

David F. Miller Center For Retailing Education and Research  
International Retailing Education and Training (IRET )

# Retail Marketing Management





# Objectives

- ▶ Understand the important role of international marketing and brand management in Multinational Retail Enterprises (MNREs)
- ▶ Understand the differences in macro-market environment such as culture, politics, and economy between U.S. market and the transitional economy of China and its implications for marketing strategy development of MNREs
- ▶ Understand the specific challenges and opportunities for MNREs in marketing in China
- ▶ Analyze strategic perspectives and key issues in building a sustainable competitive advantage in China for MNREs
- ▶ Develop problem-solving and analytical skills regarding developing retail strategies in China by analyzing examples and cases



# Outline

- ▶ Merchandising Management
- ▶ Pricing Management
- ▶ Retail Communication
- ▶ Store Atmospherics and Visual Merchandising
- ▶ Customer Service



# Retail Marketing Management

## ***1. Merchandising Management***





# Objectives

- ▶ Understand the role of merchandising management in international retailers' success
- ▶ Identify merchandising management strategies used by international retailers in China
- ▶ Discuss how to build up competitive advantages for MNREs through merchandising management



# Fundamentals in Merchandise Management

- ▶ Merchandising Management
  - Planning, developing, and presenting product lines for identified target market with regard to pricing, assortments, styling, and timing while meeting the company's financial goals
    - The right mix or assortment
    - The right quality
    - The right quantity
    - The right price
    - The right time
    - The right place



Stock



# Merchandise Assortment in China

- ▶ Using merchandise assortment to differentiate from competitors in China
  - Best Buy China has the exclusive right to sell Apple products
  - Lawson (convenience store) carries specific products imported from Japan.
  - Wal-mart “if you can not find it in Walmart, you may not need it at all.”
  - Chaoshifa convenience stores carry fresh vegetables, fruit, and sea food.





# Merchandise Assortment in China (Cont.)

- ▶ Using merchandise assortment to adapt to local market
  - Merchandise assortment in Carrefour
  - Bakery section
    - Carrefour's way at the beginning: croissants, baguettes, Taiwanese bread, cheesecake, etc.
    - Later, the best suppliers of Chinese baked goods were invited to set up stands on consignment.
    - Now the sales of Chinese desserts is roughly the same as the western bakery.







# Merchandise Assortment in China (Cont.)

- Shanghai Hongqiao store has a higher percentage of foreign products than other stores.
  - 40% customers are foreigners.





# Merchandise Assortment in China (Cont.)

## ► Traditional Chinese food in Wal-Mart





# Category Management

- ▶ The process of managing a retail business with the objective of maximizing the sales and profits of a category.
- ▶ 20/80 principle
  - 80% sales come from 20% products.





# Category Management in Ito Yokato

- ▶ Ito Yokado's category management
  - Entered China at 1996
  - It is famous for category management.
    - By using sophisticated computer software, it incorporated different factors including season, week, weather, time, holidays, etc. into its category management.
    - It tested its result and maximized its predictive utility on consumers' needs.
    - It uses the software to predict sales, modify product assortment, place orders, and plan store layout and merchandise assortment etc.
    - It accurately manages merchandise at the SKU level





# Category Management in Ito Yokato (Cont.)

## ■ Advantages

- Evaluates different brands and products and provides the best product assortment.
- Better usage of shelves and capital.
- Decrease the chance of becoming out of stock
- Increase the sales and profits of categories
- Better capture market changes and quicker responses to consumers' needs





# Category Management Survey<sup>1</sup>

## ▶ Subjects

- 40 retailers in 18 provinces and cities
- 6/2007

## ▶ 32 out of 40 retailers conducted category management

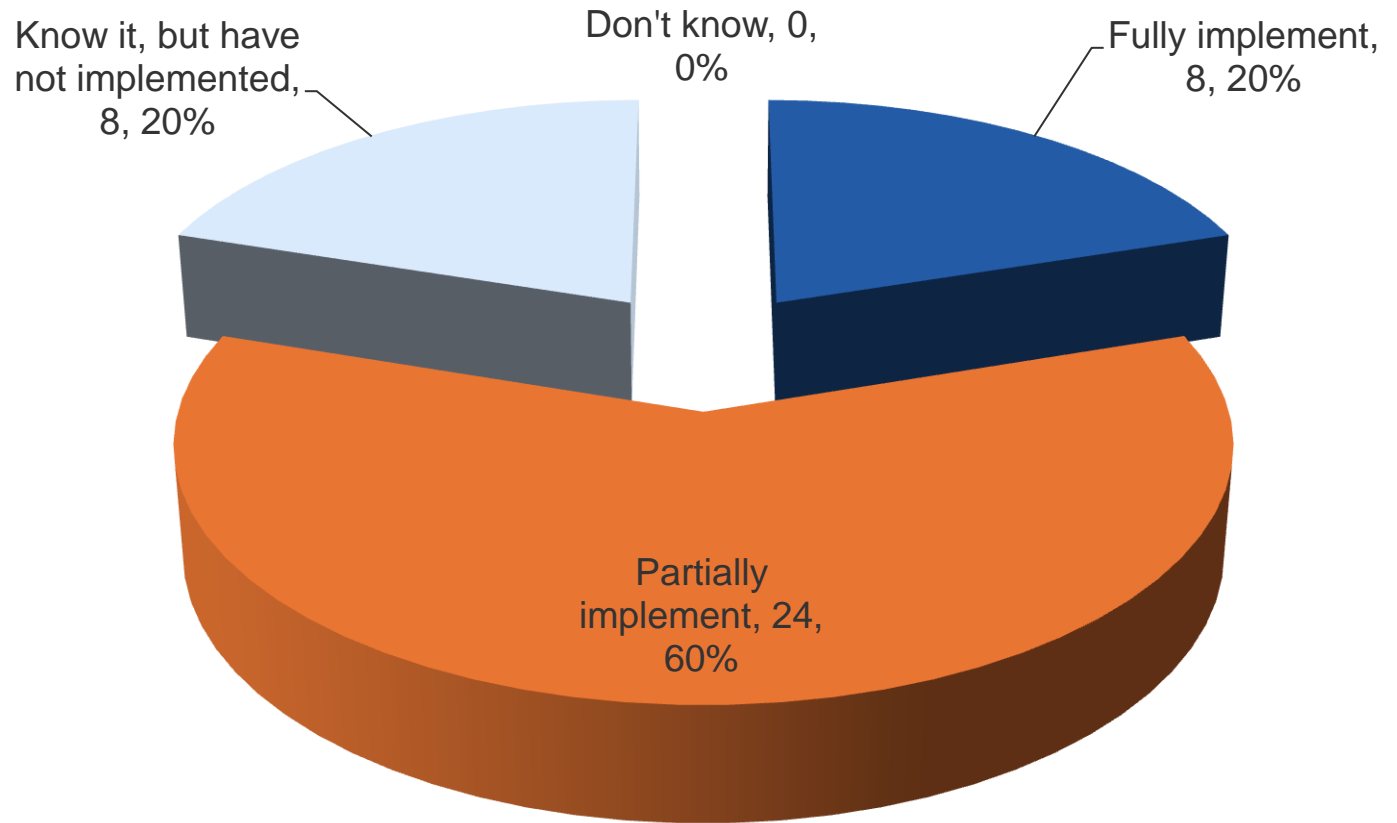
- Category assortments became more reasonable
- Out-of-stock decreased
- Inventory level decreased, and sales increased
- Customer loyalty increased
- Gross margin increased

- *<sup>1</sup>: Information source: China Chain Store & Franchising Association (2007), Survey Results on Category Management in China Retail Industry in 2007*





# Category Management Implementation





# Category Management Survey

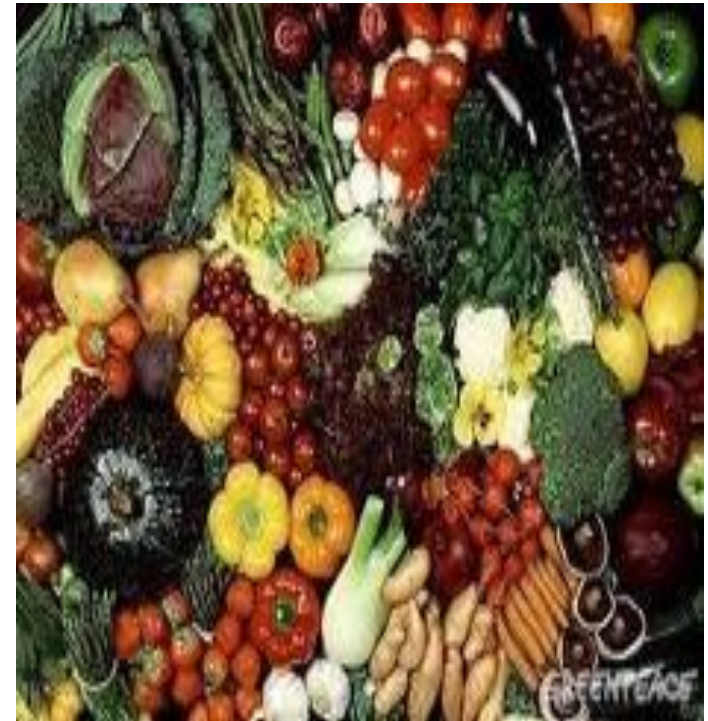
- ▶ Eight retailers had not conducted category management
  - 4 retailers did not have the capability
  - 1 retailer thought it was not necessary
  - 3 retailers understood its importance and would like to try it in the future.





