the Designer Retailer’s Brand. *European Journal of Marketing*, 34 (8): pp. 919 - 937.

MORGANOSKY, M. A. (1997) Retail Market Structure Change: Implications for Retailers and Consumers. *International Journal of Retail & Distribution Management*, 25(8): pp. 269 – 274.

MYERS, H. (1995) The Changing Process of Internationalisation in the European Union. *The Service Industries Journal*, 15(4): pp. 42 - 56.

MYERS, H. & ALEXANDER, N. (1996) European Food Retailers’ Evaluation of Global Markets. *International Journal of Retail & Distribution Management*, 24(6): pp. 34 - 43.

MYERS, H. & ALEXANDER, N. (2007) The Role of Retail Internationalisation in the Establishment of a European Retail Structure. *International Journal of Retail & Distribution Management*, 35(1): pp. 6 - 19.

NATIONAL BUREAU OF STATISTICS OF CHINA (1997) *China Statistical Yearbook*, Beijing, China: China Statistics Press.

NATIONAL BUREAU OF STATISTICS OF CHINA (2004) *China Economic Yearbook*, Beijing, China: China Economic Yearbook Press.

NGUYEN, H., WOOD, S. & WRIGLEY, N. (2013) The Emerging Food Retail Structure of Vientam: Phase of Expansion in a Post-Socialist Environment. *International Journal of Retail & Distribution Management*, 41(8): pp. 596 - 626.

O'DWYER, L. M. & BERNAUER, J. A. (2014) *Quantitative Research for the Qualitative Researcher*. London, UK: Sage Publications.

O'GRADY, S. & LANE, H. W. (1997) Culture: An Unnoticed Barrier to Canadian Retail Performance in America. *Journal of Retailing and Consumer Services*, 4(3): pp. 159 – 170.

O'NEILL, J. (2001) *Building Better Global Economic BRICs*, Global Economics Paper No. 66: Goldman Sachs Economic Research Group.

O'NEILL, J. (2013) *The Growth Map: Economic Opportunity in the BRICs and Beyond*. New York, USA: Portfolio Penguin.

PALMER, M. (2004) International Retail Restructuring and Divestment: The Experience of Tesco. *Journal of Marketing Management*, 20(9/10): pp. 1075 - 1105.

PALMER, M. & QUINN, B. (2007) The Nature of International Retail Divestment: Insights from Ahold. *International Marketing Review*, 24(1): pp. 26 - 45.

PARKNSHOP (2015) *Our Mission & Milestones*. [Online] Available at: <http://www.parknshop.com/WebShop/JumpPage.do?comeFrom=MenuContent&menuId=100002&parentsId=100000>
[Accessed 1st April 2015]

PARUCHURI, S., BAUM, J. & POTERE, D. (2009) The Wal-Mart Effect: Wave of Destruction or Creative Destruction? *Economic Geography*, 85(2): pp. 209 - 263.

PELLEGRINI, L. (1994) Alternatives for Growth and Internationalization in Retailing. *International Review of Retail, Distribution and Consumer*, 4(2): pp. 121 - 148.

- PENG, G. & NUNES, M. (2007)** *Using PEST Analysis as a Tool for Refining and Focusing Contexts for Information Systems Research*. Lisbon, Portugal, 6th European Conference on Research Methodology for Business and Management Studies, pp. 229 - 236.
- PENG, M. W. (2013)** *Global Strategic Management*. 4th ed. Andover, Canada: Cengage Learning Emea.
- PETERSON, R. A. & BALASUBRAMANIAN, S. (2002)** Retailing in the 21st Century: Reflections and Prologue to Research. *Journal of Retailing*, 78(1): pp. 9 - 16.
- PETROVIC, M. (2011)** US Retailing and its Global Diffusion. In: **G. G. HAMILTON, M. PETROVIC & B. SENAUER** (eds.) *The Market Makers - How Retailers are Reshaping the Global Economy*. Oxford, UK: Oxford University Press, pp. 79 - 116.
- POPKOWSKI LESZCZYC, P. T. L., SINHA, A. & TIMMERMANS, H. J. P. (2000)** Consumer Store Choice Dynamics: An Analysis of the Competitive Market Structure of Grocery Stores. *Journal of Retailing*, 76(3): pp. 323 - 345.
- POPKOWSKI LESZCZYC, . P. T. L. & TIMMERMANS, H. J. P. (1997)** Store Switching Behavior. *Marketing Letters*, 8(2): pp. 193 - 204.
- POWERS, P. (2005)** What a Difference a Decade Makes. *China Business Review*, Issue November - December, pp. 8 - 16.
- PRASAD , C. & ARYASRI, A. (2011)** Effect of Shopper Attributes on Retail Format Choice Behaviour for Food and Grocery Retailing in India. *International Journal of Retail and Distribution Management*, 39(1): pp. 68 - 86.
- PwC (2013)** *Doing Business and Investing in China*. [Online] Available at: [ttp://download.pwc.com/ie/pubs/2013_doing_business_and_investing_in_china.pdf](http://download.pwc.com/ie/pubs/2013_doing_business_and_investing_in_china.pdf)
[Accessed 29th January 2014]
- QIU, Y. (2011)** Understanding Chinese Consumers. *China Business Review*, Issue July - September, pp. 18 - 21.
- QIU, Y. & ZHAO, J. (2011)** Choosing the Right Retail Format. *China Business Review*, Issue July-September 2011, p. 22.

- QUINN, B. (1999)** The Temporal Context of UK Retailers' Motives for International Expansion. *The Service Industries Journal*, 19(2): pp. 101 - 116.
- REARDON, T. & BERDEGUÉ, J. A. (2002)** The Rapid Rise Of Supermarkets in Latin America: Challenges and Opportunities for Development. *Development Policy Review*, 20(4): pp. 371 - 388.
- REARDON, T., BERDEGUÉ, J. A. & TRIMMER, C. P. (2005)** Supermarketization of the Emerging Markets of the Pacific Rim: Development and Trade Implications. *Journal of Food Distribution Research*, 36(1): pp. 3 - 12
- REARDON, T., CHEN, K., MINTEN, B. & ADRIANO, L. (2012)** *The Quiet Revolution in Staple Food Value Chains: Enter the Dragon, the Elephant, and the Tiger*, Manila, Philippines and Washington DC, USA: Asian Development Bank and International Food Policy Research Institute .
- REARDON, T. & GULATI, A. (2008)** *The Rise of Supermarkets and Their Development Implications: International Experience Relevant for India*. Washington, USA: International Food Policy Research Institute.
- REARDON, T., HENSON, S. & BERDEGUÉ, J. (2007a)** The Rise of Supermarkets and their Development Implications: International Experience Relevant for India. *Journal of Economic Geography*, 7: pp. 399 - 431.
- REARDON, T., HENSON, S. & BERDEGUÉ, J. (2007b)** 'Proactive Fast-Tracking' Diffusion of Supermarkets in Developing Countries: Implications for Market Institutions and Trade. *Journal of Economic Geography*, 7(4): p. 399 – 431.
- REARDON, T., BERDEGUÉ, J. A., MEDINA, R. & AGUIRRE, M. (2007c)** *The Rise of Supermarkets in Mexico: Implications for the Domestic Horticultural Supply Chain and Development*, East Lansing: Michigan State University: Report to USDA.
- REARDON, T. & MINTEN, B. (2011)** Surprised by Supermarkets: Diffusion of Modern Food Retail in India. *Journal of Agribusiness in Developing and Emerging Economies*, 1(2): pp. 134 - 161.

- REARDON, T., TIMMER, T., BARRER, C. & BERDEGUE, J. (2003)** The Rise of Supermarkets in Africa, Asia and Latin America. *American Journal of Agricultural Economics*, 85(5): pp. 1140 - 1146.
- REDONDO, I. (1997)** The Relation Between the Characteristics of the Shopper and the Retail Format. *Marketing and Research Today*, 28(3): pp. 99 - 108.
- REINARTZ, W., DELLAERT, B., KRAFFT, M. & KUMAR, V. (2011)** Retailing Innovations in a Globalizing Retail Market Environment. *Journal of Retailing*, 87 (1): pp. 53 - 66.
- RETAIL GAZETTE (2013)** *Spar Opens 215th China Store*. [Online] Available at: <http://www.retailgazette.co.uk/articles/20132-spar-opens-215th-china-store> [Accessed 20th October 2014]
- REYNOLDS, J., HOWARD, E., CUTHBERTSON, C. & HRISTOV, L. (2007)** Perspectives on Retail Format Innovation - Relating Theory and Practice. *International Journal of Retail and Distribution Management*, 35(8): pp. 647 - 660.
- RICHTER, F.-J. (2000)** China's Entry to the WTO and the Impact of Western Firms. *China Economic Review*, 11(4): pp. 423 - 426.
- RIGBY, E. (2007)** Smooth Supply in High Demand China's Retail Revolution Part II: Distribution is Vital to the Fortunes of Foreign Retailers in China but their Approaches Differ. *Financial Times*, February 14th: p. 10.
- ROBINSON, T. & CLARKE-HILL, C. M. (1995)** International Alliances in European Retailing. In: **P. J. MCGOLDRICK & G. DAVIES** (eds.) *International Retailing - Trends and Strategies*. London, UK: Pitman Publishing, pp. 133 - 150.
- ROBY, J. L. (1980)** Is the China Market for you? *Harvard Business Review*, January - February: pp. 150 - 158.
- RODRIGUEZ-POSE, A. (2012)** Trade and Regional Inequality. *Economic Geography*, 88(2): pp. 109–136.
- SAKARYA, S., ECKMAN, M. & HYLLEGARD, K. H. (2007)** Market Selection for International Expansion - Assessing Opportunities in Emerging Markets. *International Marketing Review*, 24(2): pp. 208 - 238.

SALMON, W. & TORDJMAN, A. (1989) The Internationalisation of Retailing. *International Journal of Retailing*, 4(2): pp. 3 - 16.

