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Foreign supermarkets change tactics in tough China market
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Costco's impressive debut contrasts with contentious exits by international chains

The crowds of shoppers cramming into US retailer Costco's first store in China this week, forcing it to close early on its opening day, were in stark contrast to a stampede of foreign supermarket owners out of the country.

In June, French chain Carrefour agreed to sell a majority stake in its China stores to local company Suning for $700m, following in the footsteps of Britain's Tesco and Spain's Dia. German wholesaler Metro is selling its China business.

The largest remaining wholly foreign supermarket chain in China is US-owned Walmart, which after more than two decades has more than 430 stores in the country, but just a 1.7 per cent share of the $692bn Chinese grocery market, according to data provider Euromonitor.

Many problems have frustrated foreign operators in China, ranging from a failure to localise and adapt to ecommerce, to soaring rental costs and disputes with local partners. But one common weakness has been a lack of unique products.

Now Walmart, Costco and Germany's Aldi — which opened its first China stores in June — plan to change that, by focusing on "private label" products, often imported from their home markets and by partnering with tech companies on ecommerce.

For Walmart, growth has been elusive, with sales rising just 0.3 per cent last year from 2017 to Rmb81bn ($11.3bn), according to Fung Business Intelligence. But it remains committed to the market and opened 33 stores in China last year, and in July vowed to spend $1.2bn over the next decade on store upgrades, logistics and new openings.

"Every business has different reasons to leave and we continue to see other foreign retailers coming in," said Daniel Shih, the company's chief corporate affairs officer in China.

Shopping habits differ from those of the US and Europe, meaning that supermarkets need to adapt. Chinese consumers are more likely to walk to stores to buy fresh food several times a week, rather than driving for a weekly shopping trip.

Walmart: delivering the goods
Local chains specialising in fresh produce have gained market share, most notably those run by Yonghui Superstores, a domestic group that has seen revenues increase from Rmb30bn to Rmb70bn in the five years to 2018.

Foreign supermarkets have stocked favoured local products, from durians to duck necks, but sometimes struggled to match the lively atmosphere of Chinese rivals, which offer loose vegetables and live fish in tanks.

"Foreign retailers made things a bit too hygienic and clinical. That was a mismatch," said Jack Chuang of consultancy OC&C.

Tesco happily localised, stirring controversy in the UK by selling live turtles, but behind the scenes it struggled to adapt to local practices.

British and Chinese management often clashed over small issues, such as in-store promotions and displays, said a former executive at the company. “There was a governance issue at Tesco. And, overall, the Brits didn’t trust the Chinese,” he added.

Tesco sold 80 per cent of its Chinese business to state-owned retailer China Resources in 2013.

Carrefour rolled out dozens of small stores. But as it did not buy the land for many of its outlets, it was left liable for soaring rents over the past decade, people familiar with the matter said.

Metro is profitable in China but is selling its operations there because of financial strains at home in Germany, according to people briefed on the situation.

Foreign clothing retailers, from Uniqlo to Nike, have gained a bigger market share than Chinese rivals because of their unique brands. But foreign supermarkets have often stocked the same noodle and sauce brands as their local rivals.

New market entrants are attempting to change that. At Aldi’s Shanghai stores, the most popular items include its branded wine and beer imported from Europe. Costco’s Kirkland private label products were seized on by Chinese shoppers this week.

Walmart is taking a similar approach at its Sam’s Club stores, now the focus of its expansion in China — it aims to have 40 by next year, up from 26 now. “Sam’s Club develops private brand items which are hard to find and we source them from overseas markets,” Mr Shih said.

He added that an average Sam’s Club stocks only about 4,000 items, compared with 25,000 in its hypermarkets. Aldi has a similar focus on fewer product lines, while Costco sells fewer than 5,000 different items, allowing lower costs and higher margins.

The rapid growth of ecommerce, led by companies such as Alibaba and JD.com, has reduced the attraction of physical stores. “There are a lot of headwinds now due to ecommerce, which is pushing grocery more online,” said Wai-chan Chan of consultancy Oliver Wyman.

Foreign companies are instead turning to local ecommerce groups to reach consumers. France’s Auchan, the second-largest foreign chain in China, sold a 36 per cent stake in a joint venture with Taiwan’s Sun Art, which operates more than 400 stores, to Alibaba in 2017 for $2.9bn.

Walmart abandoned its own online platform in China to co-operate with JD.com, the country’s second-largest ecommerce company, in which the US group has acquired a 12 per cent stake. In some cities it aims to deliver within 20 minutes.

“We are big, like an elephant,” said Mr Shih, “but we decided to make a change.”

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Costco is among international chains that hope to focus on 'private label' products, often imported from their home markets, and partnerships with tech companies on ecommerce © Reuters

Tom Hancock in Shanghai AUGUST 30, 2019

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