# Top 3 Challenges in Implementing Category Management

- ▶ Software does not function well
- ▶ Difficult to identify consumer needs
- ▶ Too much work to do and do not have time and energy to implement category management





# Merchandising Management in Locus

(Wang, 2007)

## ► Background

- Country of origin: Thailand
- 1997 entered China
- Headquarter in Shanghai
- Format: hypermarket
- Each store around 12,000-20,000 square meter.
- Daily traffic: 8,000-10,000 consumers week day; 12,000-15,000 weekend.
- Sales/day=1,000,000 RMB
- SKU#=30,000





# Merchandising Management in Locus (Cont.)

## ▶ Merchandising Assortment

- Objective: get into consumers' daily life
- Customizes its merchandise assortment according to the needs of consumers in 5 kilometers.
- Its merchandise assortment is characterized by fresh foods.
  - Compared to other hypermarkets, it provides a broader variety of fresh food.
    - Fresh food counts for 20-30% square feet of the store, and 10-15% sales.
  - It uses fresh food as a profit center.
  - It has a unique assortment of tropical fruits from Thailand.
  - It uses centralized buying for fresh foods and has strong negotiation power.



# Merchandising Management in Locus (Cont.)

## ▶ Category Management

- It divides merchandise into A, B, C three groups
  - Ranks products according to their sales% and assortment%.
  - A: sales 70-80%, categories 5%-10%; B: 10-20%, 10-20%; C: 5-10%, 70-80%.
- Use different management method.
  - Pay more attention to A category
  - Simplify its control and minimize purchase time for C category





# Merchandising Management in Hualian Supermarket

## ► Background

- Located in Huhehaote, Inter Mongolia
- Annual sales: 150 Million RMB
- Store: 8,000 square meter, 20,000 SKUs
- Problem: Too many unproductive products in stores.





# Merchandising Management in Hualian Supermarket (Cont.)

## ▶ Original standards

- Based on three month sales, the last 3% or 100 SKUs were got rid of.
- Products that have less than 2,000 RMB or 5 boxes sales for 3 months were identified as not selling well and were considered for elimination.
- Eliminate the 50 SKUs with the smallest sales each month. It also considered shelves space the products took.
- Problem products that were forbidden by government were got rid of immediately.



# Merchandising Management in Hualian Supermarket (Cont.)

## ► Problems

- The well-organized product assortment or price structure might be broken.
  - Some categories may have only one or two kinds of products left.
- Seasonal products
- New products
  - Some value hasn't been recognized by consumers.
- Some categories have low sales but are necessary.
- It is not flexible.
  - Some time eliminating 50 SKUs is enough; but some time eliminating 200 SKUs may be not enough.
- Some products that were not sold well may be caused by out of stock or inappropriate presentation.



# Merchandising Management in Hualian Supermarket (Cont.)

- ▶ Category management
  - Form category management group
  - Make merchandising management plan
    - Data collection; data analysis; implementation
  - Classify categories
  - Category analysis
    - Based on sales information
  - Market research
    - Competitors and suppliers
  - Develop proposal
  - Develop electronic pictures of shelves presentation
  - Rearrange shelves
  - Follow-up



# Merchandising Management in Hualian Supermarket (Cont.)

## ► Outcome

- Better sales based on fewer SKUs
  - The sales in the next month increased 11%.
  - SKU # was reduced to 1/3 of the original.
- Better sales by using less space and shelves.
  - The length of shelves was reduced 13%.
  - sales/square meter increased 27%.





# Private Label

- ▶ Private label has taken significant market share in developed markets
  - 2/5 in U.S; 1/3 in U.K; 1/4 in France
  - J.C. Penny' private label apparel, 40%; Sears, 55%; Kohl, 20%; target, 80%







# Private Label (Cont.)

## ► Advantages

- helps to build up brand loyalty and competitive advantages.
- Higher profit

## ► Disadvantages

- Need to compete with national manufacturer brands.





# Private Label in China

- ▶ Private labels have small market share and are growing fast<sup>1</sup>
  - For top 100 retailers in china in 2006, private label took .5% market share.
  - The sales of private labels in China increased 52% in 2006 while the total retail sales increased 25% at the same time.
  - 93.3% of top 100 retailers has private label

<sup>1</sup> Information source: Chin China Store & Franchising Association's (2010) survey on private brands (based on 30 retailers)



# Private Label in China (Cont.)

- ▶ Store manager recommended label
  - Although it is not a private label, this label shows that the product has been strictly selected and inspected.
- ▶ Store supervised label
  - E.g., “Carrefour supervised”





# Private Label in China (Cont.)

- ▶ Private label is increasingly becoming a common practice of the retailers in China.
  - Walmart China
    - Its private label covers 12 categories including apparel, tissue, food, toy, battery, and drinks etc.
  - Shanghai Hualian
    - “Qiniian” brand covers 15 categories and 1000 kinds of products with 0.2 billion yuan sales per year.
  - Nonggongshang
    - “Nonggonshang” brand rice, oil, and meats.
  - Chaoshifa
    - uses its private labels to differentiate the market and attain the higher profits.



# Private Label in Dashang (Wang, 2009)

## ► Background

- Sales is increased from .5 billion to 30 billion during 1991-2005.
- No.3 Chinese retailer.
- It has department store, shopping mall, hypermarket, and specialty store (home electronic and furniture)
- Northeast China
  - 7 provinces, 26 cities, 130 stores.
- 2001 opened Xin Mart supermarket.





# Dashang (Cont.)

- ▶ 1999 started its private label
  - Managed by distribution center.
  
- ▶ 2004 formed private label company
  - Responsible for the private label product development and sales.
  - It has new product development department, sales department, planning department, and corporate finance department.
  
- ▶ Position of the private label (Xin Mart)
  - High quality and low price





# Dashang (Cont.)

- ▶ Private brand products
  - necessary products with high sales volume, frequent buying, low cost, and high gross margin.
  - 4 general categories and 40 SKUs
    - Toilet paper, detergent, hand soap, soap, wet tissues, underwear, cleaners, and socks etc.
- ▶ Price Strategies
  - 10-15% lower than manufacturer brands.
- ▶ Promotions
  - Special presentation and sales people
  - In big events, stores used the private label products as prizes and gifts to customers.



# Dashang (Cont.)

## ► Achievement

- Private label soap ranked N0.1 in sales.
- Sold 5,000 “Xin Mart” underwear in the first month.
- In 2005 private label’s sales was 10 million RMB.



# Retail Marketing Management

## ***2. Pricing Management***





# Objectives

- ▶ Understand the Importance of Pricing
- ▶ Analyze Pricing Strategies and Factors Influencing Price-setting in China
- ▶ Discuss How to Develop Strategic Advantages through Pricing in China for MNREs.



# Fundamentals in Pricing Management

## ► Why pricing is important?

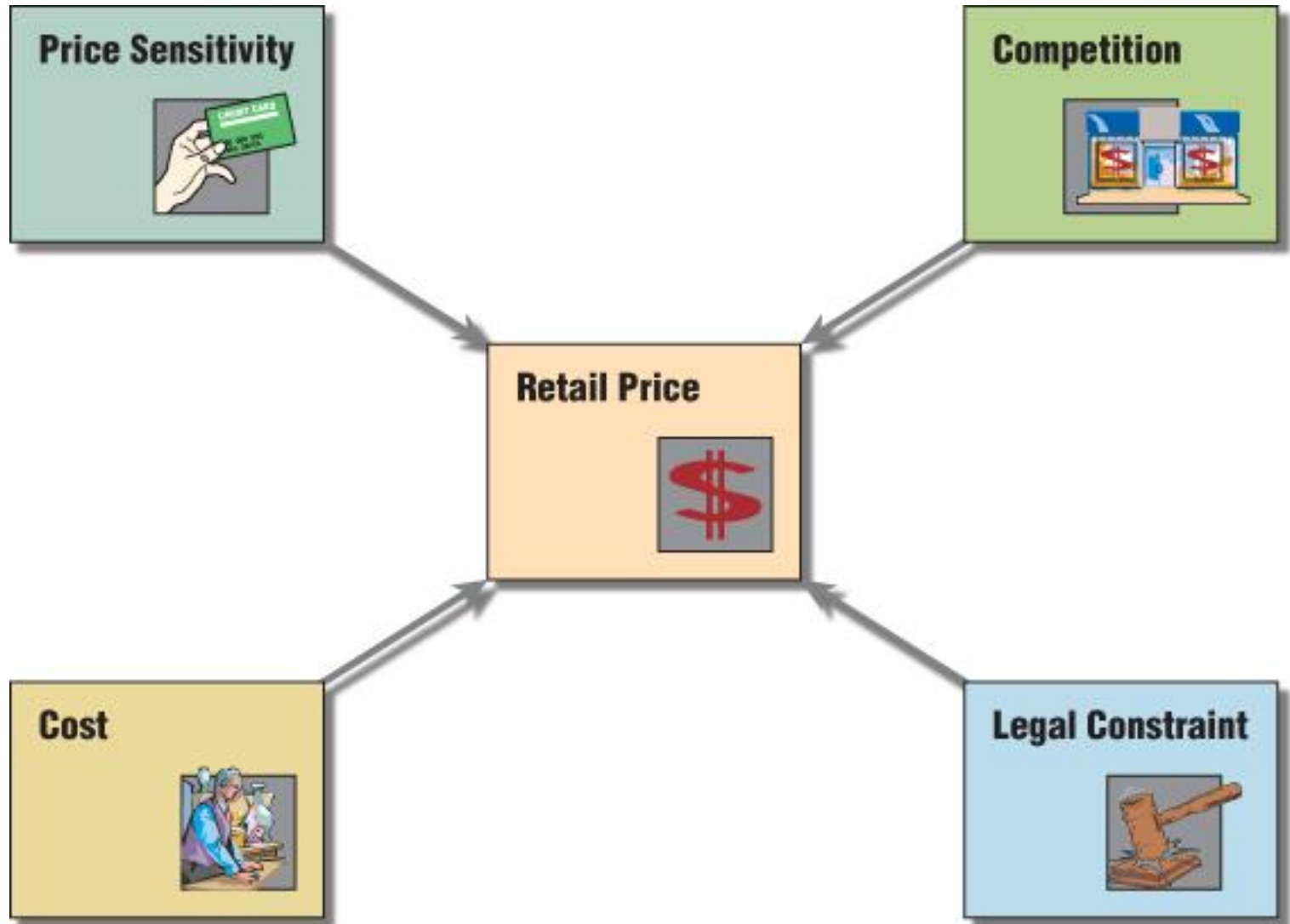
- It determines customers' perceived value

$$\text{Value} = \frac{\text{Perceived benefits}}{\text{Price}}$$

- It determines sales.
- It influences market share.
- It determines retailers' profit.
- It determines store image.
- It differentiates a retailer from its competitors.