SAMIEE, S., YIP, L. S. C. & LUK, S. T. K. (2004) International Marketing in Southeast Asia: Retailing Trends and Opportunities in China. *International Marketing Review*, 21(3): pp. 247 - 254.

SAMUEL, S. N., LI, E. & McDONALD, H. (1996) The Purchasing Behaviour of Shanghai Buyers of Processed Food and Beverage Products: Implications for Research on Retail Management. *International Journal of Retail & Distribution Management*, 24(4): pp. 20 - 28.

SATO, Y. (2007) Strategy Choices of Convenience Store Chains in China, with Particular Reference to Seven-Eleven and FamilyMart. In: **Y. SATO & M. KAWAKAMI** (eds.) *Competition and Cooperation among Asian Enterprises in China*. Chiba, Japan: Institute of Developing Economies, JETRO, pp. 33 - 59.

SAVILLS WORLD RESEARCH (2014) *Asian Cities Report - Chongqing Retail*. [Online] Available at: <http://pdf.savills.asia/asia-pacific-research/asia-pacific-research/asian-cities---cq-retail-2h-2014.pdf>
[Accessed 1st April 2015]

SAVILLS WORLD RESEARCH (2014) *Briefing - Retail Sector: Shanghai*. [Online] Available at: <http://pdf.savills.asia/asia-pacific-research/china-research/shanghai-research/shanghai-retail/14q3-sh-retail-en.pdf>
[Accessed 2nd April 2015]

SCHMALEN, H. & PECHTEL, H. (2006) *Grundlagen und Probleme der Betriebswirtschaft*. 13th ed. Stuttgart, Germany: Schäffer-Pöschel.

SCHMEKEL, V. (2004) The Strategic Importance of Retail Investment in Asia and Its Implications for the Metro Group in Asia. *Journal of Global Marketing*, 18(1/2): pp. 133 - 150.

SCHMID, S., DAUTH, T. & KOTULLA, T. (2009) *Die Internationalisierung von Aldi und Lidl - Möglichkeiten und Grenzen bei der Übertragung von im Inland erfolgreichen Geschäftsmodellen auf das Ausland*, Berlin, Germany: ESCP-EAP Europäische Wirtschaftshochschule Berlin.

- SCHMIDT, N. H. (2014)** Die neue Freihandelszone in Schanghai. *Recht der internationalen Wirtschaft*, 9: p. 1.
- SCHMITT, B. H. (1999)** Consumer Segmentation in China. In: **R. BATRA** (ed.) *Marketing Issues in Transitional Economies*. Dordrecht, Netherlands: Kluwer Academics Publishers, pp. 73 - 84.
- SEGAL-HORN, S. & DAVIDSON, H. (1992)** Global Markets, the Global Consumer and International Retailing. *Journal of Global Marketing*, 5(3): pp. 31 - 61.
- SEGAL, M. N. & GIACOBBE, R. W. (1994)** Market Segmentation and Competitive Analyses for Supermarket Retailing. *International Journal of Retail and Distribution Management*, 22(1): pp. 38 - 48.
- SEIDERS, K. & TIGERT, D. (2000)** The Impact of Supercenters on Traditional Food Retailers in Four Markets. *International Journal of Retail and Distribution Management*, 28(4/5): pp. 181 - 193.
- SEKLIUCKIENE, J. (2013)** Lithuanian Companies in Emerging Markets: Internationalization Motives and Barriers. *Economics and Management*, 18(1): pp. 124 - 133.
- SENAUER, B. & REARDON, T. (2011)** The Global Spread of Modern Food Retailing. In: **G. G. HAMILTON, M. PETROVIC & B. SENAUER** (eds.) *The Market Makers - How Retailers are Reshaping the Global Economy*. Oxford, UK: Oxford University Press, pp. 271 - 290.
- SENGE, K. (2004)** *Der Fall Wal-Mart: Institutionelle Grenzen ökonomischer Globalisierung*, Working Paper, No.4, July: Dortmund University.
- SETH, A. & RANDALL, G. (2011)** *The Grocers - The Rise and Rise of the Supermarket Chains*. London, UK: Kogan Page.
- SHA, Z. Q. & LI, Y. J. (1992)** Supermarkets in China: Opportunities, Problems and their Solutions. *Hong Kong Journal of Business Management*, 10: pp. 69 - 73.
- SIEBERS, L. Q. (2011)** *Retail Internationalization in China - Expansion of Foreign Retailers*. Hampshire, UK: Palgrave Macmillian.

- SIMOVÁ, J., 2010.** Internationalization in the Process of the Czeck Retail Development. *E + M Ökonomie a Management*, 2: pp. 78 - 91.
- SIN, L. Y. M., TSE, A. C. B., YAU, O. H. M. & LEE, J. S. Y. (2004)** Market Orientation and Business Performance in the PRC: A Regional Comparison. *Journal of Global Marketing*, 17(2 / 3): pp. 55 - 89.
- SOHL, T. & RUDOLPH, T. (2012)** Formatdiversifikation: Strategien und Erfolgswirkung. In: **J. ZENTES, B. SWOBODA, D. MORSCHETT & H. SCHRAMM-KLEIN** (eds.) *Handbuch Handel: Strategien - Perspektiven - Internationaler Wettbewerb*. Wiesbaden, Germany: Springer Gabler, pp. 21 - 35.
- SOLGAARD, H. S. & HANSEN, T. (2003)** A Hierarchical Bayes Model of Choice Between Supermarket Formats. *Journal of Retailing and Consumer Services*, 10(3): pp. 169 - 180.
- SONG, W. (2011)** Contributing Factors in Emergence and Growth of Chinese Grocery Own Brands. *International Journal of Business and Management*, 6(2): pp. 13 - 23.
- SONNECK, P. & OTT, C. S. (2006)** Future Trends in Multi-Channel Retailing. In: **M. KRAFFT & M. K. MANTRALA** (eds.) *Retailing in the 21st Century - Current and Future Trends*. Heidelberg, Germany: Springer, pp. 175 - 192.
- SPAR (2014)** *SPAR Shangdong*. [Online] Available at: http://www.spar.cn/en/aboutus3_view.php?id=280&button=GO [Accessed 22nd October 2014]
- SPARKS, L. (1995)** Reciprocal Retail Internationalization: The Southland Corporation Ito-Yokado and 7-Eleven Convenience Stores. *The Service Industries Journal*, 15(4): pp. 57 - 96.
- SPIGGL, S. & SEEWALL, M. A. (1987)** A Choice Sets Model of Retail Selection. *Journal of Marketing*, 51(2): pp. 97 - 111.
- STAKE, R. E. (2006)** *Multiple Case Study Analysis*. New York, USA: The Guilford Press.
- STATISTA (2013)** *Branchenreport 2013. Einzelhandel* (ohne Handel mit Kraftfahrzeugen), Hamburg, Germany: Statista GmbH.

STATISTA (2014) *Marktanteile der führenden Unternehmen im Lebensmittelhandel in Deutschland im Jahr 2013*. [Online]

Available at: <http://de.statista.com/statistik/daten/studie/4916/umfrage/marktanteile-der-5-groessten-lebensmitteleinzelhaendler/>

[Accessed 3rd July 2014]

STEHEN, C. F. (1977) Shift to Use of Supermarts is Part of Westernization in Hong Kong. *Marketing News*, 10(17): pp. 6 - 11.

STERNQUIST, B. (1997) International Expansion of US Retailers. *International Journal of Retail & Distribution Management*, 25(8): pp. 262 - 268.

STERNQUIST, B. & CHEN, Z. (2006) Food Retail Buyer Behaviour in the People's Republic of China: A Grounded Theory Model. *Qualitative Market Research: An International Journal*, 9(3): pp. 243 - 265.

STERNQUIST, B., HUANG, Y. & ZHAN, X. Q. (2010) Predicting Market Orientation: Chinese Retailers in a Transitional Economy. *International Journal of Retail & Distribution Management*, 38(5): pp. 360 - 378.

STERNQUIST, B. & QIAO, Z. (1995) China - The Planned to Free Market Paradigm. *International Journal of Retail and Distribution Management*, 23(12): pp. 21 - 28.

SUN ART RETAIL GROUP LIMITED (2014) *Company Profile*. [Online]

Available at: http://www.sunartretail.com/html/about_profile.php

[Accessed 20th October 2014]

SWOBODA, B. (2012) Internationale Expansion von Handelsunternehmen. In: **J. ZENTES, B. SWOBODA, D. MORSCHETT & H. SCHRAMM-KLEIN** (eds.) *Handbuch Handel*. Wiesbaden, Germany: Springer Gabler, pp. 37 - 61.

SWOBODA, B., FOSCHT, T. & SCHWARZ, S. (2005) Enormously Dynamic and Differing Strategies in Retailing Internationalisation - A Case Study on the Largest Food Retail Companies. *European Retail Digest*, 46: pp. 55 - 63.

SWOBODA, B., PENNEMANN, K. & TAUBE, M. (2012) The Effects of Perceived Brand Globalness and Perceived Brand Localness in China: Empirical Evidence on Western, Asian, and Domestic Retailers. *Journal of International Marketing*, 20(4): pp. 72 - 95.

SZITIC COMMERCIAL PROPERTY GROUP (2014) *Company Profile*. [Online]
Available at: <http://www.crctrust.com/cgi-bin/web/TemplateAction?catalogNo=gywm,gsjj>
[Accessed 5th November 2014]

TACCONELLI, W. & WRIGLEY, N. (2009) Organizational Challenges and Strategic Responses of Retail TNCs in Post - WTO - Entry China. *Economic Geography*, 85(1): pp. 49 - 73.

TANDON, S., WOOVERTON, A. & LANDES, M. (2011) Analyzing Modern Food Retailing Expansion Drivers in Developing Countries. *Agribusiness*, 27(3): p. 327 – 343.

TAYLOR, R. (2003) China's Consumer Revolution: Distribution Reform, Foreign Investment and the Impact of the WTO. *Asian Business and Management*, 2(2): pp. 187 - 204.

