Brand Health Check:
Josef Blumenfeld explains how Wal-Mart’s China strategy is laying the foundation for nationwide growth in several industries

Distribution critical to Wal-Mart China strategy

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Wal-Mart's expected acquisition of Chinese grocery chain Trust-Mart will give the US giant unprecedented scale, catapulting it ahead of Carrefour to become the largest foreign retailer in the mainland. In China, meanwhile, Wal-Mart is attempting to become a national retail chain in a country with no cohesive national distribution system. According to Tradewind Strategies founder Josef Blumenfeld, by establishing a nationwide retail footprint, Wal-Mart will lay the groundwork for future economic growth across China. Grey Worldwide Shanghai general manager Alan Lo said Chinese consumers spend less on shopping per visit than Americans, but they shop more frequently.

FULL TEXT:

BRAND HEALTH CHECK

The world's largest retailer finds itself at something of a crossroads in the world's most populous nation. Wal-Mart's expected acquisition of Chinese grocery chain Trust-Mart will give the US giant unprecedented scale, catapulting it ahead of Carrefour to become the largest foreign retailer in the mainland.

But several questions marks remain over Wal-Mart's international strategy. At present, over a fifth of its US$316 billion in total sales are generated outside the US; Wal-Mart would like that proportion to be closer to a third.

But progress has hardly been smooth. Its UK subsidiary continues to underperform, while high-profile pullouts have occurred in Korea and Germany.

In China, meanwhile, Wal-Mart is attempting to become a national retail chain in a country with no cohesive national distribution system. Clearly, the rewards are huge, with the mainland retail market estimated to be worth US$750 billion by 2008. And distribution is just one worry. Already the company has given in to unionisation demands

from the state-run All-China Federation ofTrade Unions, a notable climbdown from its anti union US stance.

It has also made key strides in honing its offering for the unique characteristics of the Chinese marketplace, where consumers do not want to buy a carboot-load of supplies at each visit.

But Wal-Mart is one of the most financially successful companies the world has known, so few doubt the seriousness of its Middle Kingdom aspirations. A number of foreign players, in addition to the already-ensconced Carrefour, are eyeing the China market, and competition is expected to intensify. Tesco recently announced plans to launch its first branded store in Beijing,as the first step to branding all of its 42 jointly-owned Chinese hypermarkets.

With retail sales growing at a 13 per cent clip per year, there may be a big enough pie to satisfy several international companies. Given Wal-Mart's appetite for domination, of course, a slice will not be sufficient - unless it is the biggest slice of them all.

Diagnosis 1

The global market-place is littered with companies, competitors, and consultants that underestimated Wal-Mart. While it recently suffered punishing rejections in Korea and Germany, there are few other US companies better suited to mine the consumer marketsof China.

Wal-Mart will succeed in China because it has no alternative - Wall Street expects the world's largest retailer to be a leader in the world's largest market. While it remains to be seen what the company will do with the well-known Trust-Mart brand, one thing is clear: Wal-Mart will export its acclaimed distribution innovation from the US.

By establishing a nationwide retail footprint, Wal-Mart will lay the groundwork for future economic growth across China.

Given the lack of a centralised distribution system in China, Wal-Mart's entry into the market will bring important infrastructure advances nationwide. By putting down roads, building distribution centers, developing local tools, and training staff, Wal-Mart is giving China long range economic assets that stand in stark contrast to the low-price-export machine that is the cornerstone of its current relationship with the Middle Kingdom.

Josef Blumenfeld, founder, Tradewind Strategies

Diagnosis 2

With Trust-Mart operating at the lower end of the supermarket retail market, one major challenge for Wal-Mart will be to determine where it will position, which also raises

important questions as to how Wal-Mart will integrate Trust-Mart as an operation and manage the brand portfolio.

China is a fragmented market that has been dominated by small community shops and small regional chains for decades; big chain retailers are a new phenomenon.

While the Wal-Mart model has been developed and optimised over the years based upon the behaviours and preferences of American consumers, Chinese shopping patterns are very different.

Chinese consumers spend less on shopping per visit than Americans, but they shop more frequently.

In addition, consumers remain loyal to specialised retailers for purchases that require more product expertise and post-sales service, going to hypermarkets for everyday items.

"Wal-Mart must listen to the consumers and adjust their strategies accordingly. It will be interesting to see if the American success formula of rock-bottom prices, tight control of inventory and a wide selection of products can be translated into this important market.

Alan Lo, general manager, Grey Worldwide Shanghai

Wal-Mart...has already given in to unionisation demands in China

FACT BOX

* Wal-Mart's China sales are estimated US$1.25 billion, compared to global revenues of US$316 billion.

* Wal-Mart currently has 66 stores in China, while its target Trust-Mart has over 100.

* McKinsey estimates that China's retail sales could be worth US$750 billion by 2008.