# Fundamentals in Pricing Management (Cont.)







# Fundamentals in Pricing Management (Cont.)

## EDLP

- Guaranteed low prices to customers
- Lower advertising costs
- Better supply chain management
  - Fewer stockouts
  - Higher inventory turns

## Hi-Lo

- Higher profits – price discrimination
- More excitement
- Build short-term sales and generates traffic



# Fundamentals in Pricing Management (Cont.)

- ▶ Approaches for Setting Prices
  - Cost-oriented
  - Demand-oriented
  - Competition-oriented





# Pricing in China (Cont.)

- ▶ Carrefour: high-low price
  - Carrefour applies a composition of different pricing strategies and made profit from different compositions.
    - Sensitive product (high price elasticity): very low price
    - Non-sensitive product: constitutional price
    - Carrefour brand: elastic price
    - Foreign product: very high price





# Pricing in China (Cont.)

- ▶ Wumart: Everyday Low Price
  - Promise its customers a price lower than its competitors.
  - Wumart stores monitored its competitors' prices every day.







# Pricing in China (Cont.)

- ▶ Different pricing practices in China
  - Prefer lucky number 8
    - e.g., 888.888, 18.88





# Price management of Carrefour in China

(Deng, 2006)

## ■ Background

- The second largest Retailer in the world
- Ranking 22 in Fortune 500 (2005)
- 1995 entered China
- 79 stores in China (by 2006/8)





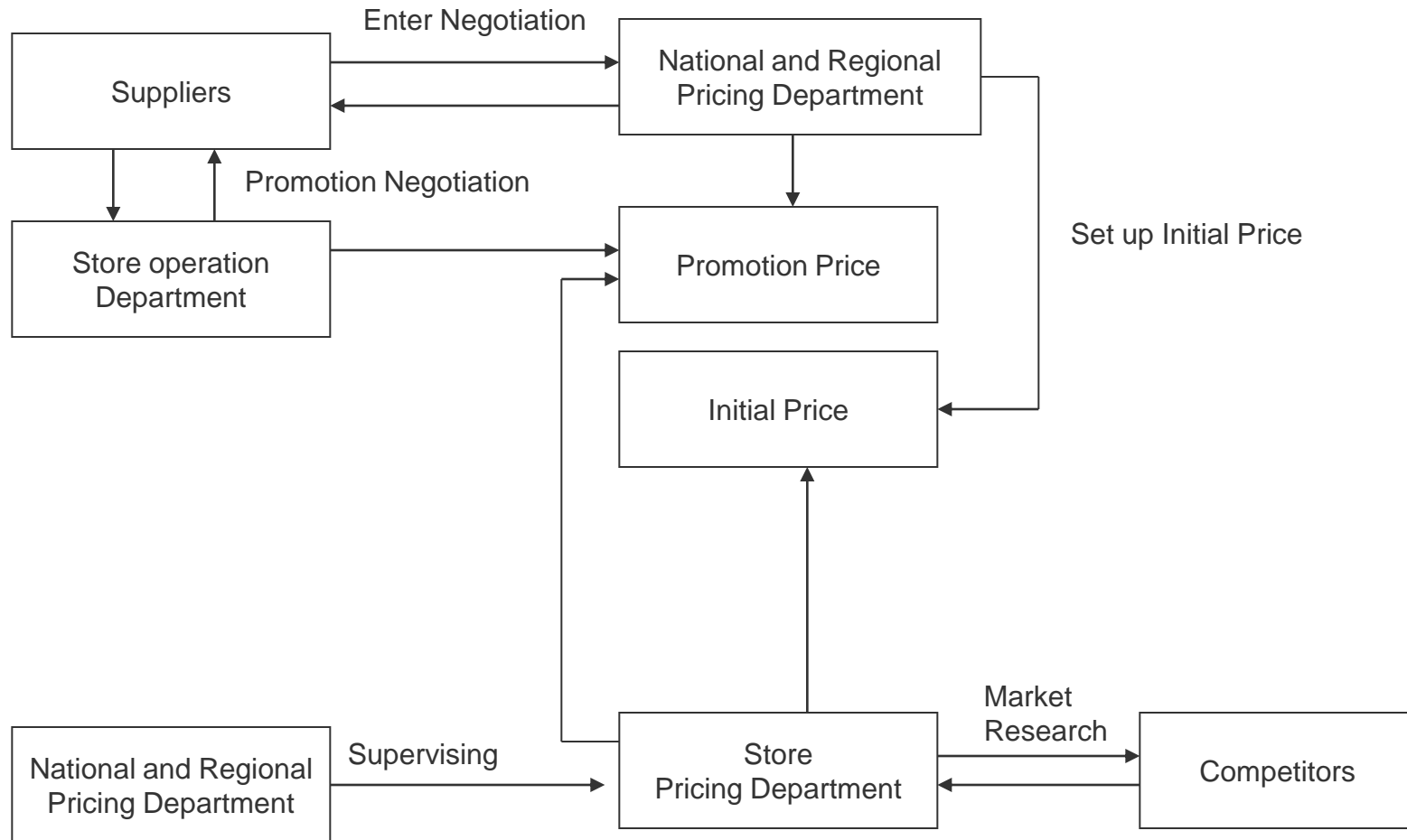


# Pricing in Carrefour

- Pricing department: collect product-related data in the market, study the merchandise to be sold in Carrefour, perform competition analyses, and determine appropriate prices for each product.
- Headquarter pricing department is responsible for the negotiations with national and foreign brand.
- Regional pricing departments (four regions in China) are responsible for the negotiations with regional brands and prepare posters and flyers.
- Prices were entered into the company's electronic retail price system and were applicable to all Carrefour outlets in the same market.
- In order to enhance quick responses to the market, store managers were given the power to make real-time price adjustments—something other retailers did not do.
- Decentralized management: store managers have power in price adjustment, merchandise management, promotion negotiation, and human resources etc.



# Old Price Management System





# Old Market Research Policies

	High sensitive SKU	Sensitive SKU	Non- Sensitive SJU
Categorizing Criteria	Biggest sales in term of volume or money Daily necessities Consumers know the price. At least 80% competitors carry the product.	Good Sales in term of volume and money Seasonal product Frequently purchased products Highly promoted by suppliers	Others
Grocery department	350	3500	Around 10000
Fresh food department	120	N/A	N/A
Home appliance department	30	250	N/A
Household merchandise department	50	250	N/A
Textile department	N/A	300	N/A
Frequency of market research	Twice/week	Once/week	Once/3 month for grocery Once/6 month for home appliance and household merchandise
Frequency for updating the pricing list	Update once/ three months for grocery and household merchandise Update once/ one month for home appliance		



# Old Pricing Policies

	Pricing Policies	Reference Price	Restrictions	Competitor Promotion
High Sensitive	Competitor's price * .95	The cheapest price of the competitors	Non sensitive products should not have a negative profit; Do not lower the price if the competitor out of stock for its lower price products; Price increasing should not be more than 10%	Follow the competitor for promotion
Sensitive	Competitor's price * .98	The cheapest price of the competitors		
Non-Sensitive	Competitor's price * 1.00	One competitor		



# Question

- ▶ What are the advantages and disadvantages of Carrefour's pricing management system and pricing strategies?



# Price Image

	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10
Beijing	Huapu	Meilian		Carrefour						
Dalian	Hualian	Carrefour								
Haerbin	Darunfa	Haoyouduo	Carrefour							
Hangzhou	Wumei	Legou				Carrefour				
Nanjing	Darunfa	Hualian	Carrefour							
Shanghai	Ouchan	Locus								Carrefour
Chengdu	Ouchan	Haoyouduo	Carrefour							
Wuhan	Darunfa	Hualian			Carrefour					
Guangzhou	Carrefour	Haoyouduo								
Shenzhen	Renrenle	Carrefour								





# Problems of the Old Pricing System

- ▶ Price changes were too frequent, which caused a lot of human and operating cost.
- ▶ Because prices were changed for hundreds and thousands of products each day, employee often forgot to change the price labels, causing that the label prices were different from checking-out prices.
- ▶ Customer were unsatisfied with the frequent price changes. Its perceived honesty on prices was decreasing.
- ▶ The update period of product list for market research was too long, leading to unclear target and low quality of market research.
- ▶ Product prices on flyers and posters were often inconsistent with real prices



# Problems of the Old Pricing System

- ▶ There were too many SKUs and too much market research, which were not necessary.
- ▶ The market research, price adjustment, and feedback based on stores were not efficient.
- ▶ Different stores in one city investigated the same competitors.
- ▶ Price adjustment by stores was influenced by store situation and the price policies might not be well implemented.
- ▶ The price image of Carrefour was damaged and its profit decreased.



# New Pricing Management System

- ▶ Building up city-level commission unit
  - Negotiate new brand entry and promotions for stores in the city.
  - Design and produce posters and flyers
  - Responsible for the profit of the stores in the city
  
- ▶ Advantages
  - Flyer and poster promotion has better targets and is more powerful
  - Greater negotiation power with local suppliers
  - Better control over merchandising and prevention of corruption
  - Better cooperate with local brands to optimize merchandising assortment
  - Better customized according to local needs
  - Better high sensitive product list and better managed prices
  - Better profit control



# New Pricing Management System

- ▶ Building up city-level pricing department
  - Conducting market research and adjusting prices according to price policies and competitors' prices
  - Inform the negotiation department about the SKUs with negative profits
  - Manage stores' promotion prices
  - Learn about competitors' pricing policies and recent strategies, and manage stores' price image in the city
  - Checking tags, labels, posters, and ads in order to provide an image of price honesty.