TESCO (2014a) *Our Businesses*. [Online]
Available at: <http://www.tescopl.com/index.asp?pageid=276>
[Accessed 28th July 2014]

TESCO (2014b) *Tesco China*. [Online]
Available at: <http://www.tescopl.com/index.asp?pageid=288>
[Accessed 28th April 2014]

TESCO (2014c) *Tesco Completes the Establishment of Joint Venture with CRE*. [Online]
Available at: <http://www.tescopl.com/index.asp?pageid=17&newsid=983>
[Accessed 18th March 2015]

TESCO (2014d) *Tesco China*. [Online]
Available at: <http://www.tescopl.com/index.asp?pageid=288>
[Accessed 28th April 2014]

THAKUR, S. (2012) *Retail Store and Supply Chain Management*. Jaipur, India: Oxford Book Company.

THE ECONOMIST (2000) *A Survey of China - Now Comes the Hard Part*. [Online]
Available at: <http://www.economist.com/node/299588>
[Accessed 15th May 2014]

THE ECONOMIST (2014) *China's Fast-But-Slow Economy*. [Online]
Available at: <http://www.economist.com/blogs/graphicdetail/2014/10/daily-chart-13>
[Accessed 22nd January 2015]

THE GUARDIAN (2006) *Invisible City*. [Online]
Available at: <http://www.theguardian.com/world/2006/mar/15/china.china>
[Accessed 16th April 2015]

THE GUARDIAN (2012) *China Overtakes US as World's Biggest Grocery Market*. *The Guardian Online*, Issue 14th April 2012.

THE GUARDIAN (2013) *Tesco Set to Withdraw Brand from China in New Joint Venture*. [Online]
Available at: <http://www.theguardian.com/business/2013/aug/09/tesco-withdraws-brand-china-joint-venture>
[Accessed 18th March 2015]

THE GUARDIAN (2014) *Germany's Lidl Seen Overtaking Big Rivals Tesco, Carrefour and Aldi*. [Online]
Available at: <http://www.theguardian.com/business/2014/jun/23/lidl-germany-overtake-tesco-carrefour-aldi>
[Accessed 11th February 2015]

THE TELEGRAPH (2009) *Every Little Helps for Tesco in China*. [Online]
Available at: <http://www.telegraph.co.uk/finance/financialcrisis/4782688/Every-little-helps-for-Tesco-in-China.html>
[Accessed 18th March 2015]

TIKEKAR, D. (2013) *A Strategic Analysis to Identify Challenges for Foreign Entrants in the Organised Food Retail Sector in India*. *Research Contributions to Strategic Management*, 32 (Scientific Series - Systems Management).

TORDJMAN, A. (1988) *The French Hypermarket: Could it Be Developed in the United States?* *Retail & Distribution Management*, 16(4): pp. 14 - 16.

- TORDJMAN, A. (1995)** European Retailing: Convergences, Differences and Perspectives. In: **P. J. MCGOLDRICK & G. DAVIES** (eds.) *International Retailing - Trends and Strategies*. London, UK: Pitman Publishing, pp. 17 - 50.
- TRAILL, W. B. (2006)** The Rapid Rise of Supermarkets? *Development Policy Review*, 24(2): pp. 163- 174.
- TREADGOLD, A. (1990)** The Developing Internationalisation of Retailing. *International Journal of Retail & Distribution Management*, 18(2): pp. 4 - 11.
- TRIPATHI, S. & SINHA, P. K. (2008)** *Choice of a Retail Store and Retail Store Format: A Hierarchical Logit Model*, Ahmedabad, India: Indian Institute for Management.
- TURBAN, M. & WOLF, J. (2008)** *Absatzbezogene Strategien der Internationalisierung des Lebensmittel-Discountmarkts bei Aldi und Lidl im Vergleich*. Düsseldorf Working Papers in Applied Management and Economics, No. 3.
- U.S. COMMERCIAL SERVICE (2013)** *China Business Handbook 2013*. [Online] Available at: http://export.gov/china/build/groups/public/@eg_cn/documents/webcontent/eg_cn_055956.pdf
[Accessed 15th June 2014]
- UNCLES, M. D. (2010)** Retail Change in China: Retrospect and Prospects. *The International Review of Retail, Distribution and Consumer Research*, 20(1): pp. 69 - 84.
- UNIVERSITY OF FLORIDA (2011)** *Walmart and Carrefour in China*. [Online] Available at: <http://bear.warrington.ufl.edu/oh/IRET/Cases/Wal-mart%20and%20Carrefour%20CaseEdits.pdf>
[Accessed 12th June 2014]
- VAN DEN HOONARD, W. C. & VAN DEN HOONARD, D. K. (2013)** *Essentials of Thinking Ethically in Qualitative Research*. Walnut Creek, USA: Left Coast Press.
- VEECK, A. (2000)** The Revitalization of the Marketplace - Food Markets of Nanjing. In: **D. S. DAVIS** (ed.) *The Consumer Revolution in Urban China*. Los Angeles, USA: University of California Press, pp. 107 - 123.
- VEECK, A. (2003)** Consumer Response to Changing Food Systems in Urban China. *Advances in Consumer Research*, 30: p. 142.

VEECK, A., YU, H. & BURNS, A. C. (2008) Food Shopping in Urban China in 1996 and 2006: Homogenization and Stratification. *Advances in Consumer Research*, 35: p. 683.

VELAYUDHAN, S. (2014) Outshopping in Rural Periodic Markets - A Retailing Opportunity. *International Journal of Retail & Distribution Management*, 42(2): pp. 151 - 167.

VIDA, I. & FAIRHUST, A. (1998) International Expansion of Retail Firms: A Theoretical Approach for Future Investigations. *Journal of Retailing and Consumer Services*, 5(3): pp. 143 - 151.

VIDA, I., REARDON, J. & FAIRHURST, A. (2000) Determinants of International Retail Involvement: The Case of Large U.S. Retail Chains. *Journal of International Marketing*, 8(4): pp. 37 - 60.

VILLAVERDE, J. & MAZA, A. (2012) Chinese per Capita Income Distribution, 1992 - 2007 - A Regional Perspective. *Asian Economic Journal*, 26 (4): pp. 313 - 331.

VISSAK, T. (2010) Recommendations for Using the Case Study Method in International Business Research. *The Qualitative Report*, 15(2): pp. 370 - 388.

WALL STREET JOURNAL (2006) *Retail's One-China Problem.* [Online]
Available at: <http://www.wsj.com/articles/SB116155817934100326>
[Accessed 11th November 2014]

WALL STREET JOURNAL (2013) *Firms Pivot in China on Rise of Urban Consumers.*
[Online]
Available at: <http://online.wsj.com/news/articles/SB10001424127887324761004578285463406571912>
[Accessed 27th November 2014]

WALMART (2014) *Our Business.* [Online]
Available at: <http://corporate.walmart.com/our-story/our-business/>
[Accessed 24th July 2014]

WALMART (2015) *Wal-Mart in China.* [Online]
Available at: http://www.wal-martchina.com/english/walmart/wminchina_map.htm
[Accessed 16th March 2015]

- WALMSLEY, T. L. & HERTEL, T. W. (2001)** China's Accession to the WTO - Timing is Everything. *World Economy*, 48 (8): pp. 1019 - 1049.
- WANG, E. (2011)** Understanding the 'Retail Revolution' in Urban China: A Survey of Retail Formats in Beijing. *The Service Industries Journal*, 31(2): pp. 169 - 194.
- WANG, G., LI, F. & LIU, X. (2008)** The Development of the Retailing Industry in China: 1981 - 2005. *Journal of Marketing Channels*, 15(2): pp. 145 - 166.
- WANG, S. (2003)** Internationalization of Retailing in China. In: **J. DAWSON, M. MUKOYAMA, S. C. CHUL & R. LARKE** (eds.) *The Internationalisation of Retailing in Asia*. London, UK: RoutledgeCurzon, pp. 114 - 135.
- WANG, S. (2007)** *Foreign Retailers in Post-WTO China: Stories of Success and Setbacks*. Bangkok, Thailand, College of Management, Mahidol University and Said Oxford Business School.
- WANG, S. & JONES, K. (2002)** Retail Structure of Beijing. *Environment and Planning A*, 34(10): pp. 1785 - 1808.
- WANG, S. & ZHANG, Y. (2005)** The New Retail Economy of Shanghai. *Growth and Change*, 36 (1): pp. 41 - 73.
- WANG, Y. J., DOSS, S., GUO, C. & LI, W. (2010)** An Investigation of Chinese Consumers Outshopping Motives from a Cultural Perspective - Implication for Retail and Distribution. *International Journal of Retail & Distribution Management*, 38(6): pp. 423 - 443.
- WEATHERSPOON, D. D. & REARDON, T. (2003)** The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor. *Development Policy Review*, 21(3): pp. 333 - 553.
- WEBER, S. A. & ANDERS, S. M. (2007)** Price Rigidity and Market Power in German Retailing. *Managerial and Decision Economics*, 28(7): pp. 737 - 749.
- WEDEMAN, A. H. (2003)** *From Mao to Market: Rent Seeking, Local Protectionism, and Marketization in China*. Cambridge, UK: Cambridge University Press.
- WEI, H., WANG, X. & ZHAO, C. (2012)** Economic Globalization, Trade Gap and the Role of China. *E3 Journal of Business Management and Economics*, 3(5): pp. 162 - 172.

- WEI, Y. H. D. (2007)** Regional Development in China: Transitional Institutions, Embedded Globalization, and Hybrid Economies. *Eurasian Geography and Economics*, 48(1): pp. 16 - 36.
- WEI, Y. H. D. & LIEFNER, I. (2012)** Globalization, Industrial Restructuring, and Regional Development in China. *Applied Geography*, 32 (1): pp. 102 - 105.
- WEI, Y. H. D., LUO, J. & ZHOU, Q. (2010)** Location Decisions and Network Configurations of Foreign Investment in Urban China. *The Professional Geographer*, 62(2): pp. 264 - 283.
- WEN, G. J. (2000)** New Frontier of Economic Globalization - The Significance of China's Accession to WTO. *China Economic Review*, 11(4): pp. 432 - 436.
- WHALLEY, J. (2005)** *China in the World Trading System*, Waterloo, Canada: The Centre for International Governance Innovation.
- WHYTE, M. K. (2012)** *China's Post-Socialist Inequality*. [Online] Available at: http://scholar.harvard.edu/files/martinwhyte/files/whyte-current_history.pdf [Accessed 16th June 2014]
- WIGGERTHALE, M. (2009)** *Zur Kasse bitte!* Berlin, Germany: Oxfam .
- WILLIAMS, D. E. (1992)** Motives for Retailer Internationalization: Their Impact, Structure and Implications. *Journal of Marketing Management*, 8(3): pp. 269 - 285.
- WONG, G. K. -. M. & YU, L. (2002)** Income and Social Inequality in China: Impact on Consumption and Shopping Patterns. *International Journal of Social Economics*, 29(5): pp. 370 - 384.
- WORLD BANK GROUP (2013)** *Gross Domestic Product 2012*. [Online] Available at: <http://databank.worldbank.org/data/download/GDP.pdf> [Accessed 15th March 2014]
- WORLD BANK GROUP (2014a).** *GDP Growth (Annual %)*. [Online] Available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> [Accessed 15th March 2014]

WORLD BANK GROUP (2014b) *Global Economic Prospects*. [Online]
Available at: <http://www.worldbank.org/en/publication/global-economic-prospects/regional-outlooks/eap#2>
[Accessed 13th May 2014]

WORLD BANK GROUP (2014c) *Inflation, Consumer Prices (Annual %)*. [Online]
Available at: <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>
[Accessed 26th November 2014]

WORLDBANK GROUP (2014d) *Data China*. [Online]
Available at: http://data.worldbank.org/country/china#cp_gdp
[Accessed 6th November 2014]

WORTMANN, M. (2003) *Strukturwandel und Globalisierung des deutschen Einzelhandels*, Berlin, Germany: Discussion Paper No. SP III 2003-202a - Wissenschaftszentrum Berlin für Sozialforschung.

WORTMANN, M. (2004) Aldi and the German Model Structural Change in German Grocery Retailing and the Success of Grocery Discounters. *Competition and Change*, 8(4): pp. 425 - 441.

WORTMANN, M. (2010) Einzelhandel - eine äußerst begrenzte Europäisierung. *Wirtschaftsdienst Sonderheft*, 13: pp. 65 - 70.

WORTMANN, M. (2011) Globalization of European Retailing. In: **G. G. HAMILTON, M. PETROVIC & B. SENAUER** (eds.) *Market Makers - How Retailers are Reshaping the Global Economy*. Oxford, UK: Oxford University Press, pp. 117 - 153.

WRIGHT, L. T. (1996) Exploring the In-Depth Interview as a Qualitative Research Technique with American and Japanese Firms. *Marketing Intelligence & Planning*, 14(6): pp. 59 - 64.

WRIGLEY, N. (1997) Exporting the British Model of Food Retailing to the US: Implications for the EU–US Food Systems Convergence Debate. *Agribusiness*, 13(2): pp. 137–152.

WRIGLEY, N. (2001) The Consolidation Wave in US Food Retailing - A European Perspective. *Agribusiness*, 17(4): pp. 489 - 513.

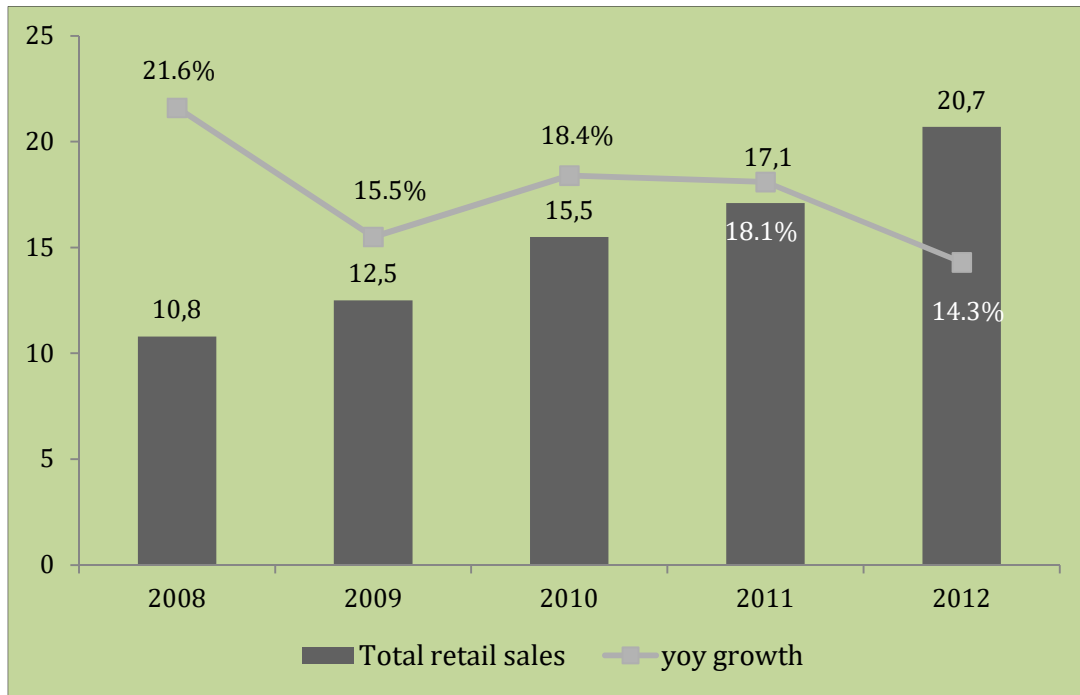
- WRIGLEY, N., COE, N. M. & CURRAH, A. (2005)** Globalizing Retail: Conceptualizing the Distribution-Based Transnational Corporation. *Progress in Human Geography*, 29(4): pp. 437 - 457.
- WRIGLEY, N. & CURRAH, A. (2003)** The Stresses of Retail Internationalisation: Lessons from Royal Ahold's Experience in Latin America. *International Review of Retail, Distribution & Consumer Research*, 13(3): pp. 221 - 243.
- WRIGLEY, N. & LOWE, M. (2002)** *Reading Retail: A Geographical Perspective on Retailing and Consumption Spaces*. London, UK: Hodder Arnold.
- XIANG, T. (2012)** Food Standards and Welfare: General Equilibrium Effects. *Journal of Agricultural Economics*, 63(2): pp. 223 - 244.
- XIAO, G. & KIM, J. - O. (2009)** The Investigation of Chinese Consumer Values, Consumption Values, Life Satisfaction, and Consumption Behaviours. *Psychology and Marketing*, 26(7): pp. 610 - 624.
- XU-PRIOUR, D. & CLIQUET, G. (2013)** In-Store Shopping Experience in China and France - The Impact of Habituation in an Emerging Country. *International Journal of Retail & Distribution Management*, 41(9): pp. 706 - 732.
- YAHAGI, T. (2003)** The Internationalisation Process of Tesco in Asia. *Hosei Journal of Business*, 39(4): pp. 45 - 67.
- YANG, X. (2000)** China's Entry to the WTO. *China Economic Review*, 11: pp. 437 - 442.
- YAO, S., LUO, D. & WANG, J. (2014)** Housing Development and Urbanisation in China. *The World Economy*, 37 (3): pp. 481 - 500.
- YEUNG, G. & MOK, V. (2004)** Does WTO Accession Matter for the Chinese Textile and Clothing Industry? *Cambridge Journal of Economics*, 28(6): pp. 937 - 954.
- YIN, R. K. (2014)** *Case Study Research Design and Methods: Applied Social Research Methods Series*. 5th ed. London, UK: Sage Publications.
- YOUNG - SANG, C. (2011)** The Knowledge Transfer of Tesco UK into Korea, in Terms of Retailer Brand Development and Handling Processes. *Journal of Distribution Science*, 9(2): pp. 13 - 24.

- YOUNG, A. (2000)** The Razor's Edge: Distortions and Incremental Reform in the People's Republic of China. *The Quarterly Journal of Economics*, 115 (4): pp. 1091 - 1135.
- YU, W. & RAMANATHAN, R. (2012)** Effects of Business Environment on International Retail Operations - Case Study Evidence from China. *International Journal of Retail & Distribution Management*, 40(3): pp. 218 - 234.
- ZENTES, J., MORSCHETT, D. & SCHRAMM-KLEIN, H. (2011)** *Strategic Retail Management - Text and International Cases*. 2nd ed. Wiesbaden, Germany: Gabler.
- ZHAI, F., DU, S., WANG, Z. & DU, W. (2014)** Dynamics of the Chinese Diet and the Role of Urbanicity, 1991 - 2011. *Obesity Reviews*, 15(1): pp. 16 - 26.
- ZHANG, X. -. A., GRIGORIOU, N. & LY, L. (2008)** The Myth of China as a Single Market – The Influence of Personal Value Differences on Buying Decisions. *International Journal of Market Research*, 50(3): pp. 377 - 402.
- ZHANG, X. & ZHANG, K. (2003)** How Does Globalisation Affect Regional Inequality within A Developing Country? Evidence from China. *Journal of Development Studies*, 39(4): pp. 47 - 67.
- ZHEN, Y. (2007)** *Globalization and the Chinese Retailing Revolution - Competing in the World's Largest Emerging Market*. Oxford, UK: Chandos Publishing.
- ZHU YI, Z. (2012)** Management Strategies of Carrefour and Ito-Yokado in China: A Comparative Study. *International Journal of Business Anthropology*, 3(1): pp. 134 - 157.