# New Pricing Policies

		High sensitive	Sensitive	Non-sensitive
Market Research Frequency		Twice/week (Every day for fresh food)	Once/Two weeks	Once/Two months
Lowest price from competitors		Competitor's price * 100%		
Following competitors' price	Flyer or poster promotion (or newspaper)	Follow price	Follow price	Do not follow price
	In store promotion	Follow price	Do not follow	Do not follow



# Retail Marketing Management

## ***3. Retail Communication***





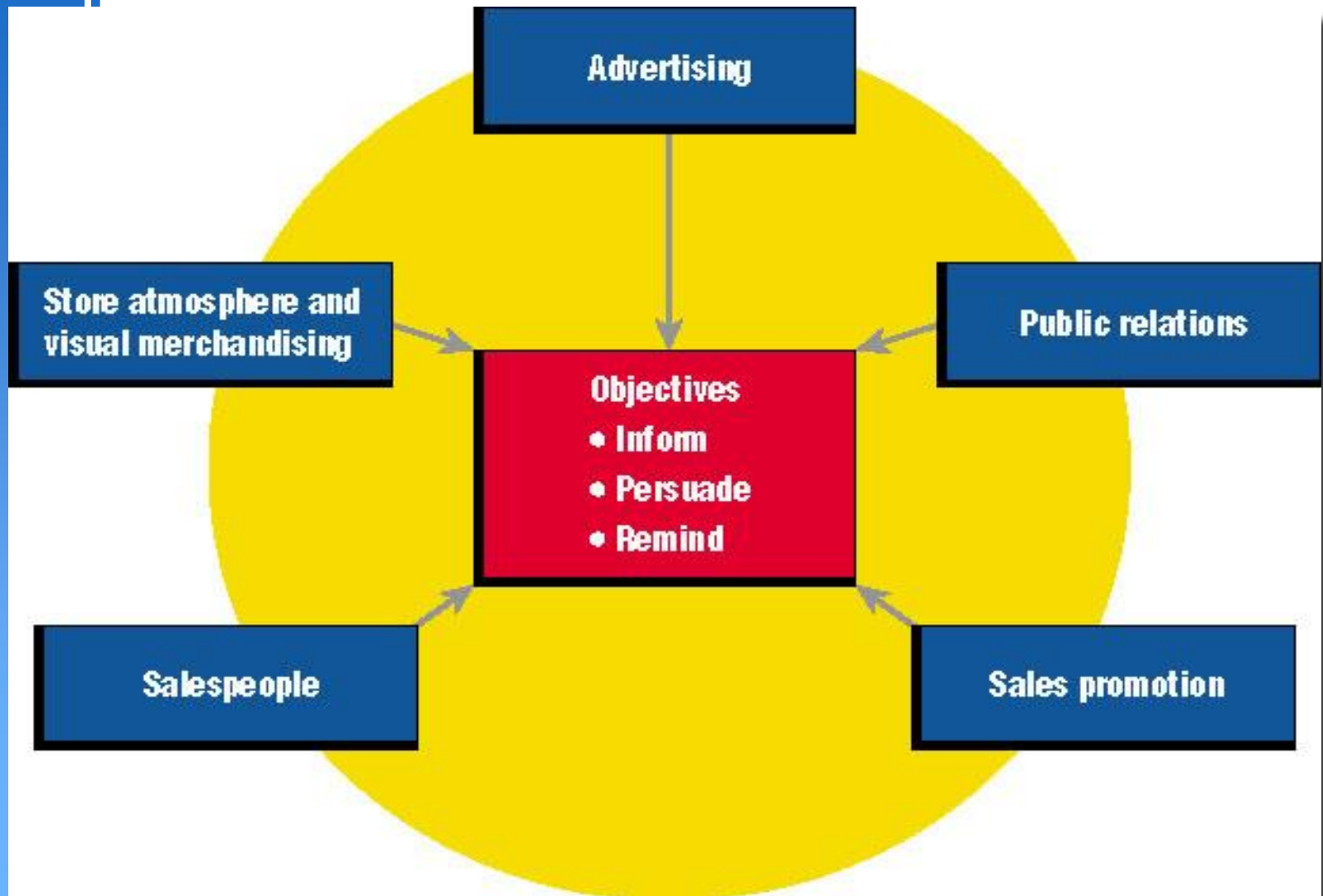


# Objectives

- ▶ Understanding the importance of retail communication strategies in the success of MNREs in China
- ▶ Identify different types of retail promotion strategies
- ▶ Understand different channels of retail communication and the relative advantages and disadvantages of each channel
- ▶ Discuss the culture differences between China and U.S. and its influence on MNREs' choice of retail communication strategies

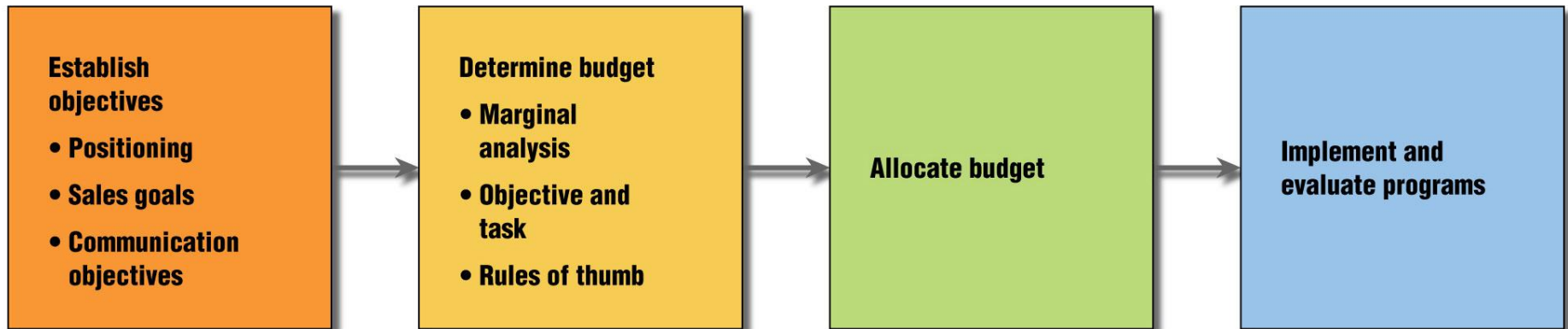


# Retail Communication Mix





# Steps in Developing a Retail Communication Program





# Posters in Wal-mart





# Retail Communication in China

## ▶ TV advertising

- In China, TV advertising is very important. But it is a threshold, and far from enough.
  - More than half Chinese consumers indicated that they would not buy instant noodles or beers if they are not advertised on TV.
  - In contrast, the percentage is 18% in England.



# Retail Communication in China (cont.)

## ► Point-of-sale communication

- Many Chinese consumers change their minds at the last minute.
  - 65% percent of Chinese consumers indicate that they leave a store with a different brand than the one that they intended to purchase.
- Information inside stores and coming from sales people may be more important than TV advertising.
- Chinese consumers are used to bargaining.







# Retail Communication in China (cont.)

## ► Public Relations

### ■ McDonald's and Olympics

- Used the Chinese slogan “*wo jiu xihuan zhongguo ying*” (“I’m loving’ it when China wins”) as part of its localization strategy during 2008 Olympic Games.
- Demonstrated the company’s “deep-seated commitment to the people of China, the Chinese government” (Jeff Schwartz, CEO of McDonald, China)

.



# Retail Communication in China (cont.)

## ► Blogs and Online Forums

- The influence of blogs and online forums is significantly increasing in China.
- The credibility of consumer blogs and online forums is higher than TV advertising.
- WOM is more important in China than in Western Countries.
  - Relative or good friends' recommendation play a major role for 2/3 Chinese consumers vs. 38% in U.S. and England.
- Wang Lao Ji (A Chinese soft drink brand) and Charity
  - Wang Lao Ji donated 100 Million RMB after Wenchuan Earthquake in 2008.
  - This news was quickly spread through WOM and Internet.
  - 19000 blogs talked about it, and consumers even created online advertisements and made videos to promote Wang Lao Ji brand.



# Retail Communication of Gome (Song, 2005)

## ► Promotion and Communication of Xi'an Gome

### ■ Background

- Gome was the No. 1 consumer electronic retailer in China
- Xi'an Gome was established in 2001 and responsible for the sales in Shanxi province
- 1 billion Yuan Sales in 2004
- 8 store in Xi'an
- 51.3% market share (25.7% for Suning, Kaiyuan, and Minsheng)
- Flagship store opened in the end of September, 2004





# Retail Communication of Gome

- ▶ Retail communication Plan for the Golden Week of National Day (10/1-10/7, 2004) by Xi'an Gome
  - National Day is one of the most important holiday in Mainland China
  - People have one week break (three days' break plus two weekends)
  - It is a golden time for retailers.



# Objectives

- ▶ Marketing plan for the Golden Week of National Day
  - Period: 10/1-10/7, 2004
  - Budget: 950,000 RMB promotion fee
  - Target: 128.5 million RMB Sales

	Beidajie	Xianyang	Nanerhuan	Xinqing	Xidajie	Xierhuan	Flag sheet store	Total
Month sales	1700	1200	2500	1750	500	1500	3700	12850
Sale percentage	13%	9%	20%	14%	4%	12%	28%	100%



# Budget

## ► Budget

- Gome: .3% of sales =380,000 RMB
- Manufacturers: 570,000 RMB (1.5:1)
- Total: 950,000 RMB

	High end	Middle	Low end	Total
Square feet	25%	45%	30%	100%
Budget %	37%	43%	20%	100%
Gome Budget	141000	163000	76000	380000
Total budget	352000	408000	190000	950000



# Marketing Strategies

- ▶ Marketing strategies
  - Promotion
  - Public media
  - Advertising







# Promotion

## ► Promotions

### ■ Lower price

- 1% lower price than any other retailers.