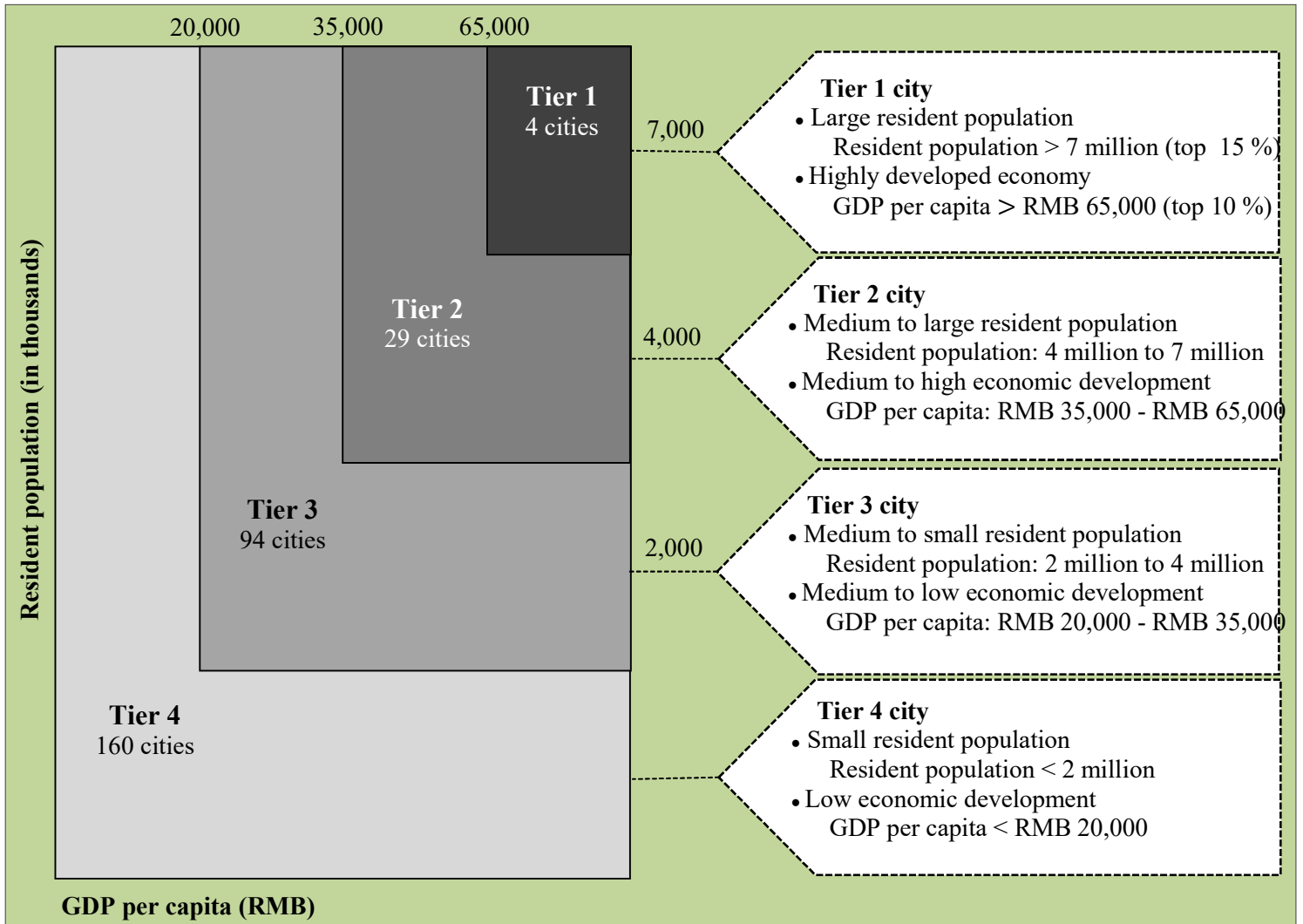
Interviews

- [1] X (2015) *European Retailer - CEO China* [Interview] (13th China 2015).
- [2] X (2015) *European Retailer - National Expansion Director* [Interview] (11th March 2015).
- [3] X (2015) *International Retailer - Vice President* [Interview] (25th March 2015).
- [4] HAN, D. (2015) *Retail Analyst at China Chain Store and Franchise Association* [Interview] (6th March 2015).
- [5] KAMPF, C. (2015) *Retail Expert - Freelance Consulatant* [Interview] (10th March 2015).
- [6] KRAAIJEVELD, H. (2015) *Commercial Director at ParkNShop* [Interview] (30th March 2015).
- [7] QUI, Y. (2015) *Retail Analyst* [Interview] (11th February 2015).
- [8] RAN (2015) *Retail Expert - Director of Strategy Planning - Big Chinese Retailer* [Interview] (6th March 2015).
- [9] SIMON, J. - F. (2015) *Retail Expert - 7Eleven - CEO South China* [Interview] (3rd March 2015).
- [10] STOCKER, T. (2015) *Retail Expert and Consultant* [Interview] (23rd February 2015).
- [11] XIE, S. (2015) *Shanghai City Supermarket - Head of Merchandising* [Interview] (13th March 2015).
- [12] ZHU YI, Z. (2015) *Retail Professor* [Interview] (26th February 2015).

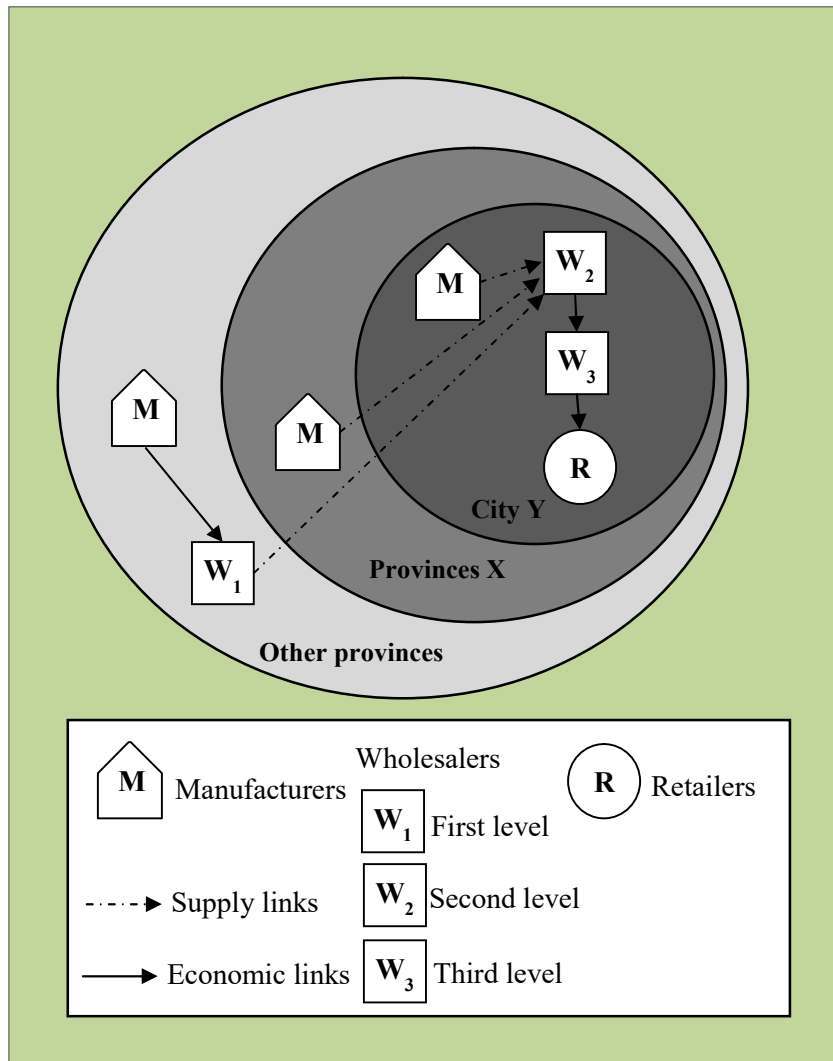
Appendices



Appendix 1 Total Retail Sales of Consumer Goods, 2008 – 2012 (own illustration, adopted from FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 7)



Appendix 2 Classification of Four Tier, based on Resident Population Size and GDP per Capita (own illustration, adopted from PWC, 2013: 164)



Appendix 3 Distribution Channels in the Centrally Planned Economy before 1978 (own illustration after JINGLUN, 2003: 158)

<p>The requirements / or qualified for foreign partners in retail and wholesale JVs:</p> <ul style="list-style-type: none"> - In retail, average sales turnover of at least US\$ 2 billion in the three years prior to the application, and assets valued at US\$ 200 million or more. - In wholesales, average annual turnover of at least US\$ 2.5 billion over three years, and assets valued at US\$ 300 million or more. 	<p>The requirements for the Chinese partners in retail and wholesale JVs:</p> <ul style="list-style-type: none"> - Minimum RMB 50m Yuan in assets (RMB 30 million Yuan in the central and western areas). - Average sales turnover of RMB 300 million Yuan over the last three years (RMB 200 million Yuan inland). - If the local partner is a foreign trade enterprise, it must have a trading volume of at least US\$ 500 million (including export worth US\$ 30 million).
<p>Minimum registered capital:</p> <ul style="list-style-type: none"> - Retail JV: RMB 50 million Yuan (RMB 30 million Yuan in central and western areas). - Wholesale JVs: RMB 80 million Yuan (RMB 60 million in central and western areas). 	<p>Other key points:</p> <ul style="list-style-type: none"> - Fees paid to foreign partners in retail and wholesale JVs for intangibles such as trademarks, trade name licensed and technology transfer cannot exceed 0.3 % of sales turnover each year, and cannot last more than ten years. - Franchising operations of any form not allowed. - Imports may not exceed 30 % of sales turnover.

Appendix 4 Selected Conditions for Retail JVs (own illustration, adopted from ‘OFFICIAL WRITTEN REPLY TO THE PROBLEM OF USING FOREIGN INVESTMENT IN COMMERCIAL RETAIL FIELD’, THE STATE COUNCIL, JULY 1992, CITED IN ZHEN, 2007: 267F)

	2011	2012	2013	2014	2015
Hypermarkets and superstores	36,010,009,595	43,218,938,923	49,780,119,135	56,410,919,126	62,833,971,917
Supermarkets and neighbourhood stores	12,245,941,285	13,510,059,224	14,623,388,275	15,740,297,339	16,881,621,842
Convenience and forecourt stores	2,979,803,003	3,452,255,130	3,866,967,457	4,393,899,244	4,987,835,321
Department and variety stores	2,213,208,101	2,585,145,017	2,961,304,132	3,365,703,120	3,787,055,189
E-commerce	175,822,881	394,812,462	656,638,856	983,824,876	1,311,014,039
Discount stores	462,861,164	542,460,124	615,662,814	677,123,995	725,466,534
Cash and carries and wholesale clubs	187,964,025	245,512,962	333,845,718	416,533,531	505,480,203
Other grocery formats	34,865,439	54,202,264	76,041,148	98,490,625	121,882,862

Appendix 5 Retail Format Sales for Edible Grocery by Channel Type in China in US\$ (own illustration after PLANET RETAIL, 2012, CITED IN AAFC, 2013: 16)

Expert Interviews			
Company Name	Position	Date	Duration
These columns include personal data of interview partners and are therefore not part of the publication.	Retail Analyst	11 th Feb 2015	45 minutes
	Retail Analyst and Consultant	23 rd Feb 2015	40 minutes
	Professor	26 th Feb 2015	35 minutes
	CEO South China	3 rd March 2015	45 minutes
	Director of Strategy Planning	6 th March 2015	45 minutes
	Assistant Dierctor	7 th March 2015	45 minutes
	Head of Business Development	10 th March 2015	90 minutes
	Head of Business Development	11 th March 2015	75 minutes
	Head of Merchandising	13 th March 2015	45 minutes
	CEO China	13 th March 2015	60 minutes
	Vice President China	24 th March 2015	120 minutes
	Commercial Director	30 th March 2015	40 minutes

Appendix 6 Overview of Experts Interviewed (own illustration)

Interview Guidelines

Chinese Market:

- : As how many markets do you treat China?
- : What do you think are the characteristics of the Chinese food-market?
- : Which role played / plays the involvement of transnational companies?

Competition:

- : What are the main factors for competition? (price, quality, format, brand, label).
- : What would you consider the biggest challenge international companies have to deal with in the Chinese market? Please think about the legal framework, consumer habits and the economic situation.

- : How do you estimate the role of open-air markets / wet markets food sector in China?
- : What would you consider the biggest differences / similarities in regard to local / foreign competitors?

Store Format:

- : (For foreign retailers) In which aspects did you / are you adopt(ing) your store format to the Chinese market?
- : (For local retailers) How do estimate the role of hypermarkets / convenience stores / discount stores in China?
- : (For both) How do you describe your geographical strategy?

Consumer & Society:

- : What do you think is particular about the “Chinese consumer”?
- : How does Chinese society change (e.g. consumer habits) through the restructuring of the Chinese market (e.g. new formats, brands, standards...)?
- : How important is online-shopping for Chinese consumers?

Case 1- Shanghai:

- : What role does the Shanghai market currently / in the future play for your organization?
- : What are the characteristics of the Shanghai market? Which store formats are successful?

Case 2 – Urumqi:

- : What role does the Urumqi market currently / in the future play?
- : What are the characteristics of the Urumqi market?

Case 3 – Hohhot:

- : What role does the Hohhot market currently / in the future play?
- : What are the characteristics of the Hohhot market?

Case 4 – Chongqing:

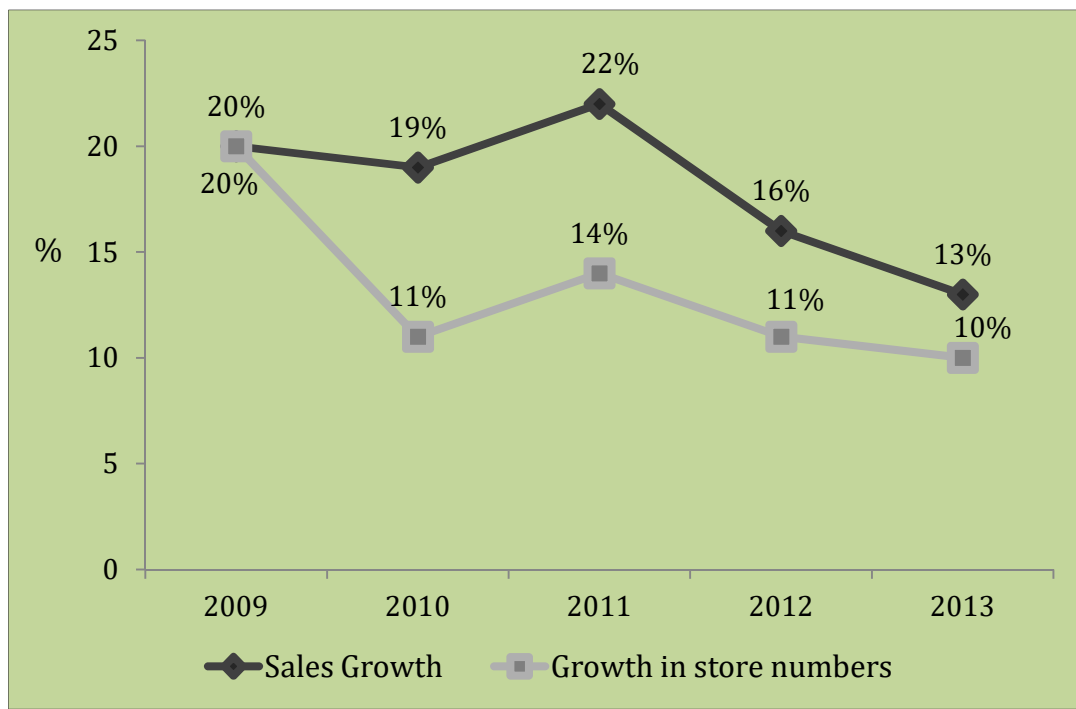
- : What role does the Chongqing market currently / in the future play?
- : What are the characteristics of the Chongqing market?

Hypermarkets and Superstores						
Company	Banner	2011	2012	%	2013	%
<i>A.Best</i>	A.Best	1.597.964.979	1.727.383.808	8%	1.833.847.055	6%
<i>AEON</i>	Jusco	315.795.736	402.807.527	28%	498.052.480	24%
<i>AS Watson</i>	ParkNShop	288.281.750	299.254.319	4%	310.337.812	4%
<i>Auchan</i>	Auchan	848.894.462	981.856.709	16%	1.117.766.348	14%
	RT Mart	4.612.494.765	5.956.169.403	29%	7.276.860.265	22%
<i>Beijing Hualian</i>	Hualian	948.831.527	999.470.627	5%	1.035.021.418	4%
<i>Better Life</i>	hyper-mart	678.043.082	825.950.259	22%	942.763.224	14%
<i>Carrefour</i>	Carrefour	3.382.420.396	3.893.773.935	15%	4.427.113.792	14%
<i>Chia Tai</i>	Lotus	1.208.477.938	1.319.987.678	9%	1.385.413.154	5%
<i>China Resource Enterprise</i>	China Resources	847.358.603	985.015.487	16%	1.115.303.021	13%
	Suguo	644.521.567	701.299.550	9%	749.596.598	7%
	Suguo	113.765.290	139.406.747	23%	164.071.018	18%
	Suguo Promotion	3.461.824.492	4.515.305.379	30%	5.302.991.147	17%
	Vanguard	3.461.824.492	4.515.305.379	30%	5.302.991.147	17%
<i>Hefei Baida</i>	JOYMART	126.998.091	145.541.299	15%	162.590.423	12%
<i>Jiajiayue</i>	Jiajiayue	339.600.070	376.238.188	11%	403.443.103	7%
<i>Jingkelong</i>	Jingkelong	123.868.989	145.640.657	18%	183.077.366	26%
<i>Lianhua</i>	Centurymart	1.610.660.944	1.794.587.898	11%	1.992.162.407	11%
<i>Lotte Shopping</i>	Lotte Markt	596.721.864	731.216.494	23%	857.289.061	17%
<i>Mega Mart</i>	Mega Mart	193.643.363	195.615.357	1%	182.289.061	-7%
<i>President Chain Store</i>	Unimart	31.939.452	29.148.719	-9%	29.440.204	1%
<i>Renrenle</i>	Renrenle	1.323.043.836	1.536.187.174	16%	1.644.289.233	7%
<i>Sanjiang</i>	Sanjiang	295.891.190	317.200.029	7%	334.152.031	5%
<i>Seven and I</i>	Ito-Yokado	425.142.284	508.990.024	20%	597.255.066	17%
	Wangfujing Yokado	18.440.652	25.020.930	36%	49.144.051	96%
<i>Shanghai NGS</i>	NGS Mart	1.133.753.033	1.209.139.104	7%	1.267.580.843	5%
<i>Shinsegae</i>	E-mart	303.966.610	259.075.180	-15%	316.141.740	22%
<i>SPAR (China)</i>	SPAR	484.974.958	609.103.730	26%	752.635.168	24%
<i>Tesco</i>	Hymall	1.331.380.533	1.613.787.943	21%	1.874.371.923	16%
<i>Uny</i>	Uny		30.990.613		92.971.862	200%
<i>Walmart</i>	Trust-Mart	474.529.003	482.376.288	2%	482.376.288	0%
	Walmart Supercenter	3.285.200.793	3.859.010.300	17%	4.444.086.058	15%
<i>Wuhan Zhongbai Wumart</i>	Zhongbai	1.515.245.414	1.762.707.754	16%	1.993.392.550	13%
	Chaoshifa	19.030.181	26.309.041	38%	33.544.027	27%
	MerryMart	403.338.205	442.105.993	10%	475.323.686	8%
	Wumart	1.045.804.907	1.262.693.892	21%	1.463.146.548	16%
<i>Yonghui</i>	Bravo	17.916.460	72.850.978	307%	109.276.467	50%
	Yonghui	1.960.244.175	3.035.719.911	55%	3.880.904.515	28%