### ■ Free gift

- Buy a high end TV and get a free DVD player with DVDs of 30 classic movies

### ■ Transportation fee

- Give 10 Yuan transportation fee to the first 300 customers who buy a product with a price higher than 500 Yuan

### ■ Flagship store opening promotion

- Buy a TV with a price higher than 2500 Yuan and get a free microwave



# Public media

## ► Newspapers

### ■ Target

- 9/15-10/1: at least 25 articles on newspaper; 30,000 words

- Sanqin Dushi Newspaper: article series about the home appliance market in Xi'an, including three articles and 4,000 words/article.
- Xi'an Wanbao Newspaper: article series about Gome including 4 articles and 2,500 words/article
- Huashangbao Newspaper: 8 full sections about TV market and TV promotion



# Public media (Cont.)

Date	Media	Activities	Notes
9/15 (Wednesday)	<b>Newspaper:</b> Huashang	Article about Gome flagship store; “Gome Cup” writing competition on “The story between me and TV”	Prepare the articles by 9/13
	Sanqin Dushi Xian Wanbao Yangguang	Article about flagship store: high quality and low price	
	<b>Broadcasting Station:</b> Shanxi Broadcast	News	9/14-22: trial opening of the flagship store
9/17 (Friday)	<b>Newspaper:</b> Huashang	The trial opening of flagship store; Report on high-end TV market competition; writing competing articles	Prepare the articles by 9/15
	Sanqin Dushi Xian Wanbao Yangguang Meibao	Flagship: good location, huge store, comfortable environment, various products, and convenient location.	
	<b>Broadcasting Station:</b> Shanxi Xi'an		
	<b>TV Station:</b> Shanxi TV Xi'an TV		Cooperate with TV station
9/20 (Monday)	<b>Newspaper:</b> Sanqin Dushi	Article series about Xi'an home appliance market	2,000 words
	Xi'an Wanbao	Article series about Gome	2,000 words
9/21 (Tuesday)	<b>Newspaper:</b> Huashang	News about the trial opening of flagship sheet store;	2,000 words
	Sanqin Dushi	Article series about Xi'an home appliance market	



# Public media (Cont.)

9/23 (Thursday)	<b>Newspaper:</b> Sanqin Dushi	Article series about Xi'an home appliance market	2,000 words
	Xi'an Wanbao	Article series about Gome	2,500 words
	<b>TV Station:</b> Shanxi TV	Opening of flagship store	9/23-10/10 Flagship store opening
9/24 (Friday)	<b>Newspaper:</b> Huashang	Specially issue on home appliance; articles from writing competition	
	Sanqin Dushi	Article series about Gome	
	Xi'an Wanbao	Article about home appliance (especially, high end TV)	
	Yangguang Meibao	Article about high end TV News about the opening of flagship store (emphasize high end TV)	
9/25 (Saturday)	<b>Newspaper:</b> Sanqin Dushi	Article series about Gome	2,000 words
9/29 (Wednesday)	<b>Newspaper:</b> Huashang	The opening of flagship store: high quality and low price, big promotions; winners of writing competition  The opening of flagship store: high quality and low price, big promotions	Prepare the articles by 9/27
	Sanqin Dushi		
	Xi'an Wanbao		
	Yangguang		
	<b>TV Station:</b> Shanxi TV		
	Xi'an TV		
	<b>Broadcasting Station:</b> Shanxi		
9/30 (Thursday)	<b>Newspaper:</b> Huashang Sanqin Dushi Xi'an Wanbao	Protecting consumers from four traps when shopping in the week of "the October First"	Headquarter prepares the article



# Public media (Cont.)

## ► Other Media Strategies

- Public Media should provide a quantitative measure for their activities to Gome.
  - E.g., Sanqin Dushi needs to publish 2 articles about Gome (600 words each).
- Media should not publish any negative news about Gome.
- Their articles on Suning should be no more than 1/3 of the articles on Gome.
- When mentioning Suning and Gome, the order should be Gome and Suning.
- Gome articles should not be near any trash ads, such as medical advertising.



# Advertising

## ▶ Advertising

### ■ Newspapers (Gome)

- Time: 9/28,29, 30 and 10/4
- 9/28,29: Huashang, Sanqin Dushi, and Yangguang; plan for the week of “the October 1<sup>st</sup>”
- 9/30: Huashang, Xi'an Wanbao, and Sanqin Dushi; price promotion
- 10/4: price information



# Advertising (Cont.)

- Newspapers (Gome and manufacturers)
  - Period: 9/28-30
  - 36 ¼ Sections
  - 9/30: Huashang, Xi'an Wanbao, Sanqin Dushi, and Yangguang;
  - 9/28 and 9/29: could be on other newspaper
  - Requirements: Must be on the section of news or home appliance; Try to be on up-right of the section; try to be on pages of 1,3,4,7..., so that readers can read about Gome every time when they turn to a new page.





# Advertising (Cont.)

## ▶ Broadcasting

- Period: 9/22-10/7
- Channels: transportation and music.
- Target: consumers on transportation vehicles
- Requirements: on the sections of road information, popular music ranking, and time report etc



# Advertising (Cont.)

## ▶ TV

- Period: 9/22-10/6
- Channels: Shanxi TV, channel 2,4,8, and Xi'an TV channel 2
- Sections: News and TV shows with high rating
- MV: Made by headquarter.
- Frequency:
  - more than 4 times/day, 5 seconds three times; 15 seconds one time;
  - Fore 9/30 -10/6, more than 6 times/day; 5 seconds four times; 15 seconds 2 times.



# Advertising (Cont.)

- ▶ In store promotion and communication
  - Creating an exciting environment
    - Banners, ribbons, posters, balloons, and signs
  - Clear price labels
  - Manufacturer demonstration and promotions
  - Lucky draw



# Outcomes

	Beidajie	Xianyang	Nanerhuan	Xinqing	Xidajie	Xierhuan	Flag sheet store	Total
Planned Sales	1700	1200	2500	1750	500	1500	3700	12850
Actual Sales	1442.9	957.6	2057.5	1408.7	425.0	1216.5	2993.4	104.82
Percentage	83.7%	79.8%	82.3%	80.5%	85.0%	81.1%	80.9%	81.6%



# Discussion Question

- ▶ What do you think about the promotion and communication plan of Gome?



# Outcomes

- ▶ Complete 81.5% of the planned sales
- ▶ Drawbacks
  - Put too many resources on high end products
  - Lack of variety and innovativeness in promotions
  - Some activities did not directly transfer into sales
  - Promotions didn't have a clear target (e.g., certain product or certain customers)
  - The public communication was not enough for the middle and late sections of the period



# Retail Marketing Management

## ***4. Store Atmospherics and Visual Merchandising***







# Objective

- ▶ Understating the importance of store environment
- ▶ Learn the key dimensions of store environment (e.g., store layout, design and visual merchandising)
- ▶ Identify the major difference in terms of store environment between Chinese retail stores and U.S. retail stores



# Store Design Objectives

- ▶ Implement retailers' strategy
- ▶ Influence customer buying behavior
- ▶ Control design and maintenance costs
- ▶ Provide flexibility
- ▶ Meet legal requirements

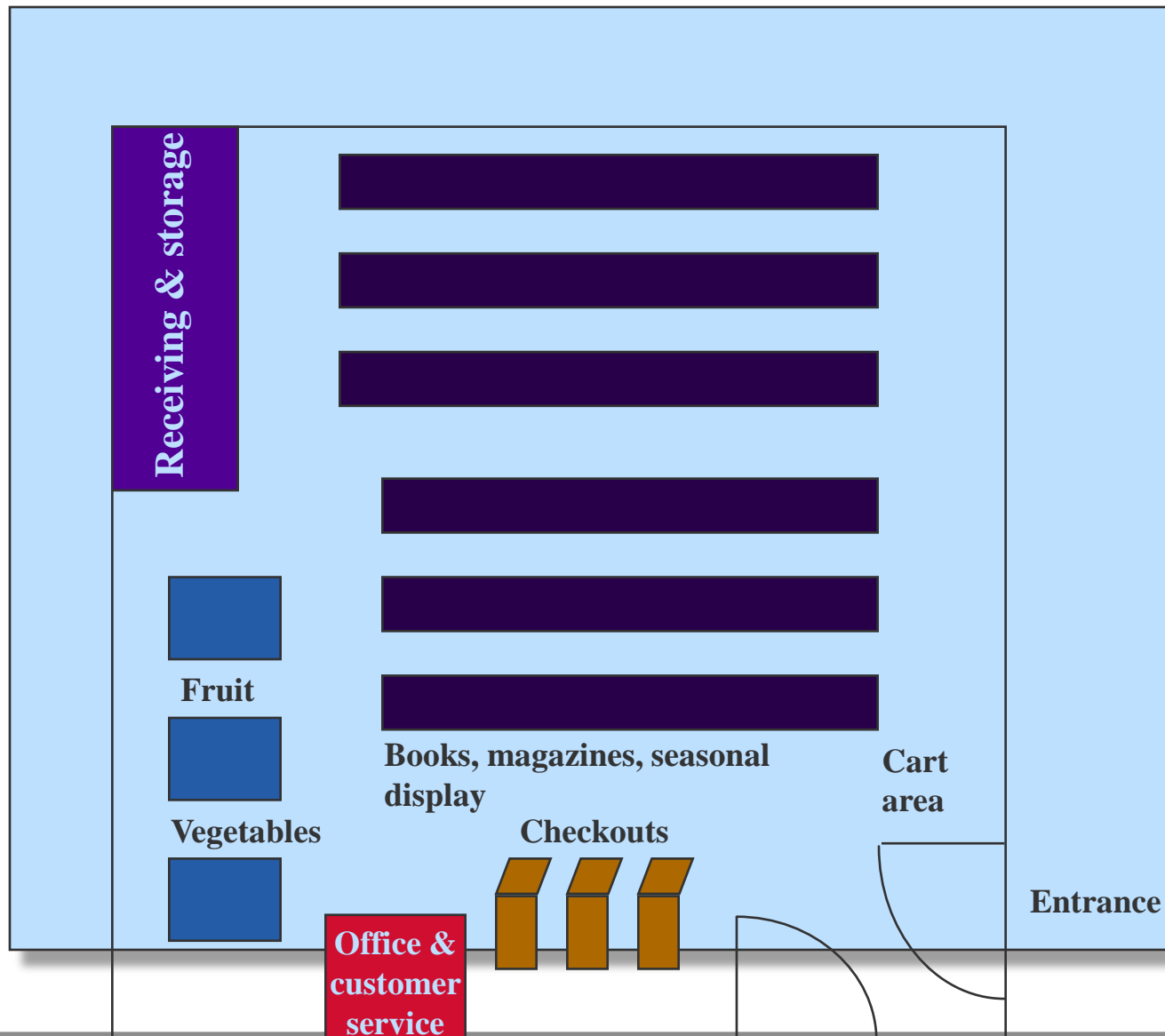


# Types of Store Layouts

- ▶ Grid
- ▶ Racetrack
- ▶ Free Form



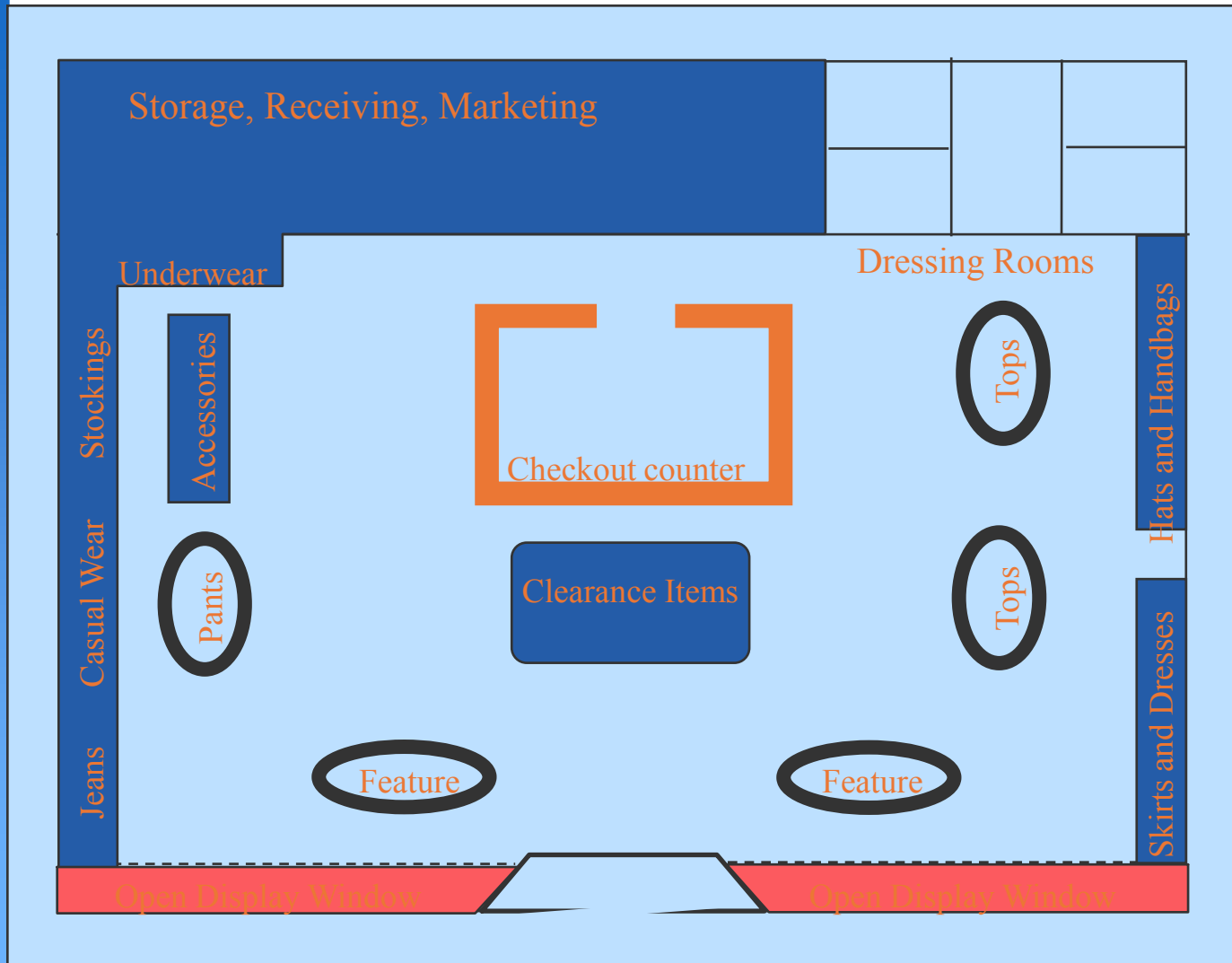
# Gird Store Layout







# Free-form Layout





# Store Design

- ▶ Effectively Using Signage
  - Coordinate signage to store's image
  - Print and digital
  
- ▶ Feature areas
  - e.g. Promotion areas, End caps; Windows
  
- ▶ Space Planning
  - Productivity of allocated space
  - Merchandise inventory turnover
  - Impact on store sales
  - Display needs for the merchandise



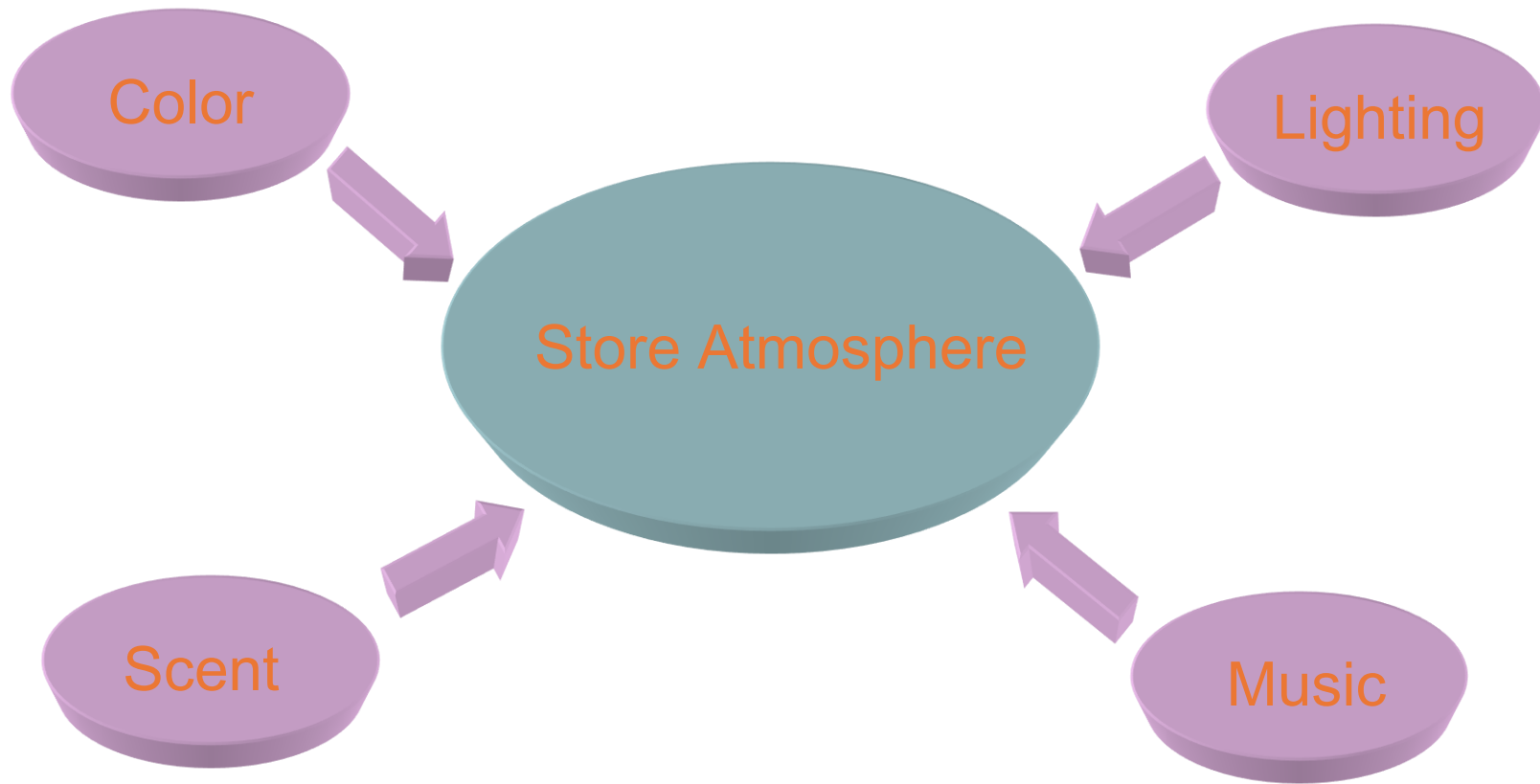


# Merchandise Presentation





# Creating a Store Environment





# Store Environment and Visual Merchandising in China

- ▶ Traditional Chinese decorated styles
  - Traditional Chinese colors for holidays-yellow and red
  - Traditional Chinese icons- dragon, phenix animal of year
  - Traditional Chinese decorates- Chinese knots, lantern, and paper art etc.







# Store Environment and Visual Merchandising in China (cont.)

## ► McDonald

- During major Chinese festivals such as the Chinese Lunar New Year and mid-autumn celebration, it decorates store interiors with traditional Chinese paper art—red paper cut-outs of Chinese characters and pictures of auspicious symbols—like many local Chinese restaurants.





# Store Environment and Visual Merchandising in China (cont.)

## ► Carrefour

- Carrefour's Chinese name “家乐福” means “family, happiness, and luck” in Chinese. The 3 characters are all very important to Chinese culture. 福 is always used to decorate room in traditional Chinese new year.
- As Chinese like to compare different products in the same catalog, Carrefour specially made its shelves longer than the usual to show more brands.
- Carrefour adopted a fresh-market style (e.g. live fish).