Appendix 8 Overview of Hypermarkets and Superstores in China (own extended illustration, adopted from AAFC, 2013: 27)

Supermarkets						
Company	Banner	2011	2012	%	2013	%
<i>AS Watson</i>	TASTE	11.865.415	20.188.063	70%	28.828.554	43%
<i>Beijing Hualian</i>	BHG Market Place	15.834.463	21.109.171	33%	26.316.100	25%
<i>Better Life</i>	Better Life	50.856.446	55.435.583	9%	59.302.553	7%
	Super-mart	5.629.183	8.171.406	45%	11.906.906	46%
<i>Chia Tai</i>	Lotus		15.047.721		37.619.303	150%
<i>China Resources Enterprise</i>	Blt	11.102.120	17.790.507	60%	24.550.884	38%
	Fresh Market	50.037.184	67.014.175	34%	81.584.353	22%
	Olé	91.802.063	120.569.701	31%	148.871.844	23%
	SG	8.635.040	13.793.744	60%	19.697.467	43%
	Suguo	663.113.535	699.470.328	5%	741.748.658	6%
	Vanguard	1.161.626.177	1.293.671.425	11%	1.410.547.940	9%
<i>Chongqing Shangshe</i>	Chongbai Supermarket	418.435.226	458.654.098	10%	493.115.136	8%
	New Century Supermarket	407.273.151	443.944.205	9%	474.912.020	7%
<i>Dalian Dashang</i>	Dashang	581.450.533	649.263.244	12%	697.726.107	7%
	Tiankelong	84.291.336	87.398.967	4%	89.146.946	2%
<i>Hefei Baida Group</i>	JOYMART	190.749.956	223.031.302	17%	253.245.731	14%
<i>Jiajiayue</i>	Jiajiayue	620.809.672	694.183.599	12%	759.563.073	9%
<i>Jingkelong</i>	Jingkelong	375.325.359	409.119.817	9%	437.658.419	7%
<i>Lianhua</i>	Hualian	1.143.638.448	1.082.688.607	-5%	1.025.460.784	-5%
	Lianhua	2.917.699.554	3.213.055.225	10%	3.442.700.986	7%
<i>President Chain Store</i>	Unimart	233.330.600	269.122.813	15%	312.058.728	16%
<i>Renrenle</i>	Renrenle	20.492.927	21.248.450	4%	21.673.473	2%
<i>Sanjiang</i>	Sanjiang	293.474.219	313.169.189	7%	332.365.066	6%
<i>Shanghai NGS</i>	NGS	1.163.328.726	1.342.771.011	15%	1.508.910.467	12%
<i>Walmart</i>	Walmart Neighbourhood Market	16.022.403	16.913.803	6%	17.540.240	4%
<i>Wuhan Zhongbai</i>	Zhongbai	365.765.989	436.255.960	19%	499.363.848	14%
<i>Wumart</i>	Chaoshifa	443.015.617	528.829.901	19%	600.434.241	14%
	Gongxiao	360.444.353	391.116.056	9%	416.668.972	7%
	Laodafang	16.026.277	16.895.151	5%	17.669.333	5%
	Wumart	218.331.450	226.380.836	4%	230.908.453	2%
	Xinbai Supermarket	34.927.764	39.664.564	14%	43.975.929	11%
<i>Yonghui</i>	Yonghui	270.606.098	314.090.604	16%	357.315.762	14%

Appendix 9 Overview of Supermarkets and Neighbourhood Stores in China (own extended illustration, adopted from AAFC, 2013: 28)



Appendix 10 Sales Growth and Store Number Growth for Hypermarkets and Supermarkets in China, 2009 – 2013 (own illustration, adopted from FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 27)

Convenience and forecourt stores						
Company	Banner	2011	2012	%	2013	%
<i>AEON</i>	Ministop	31.311.353	62.299.737	99%	82.955.561	33%
<i>BP</i>	BP Shop	106.182.449	124.695.678	17%	133.393.962	7%
<i>Buddies</i>	Buddies	220.339.349	232.302.488	5%	240.865.042	4%
<i>Chevron</i>	Caltex	2.899.149	3.111.509	7%	3.281.324	5%
<i>Chia Tai</i>	Lotus Life Station	136.481	20.810.628	15148%	48.558.131	133%
<i>CRE</i>	Howdy	22.003.594	27.230.590	24%	32.279.288	19%
	Suguo	69.521.090	77.891.989	12%	85.025.157	9%
	Vango	57.015.369	92.733.172	63%	115.916.465	25%
<i>Convenience Retail Asia</i>	Circle K	13.363.381	14.580.976	9%	16.249.292	11%
<i>Diary Farm</i>	7-Eleven	408.650.000	412.643.402	1%	412.548.447	0%
<i>ExxonMobil</i>	On the Run	23.457.048	29.029.312	24%	34.411.504	19%
<i>FamilyMart</i>	FamilyMart	239.459.759	350.316.351	46%	446.733.369	28%
<i>Jingkelong</i>	Jingkelong	82.919.178	98.416.514	19%	112.791.945	15%
<i>LAWSON</i>	Lawson	112.633.952	133.247.229	18%	152.841.374	15%
<i>Lianhua</i>	Lianhua Quik	421.735.560	446.509.395	6%	476.030.675	7%
<i>Liqun</i>	Liqun Convenience	227.551.191	239.124.479	5%	247.067.809	3%
<i>President Chain Store</i>	7-Eleven	57.534.428	102.350.280	78%	150.454.914	47%
<i>Seven and I</i>	7-Eleven	70.477.740	103.705.999	47%	136.651.276	32%
<i>Shanghai</i>	Alldays	265.387.110	279.539.130	5%	289.585.062	4%
<i>NGS</i>	Kedi	273.774.170	288.521.171	5%	299.038.233	4%
<i>Shell</i>	Select	12.142.288	13.039.588	7%	13.732.806	5%
<i>Tesco</i>	Tesco Legou Express	19.734.453	23.623.294	20%	27.531.482	17%
<i>Wuhan Zhongbai Group</i>	Haobang CVS	3.863.533	6.732.920	74%	10.037.229	49%
<i>Wumart</i>	Wumart	150.147.638	163.791.744	9%	175.338.251	7%
<i>Yonghui</i>	Xuanhui	9.984.125	10.943.778	10%	11.765.999	8%

Appendix 11

Overview Convenience Stores and Forecourt Stores in China (own illustration, adopted from AAFC, 2013: 25)

Discount Stores						
Company	Banner	2011		%		%
<i>Carrefour</i>	Dia	110.465.729	not available		not available	
<i>Dia</i>	Dia	113.793.056	248.495.846	118%	266.733.335	7%
<i>Shanghai NGS</i>	5 Yuan	236.630.392	293.463.128	24%	348.403.272	19%
<i>Walmart</i>	Smart Choice	1.971.988	501.150	-75%	526.207	5%

Appendix 12 Overview of Discount Stores in China (own illustration, adopted from AAFC, 2013: 26)

Cash and Carry Stores / Wholesale Clubs						
Company	Banner	2011	2012	%	2013	%
<i>Shanghai NGS</i>	NGS	3.252.820	26.452.893	713%	39.679.340	50%
<i>Walmart</i>	Sam's Club	184.711.205	219.060.069	19%	294.166.378	34%

Appendix 13 Overview of Cash and Carry Stores in the PRC (own illustration, adopted from AAFC, 2013: 25)

E-Commerce						
Company	Banner	2011	2012	%	2013	%
<i>Dalian Dashang</i>	66buy	412.287	558.919	36%	698.579	25%
<i>Lianhua</i>	Lhmart	962.169	1.164.414	21%	1.342.958	15%
<i>Walmart</i>	Yihaodian	173.602.504	392.163.039	126%	653.605.065	67%
<i>Wuhan Zhongbai Group</i>	zon 100	845.922	926.089	9%	992.254	7%

Appendix 14 Overview of E-Commerce within the Grocery Retailing Industry in China (own illustration, adopted from AAFC, 2013: 26)

<i>China</i>	Carrefour	Metro	Tesco	RT-Mart	Jusco	Walmart	Sam Club	
<i>North</i>								
Beijing	18	3	4	1	2	7	2	
Tianjin	5	1	6	2	1	2	0	
Qingdao	3	1	1	2	3	2	0	
Zhengzhou	3	1	0	1	0	3	0	
Xian	0	1	0	1	0	6	0	
	Carrefour	Metro	Tesco	RT-Mart	Isetan	Walmart	Sam Club	Trustmart
<i>Northeast</i>								
Shenyang	9	1	6	2	1	4	0	0
Dalian	3	1	3	0	0	4	1	3
Changchun	2	0	0	1	0	4	0	0
Harbin	5	1	0	3	0	3	0	3
	Carrefour	Metro	Tesco	RT-Mart	Auchan	Walmart	Lotus	
<i>East</i>								
Shanghai	22	5	21	14	6	12	24	
Zhejiang	8	5	15	19	9	17	1	
Jiangsu	25	12	16	46	20	22	6	
Anhui	8	1	3	10	3	15	1	
Jiangxi	1	1	0	3	0	9	0	
Hubei	8	0	0	2	0	15	3	
	Carrefour	Metro	Tesco	RT-Mart	Jusco	Walmart	Sam Club	Trustmart
<i>South</i>								
Guangdong	20	8	9	22	19	38	2	28
Fujian	5	2	3	6	0	13	1	12
Hunan	4	1	0	4	0	9	0	1
Guangxi	0	0	0	2	0	4	0	0
Hainan	3	0	0	2	0	0	0	0
	Carrefour	Metro	Isetan	Yokado	Auchan	Walmart		
<i>Southwest</i>								
Chengdu	7	1	1	5	5	3		
Chongqing	6	1	0	0	0	10		
Kunming	5	1	0	0	0	6		

Appendix 15 Selected Overview of Grocery Retailers' Store Location (own illustration, adopted from GAIN, 2012: 52)