# Store Environment and Visual Merchandising in China (Cont.)

## ► Best Buy

- The aisles are wider than those of competitors
- Products were assorted by categories, not brands
- Special customer experience - Product demonstration area
- Different positioning – CE innovators





# Store Environment and Visual Merchandising in China (cont.)

- ▶ Environment of supermarkets in China
  - A survey was conducted on top 10 supermarkets in Beijing (Zhu, 2007)
  - Transportation
    - 50% walk, 25.6% used public transportation, 15.2% by bike and 9.1 used cars (68.5% thinks supermarket parking is inconvenient; 5.4% convenient)
  - Attractiveness of supermarkets
    - Convenient location (44.7%), low price (23.0%), environment (22.7%), product variety (15.5%), and service (7.3%)
  - Overall evaluation of environment
    - Excellent (19.4%), Good (55.3%), middle (14.8%), pass (3.6%), failed (.9%)
  - Store image is clear and impressive (5.9%)





# Store Environment and Visual Merchandising in China (cont.)

- ▶ Store entrance
  - 51.5% think the entrance of the supermarket is clean and organized. 36.8% think it is clean but unorganized. 11.7% think it is not clean and unorganized.
- ▶ Signs
  - 60% consumer think the signs for shopping, restroom, safety exit, and smoking area are not clear.
- ▶ Temperature
  - 23.7% conformable; 67.9% ok; 7.7% uncomfortable.
- ▶ Air
  - Fresh 18.0%, 69.1% OK, and bad 12.2%.
- ▶ Light
  - Too light 18.7%, comfortable 74.7%, too dim 4.9%



# Store Environment and Visual Merchandising in China (cont.)

- ▶ Shelf presentation
  - Reasonable 16.2%, 72.6% ok; 9.4% not good.
- ▶ Restroom
  - 50% ok; 21.3% dirty.
- ▶ Bag storage
  - coded box (45%), human service (29.5%), don't need store (17.6%), and use coin (4.7%).





# Locus (Wang, 2007)

## ► Locus store in Shanghai

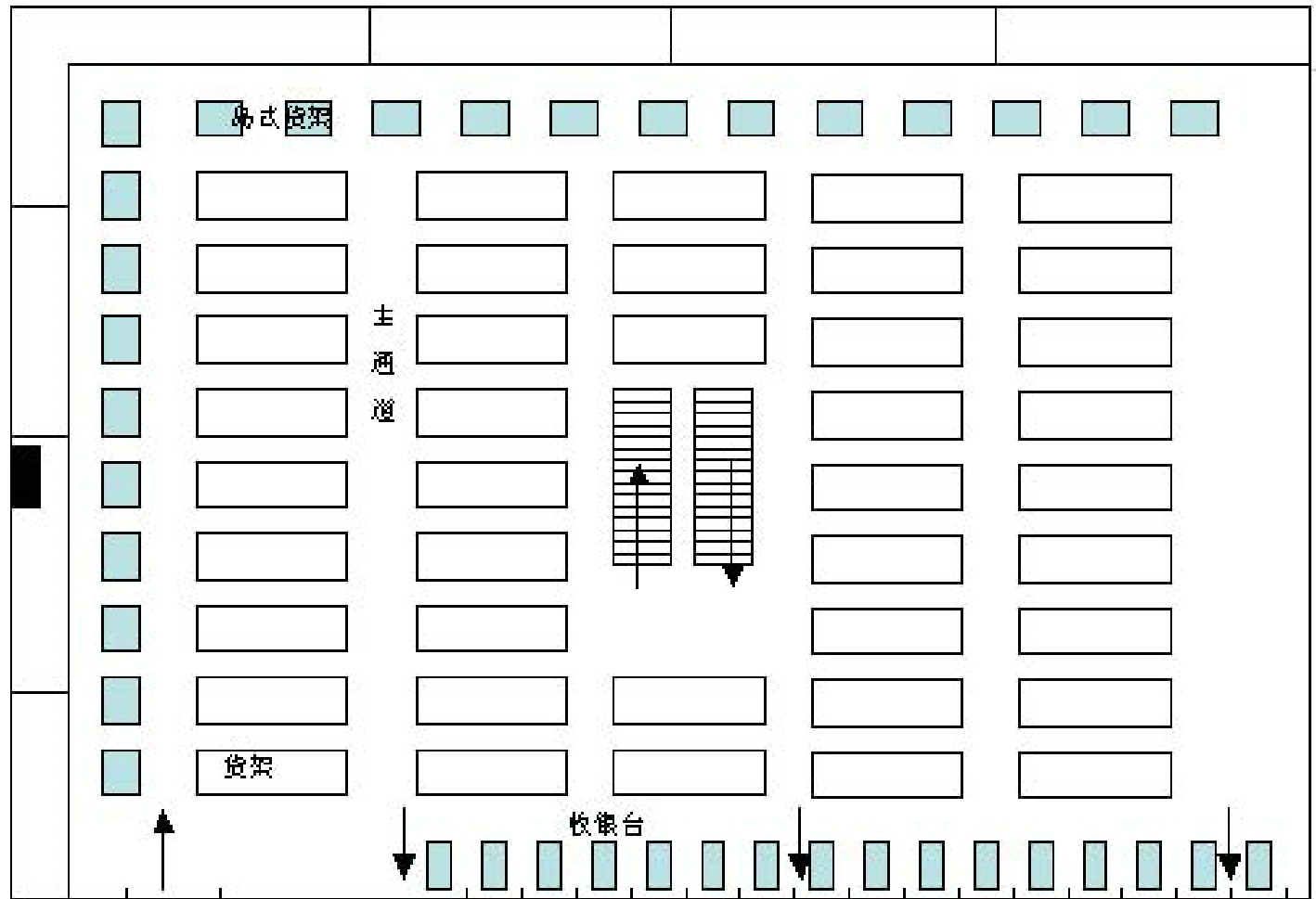
### ■ Store environment

- Intend to create a “hot” and “crowded” selling environment.
  - Warm Color (yellow)
  - High light
  - Noisy music
- Major aisles are 6-7 meters wide; other aisles are 3-4 meters wide
- Shelves are 1.8 meters high.
  - Average height of Chinese women is 1.60.
- Put its private labels on the second and third levels of shelves.
  - They are around 100-150 cm high





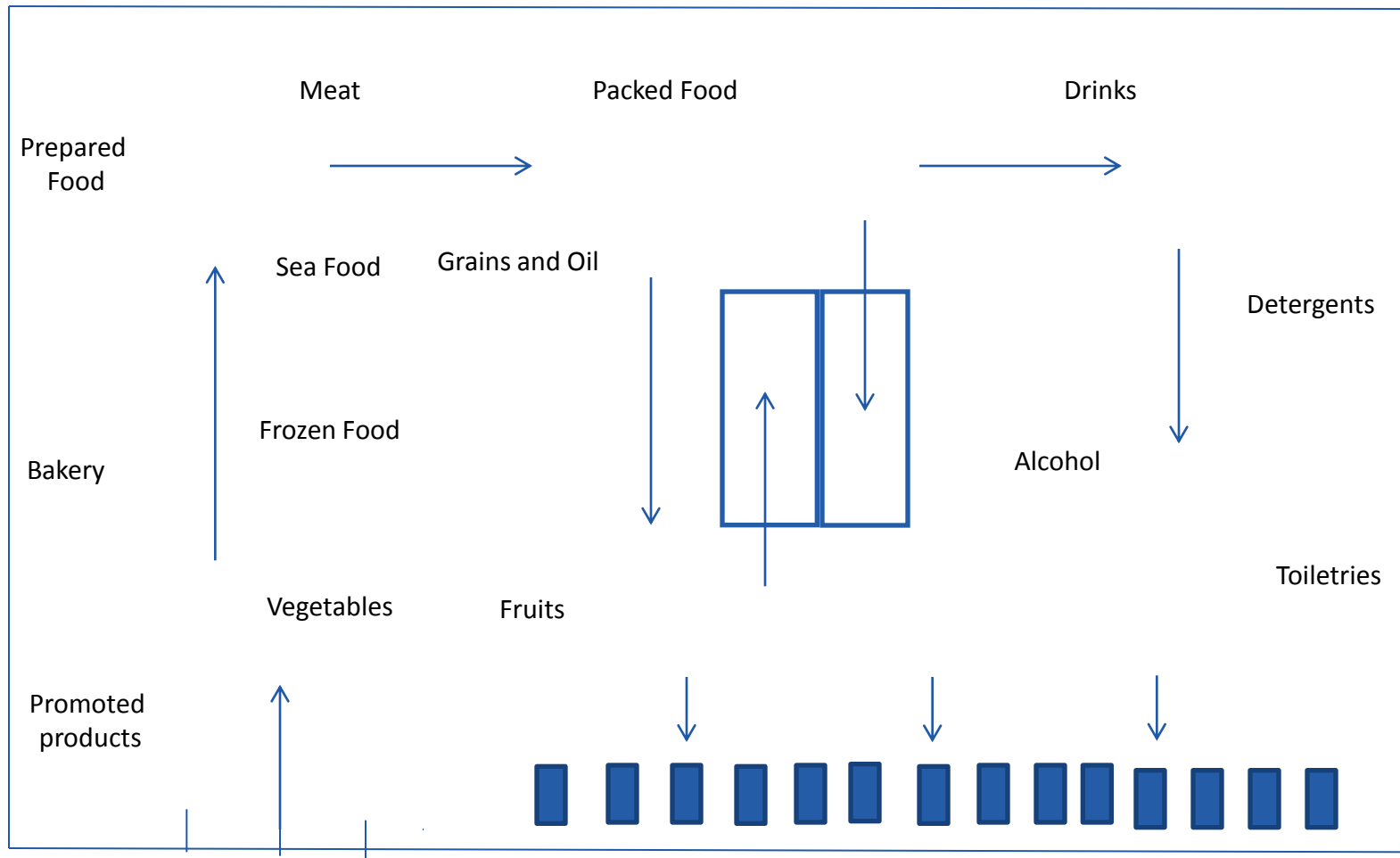
# Locus (cont.)