Region	Province	Foreign		Overseas Chinese		Total overseas		
		No.	(%)	No.	(%)	No.	(%)	
<i>Eastern</i>	Beijing	563	33,2	64	5,9	627	22,5	
	Fujian	81	4,8	107	9,8	188	6,8	
	Guangdong	162	9,5	318	29,2	480	17,2	
	Guangxi	23	1,4	7	0,6	30	1,1	
	Hainan	10	0,6	31	2,8	41	1,5	
	Hebei	2	0,1	28	2,6	30	1,1	
	Jiangsu	27	1,6	35	3,2	62	2,2	
	Liaoning	33	1,9	16	1,5	49	1,8	
	Shandong	18	1,1	40	3,7	58	2,1	
	Shanghai	629	37,1	289	26,6	918	32,9	
	Tianjin	7	0,4	6	0,6	13	0,5	
	Zhejiang	19	1,1	4	0,4	23	0,8	
		<i>Sub total</i>	1,574	92,8	945	86,9	2,519	90,4
<i>Central</i>	Anhui	28	1,6	11	1	39	1,4	
	Heilongjiang	7	0,4	8	0,7	15	0,5	
	Henan	1	0,1	28	2,6	29	1	
	Hubei	12	0,7	11	1	23	0,8	
	Hunan	8	0,5	5	0,5	13	0,5	
	Inner Mongolia	5	0,3	9	0,8	14	0,5	
	Jiangxi	5	0,3	10	0,9	15	0,5	
	Jilin	11	0,6	19	1,7	30	1,1	
	Shanxi	15	0,9	4	0,4	19	0,7	
		<i>Sub total</i>	92	5,4	105	9,6	197	7,1
	<i>Western</i>	Gansu	0	0	1	0,1	1	< 0,1
Guizhou		0	0	2	0,2	2	< 0,1	
Ningxia		0	0	0	0	0	0	
Qinghai		0	0	0	0	0	0	
Shaanxi		0	0	0	0	0	0	
Sichuan		14	0,8	26	2,4	40	1,4	
Tibet		0	0	0	0	0	0	
Xinjiang		13	0,8	4	0,4	17	0,6	
Yunnan		4	0,2	5	0,5	9	0,3	
		<i>Sub total</i>	31	1,8	38	3,5	69	2,5
<i>Total</i>		1,697	100	1,088	100	2,785	100	

Appendix 16 Geographical Distribution of Overseas-Invested Retail Enterprises, 1996 (own illustration after WANG, 2003: 122)

Food Category	2006 – 2011 CAGR	2006 - 2011 Total	2010 - 2011	2011 - 2016 CAGR
Baby Food	26.34	221.86	21.66	15.49
Bakery	10.15	62.17	14.13	7.11
Canned / preserved food	10.83	67.19	11.21	6.65
Chilled processed food	13.34	87.05	14.4	12.41
Confectionery	7.49	43.52	9.37	3.83
Dairy	10.41	64.04	11.58	8.37
Dried processed food	12.6	81.03	15.69	6.11
Frozen processed food	10.05	61.43	12.57	9.93
Ice Cream	6.22	35.19	8.00	6.08
Meal replacement	37.29	387.8	19.12	9.38
Noodles	10.97	68.3	13.56	3.31
Oils and fats	14.75	98.93	12.26	7.12
Pasta	7.01	40.34	9.91	6.45
Ready-meals	9.81	59.65	10.2	5.62
Sauces, dressings & condiments	8.32	49.15	9.60	4.41
Snack bars	/	/	21.27	10.53
Soup	11.78	74.52	13.27	10.44
Spreads	8.23	48.47	10.09	4.16
Sweet and savoury snacks	8.20	48.30	12.10	6.59
Impulse and indulgence products	8.50	50.35	11.69	6.00
Nutrition / staples	13.33	86.96	14.15	8.83
Meal solutions	10.85	67.38	12.22	9.07
Total packaged food	11.22	70.15	12.97	8.08

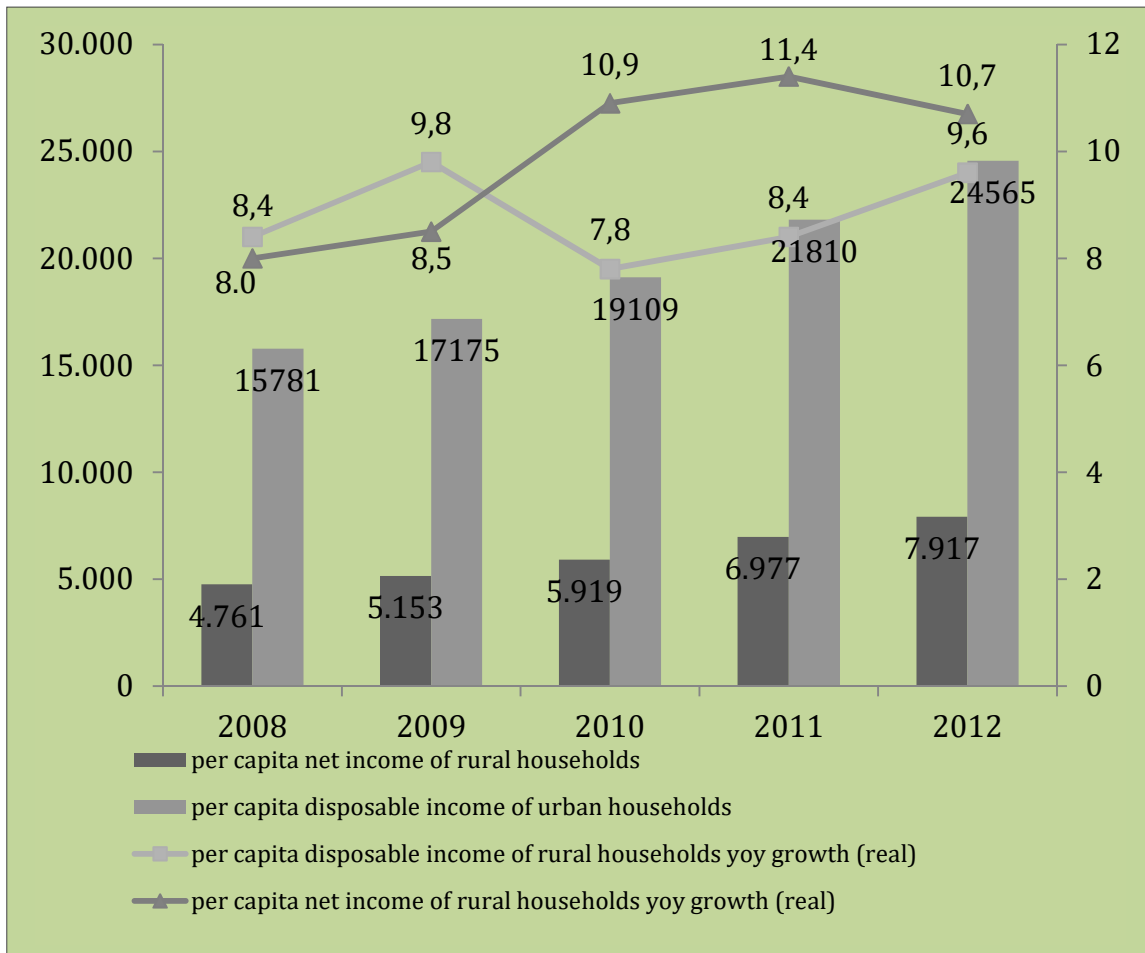
Appendix 17 Packaged Food Sales in China by Category – Historic and Forecast Period Value Growth (%) (own illustration after AAFC, 2013: 16)

Country	Start-up procedure to register a business (number)	Time required to build a warehouse (days)	Time required to enforce a contract (days)	Time required to register property (days)	Time required to start a business (days)
<i>Emerging market</i>					
Argentina	14	338	590	65	31
Brazil	18	411	616	45	152
China	13	336	406	29	35
Czech Republic	10	180	820	123	17
India	13	224	1420	62	33
Indonesia	12	196	570	42	105
Israel	5	235	890	144	34
Rep. Of Korea	10	34	230	11	17
Nigeria	9	350	457	82	34
Pakistan	11	223	880	50	24
Russia	8	704	281	52	29
Turkey	6	188	420	6	6
<i>Developed markets</i>					
Australia	2	221	262	5	2
Canada	2	75	570	17	3
Germany	9	100	394	40	18
Japan	8	177	316	14	23
Norway	6	252	310	3	10
United Kingdom	6	144	404	21	13
United States	6	40	300	12	6

Appendix 18 Comparing Transactions Costs in Emerging and Developed Countries (own illustration, adopted from KHANNA AND PALEPU, 2010: 18)

City	Minimum wage after increase (¥/ month)	Minimum wage before increase (¥/ month)	yoy change (%)	Effective Date
Shanghai	1,620	1,450	11,7	01 Apr 13
Shenzhen	1,600	1,500	6,7	01 Mar 13
Guangdong	1,550	1,300	19,2	01 Mar 13
Tianjin	1,500	1,310	14,5	01 Apr 13
Zhejiang	1,470	1,310	12,2	01 Jan 13
Beijing	1,400	1,260	11,1	01 Jan 13
Shanxi	1,290	1,125	14,7	01 Apr 13
Henan	1,240	1,080	14,8	01 Jan 13
Jiangxi	1,230	870	41,4	01 Apr 13
Guangxi	1,200	1,000	20,0	07 Feb 13
Gansu	1,200	980	22,4	01 Apr 13
Shaanxi	1,150	1,000	15,0	01 Jan 13
Guizhou	1,030	930	10,8	01 Jan 13

Appendix 19 Minimum Wage Levels in 13 Cities and Provinces that Raised Minimum Wage in 2013 (own illustration adopted from CHINA BRIEFING, cited in FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 49)



Appendix 20 Urban and Rural Incomes, 2008 – 2012 (own illustration, adopted from NATIONAL BUREAU OF STATISTICS, cited in FUNG BUSINESS INTELLIGENCE CENTRE, 2013: 7)