# Locus (Cont.)

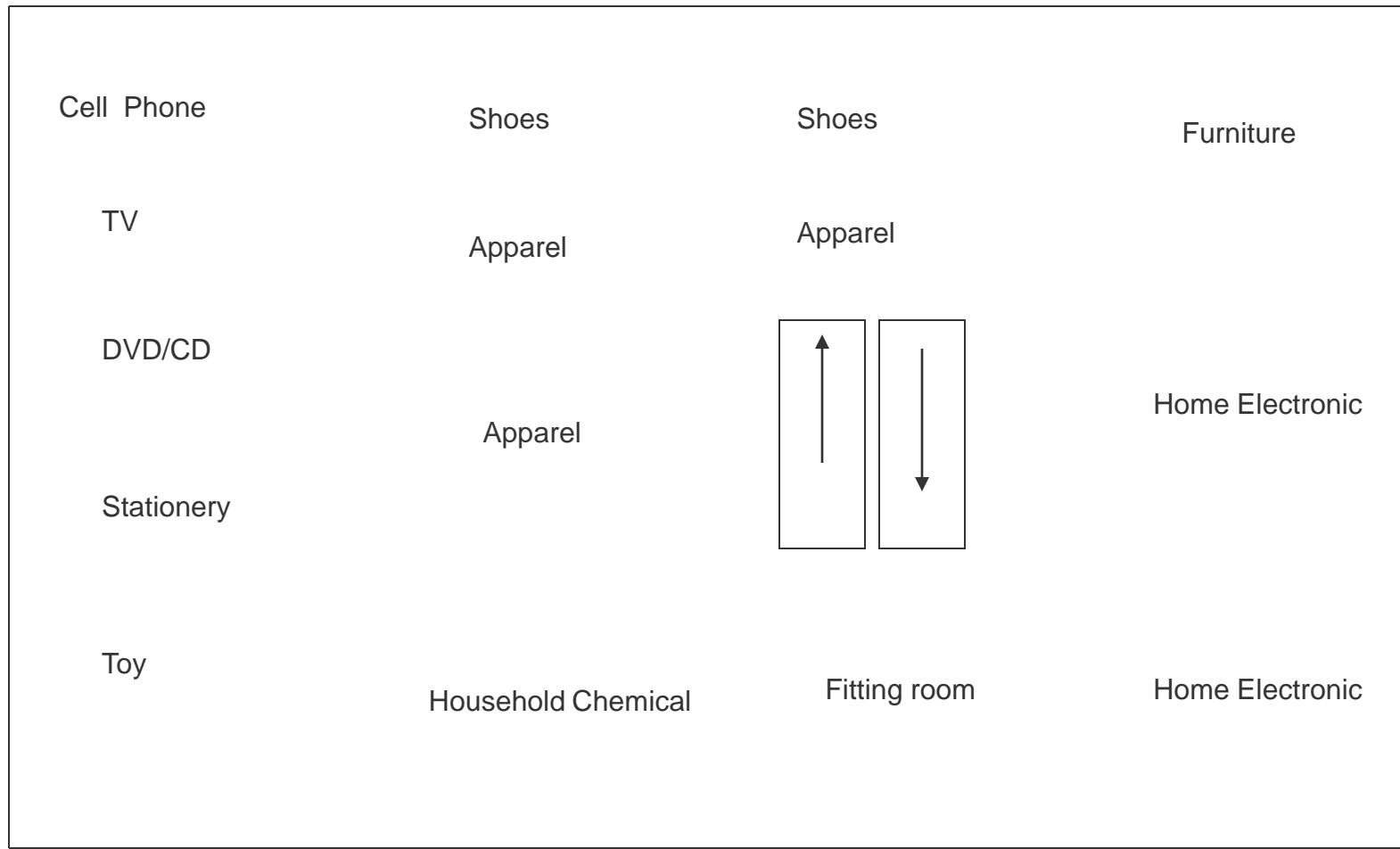
The First Floor





# Locus (Cont.)

## The Second Floor





## category

## Square feet (%)

Fruit and vegetable

10

Meat

8

Seafood

7

Frozen food

12

Other food

12

Cigarette and alcohol

6

Seasoning

5

Grain and Oil

3

Detergent

5

Apparel

10

Shoe

5

Home electronic

3

Household chemical

3

Stationery

3

Toy

3

Others

5







# Vedios

- ▶ Videos of Chaoshifa Supermarket
- ▶ Video of Yonghong Street market



# Retail Marketing Management

## ***5. Customer Service***





# Objectives

- ▶ Learn the evolution of customer service in China during the transition from a planned economy to a market economy.
- ▶ Analyze differences between Chinese consumers and U.S. consumers in terms of their expectations and quality evaluation criteria of customer services
- ▶ Learn differences in customer service strategies in China and U.S. (e.g., after-sale service, service recovery, and return policies.)
- ▶ Discuss how to develop competitive advantages through customer service in China for MNREs.



# Customer service

- ▶ The set of activities and programs undertaken by retailers to make the shopping experience more rewarding for their customers.
- ▶ It is also about treating customers with respect, individuality, and personal attention.
- ▶ Services increase customer value.
- ▶ High-quality service helps retailers to built competitive advantages



# Customer Service-Items

- ▶ Acceptance of credit cards
- ▶ Alteration of merchandise
- ▶ Assembly of merchandise
- ▶ Check cashing
- ▶ ATM terminals
- ▶ Delivery to home or work
- ▶ Demonstration of merchandise
- ▶ Display of merchandise
- ▶ Dressing rooms
- ▶ Extended store hours
- ▶ Facilities for shoppers with special needs
- ▶ Gift wrapping
- ▶ Warranties
- ▶ Parking
- ▶ Personal assistance in selecting merchandise
- ▶ Personal shoppers
- ▶ Play areas for children
- ▶ Presentations on how to use merchandise
- ▶ Repair service
- ▶ Rest rooms,
- ▶ Return privileges
- ▶ Rooms for checking costs and packages
- ▶ Shopping carts
- ▶ Special orders
- ▶ Etc.



# Customer Service in China

- ▶ Customer service in a planned economy
  - Retailers were not free market players but state-owned distribution channel.
  - Retailers and salespeople had no incentive to provide better customer service.
  - Customer service had low quality.





# Customer service in China

- ▶ Customer service in the transitional market economy
  - Customers are kings.
  - Customer service is increasingly becoming important to the success of a retailer.
  - Salespeople
    - Rude → polite
    - Unprofessional → professional







# Customer Service in China

- ▶ Customer service is cheap
  - Free delivery
    - Most deliveries in China are free and efficient (For CEs, 24 hour delivery is guaranteed in the same city)
  - Free assembly
    - Chinese consumers do not get used to “DIY” and free assembly is common in China



购买商品超过2000元，我们为您提供送货服务。  
For a purchase of 2000RMB minimum, we provide home delivery service.

-送货服务安排在您购物后的第二天  
-生鲜商品，冷冻冷藏商品不在送货商品范围内，请自行带取。  
-Fresh item, frozen item, perishable item could be not include in the delivery.

\*详情请咨询服务中心  
For detail please check in information center

**送货服务 HOME DELIVERY**

送货费用列表 DELIVERY FEES

送货距离 DELIVERY DISTANCE	收费标准 DELIVERY FEE
区域 1 Area 1 (5KM)	0
区域 2 Area 2 (5-10KM)	60元
区域 3 Area 3 (10-15KM)	70元
区域 4 Area 4 (15-20KM)	80元
区域 5 Area 5 (20-30KM)	100元
区域 6 Area 6 (30KM以上)	价格再议

上海





# Best Buy in China

- ▶ Best Buy's high quality service/ warranty was a great success in US. However, it was not successful in China.





# Best Buy in China

- ▶ Best Buy assumed that Chinese people enjoy high-quality service, and then used customer service to differentiate itself from other domestic competitors.
- Best Buy brought the “extend warranty” policy to china and hoped that the revenue from warranty could help Best Buy earn more profit and get the competitive advantage over its competitors in China CE market.
- GOME and Suning copied this warranty policy. But according to the data from GOME, this part of revenue is very small.



# Best Buy in China

- ▶ Chinese consumers are used to free services.
- ▶ Any value-added service is free in China.
- ▶ Chinese consumers mainly focus on products and prices.





# Customer Service in China

## ▶ Return policy

- It is harder to return purchased products in China.
- “Three guarantees”:
  - Refund (within 7 days)
  - Replace (within 15 days)
  - Repair (after 15 days but within the effective warranty period)



# Customer Service in China

- ▶ Membership card from every retailers
  - reinforce loyalty through point system
- ▶ Gift card is very popular
  - Government and organizations provide gift cards as benefits to their employees







# Chaoshifa

## ► Chaoshifa

### ■ Morning market

- Many elder people will exercise in the early morning and most of them would prefer to go to an open market to buy some fresh food.
- Chaoshifa opens its food section as early as 6am.





# Chaoshifa

## ► Chaoshifa

- Community service for disabled people and elders
  - Employees of Chaoshifa help disabled people and elders with free delivery.
  - In some traditional holidays, employees of Chaoshifa will distribute gifts to communities.





# Chaoshifa

- ▶ Space for elder people's leisure time
  - Many neighbors like sitting in Chaoshifa and chatting.
- ▶ Free cooking classes
  - Chaoshifa provides free cooking classes periodically.
- ▶ Free health advisory
  - Professional advisors are available at Chaoshifa to answer questions about nutrition and other health related questions.







# VIP Service in Dangdai Plaza





# VIP Service in Dangdai Plaza





# Summary



# Build up competitive advantages through retail strategies

(Li, Wang, and Li, 2006)

	Convenience	Environment	Facility	Service	Merchandising	Price	Check-out Process	Policies	After-sale Service
Wal-Mart	5	1	3	3	2	7	3	4	7
Locus	9	7	12	14	11	6	17	11	10
Auchon	1	7	5	9	7	1	14	8	3
Baijia	17	14	13	13	15	14	16	12	10
Rt-Mart	2	6	4	6	5	2	6	1	6
Metro	2	2	6	4	1	5	2	2	2
Tesco	4	4	7	11	5	3	11	5	5
Ito-Yokado	11	5	2	2	6	12	1	4	6
Beijing Hualian	13	12	14	15	14	13	12	16	14
Sugo	6	17	17	8	9	12	5	13	9
Nonggongshang	16	19	20	16	14	13	15	14	11
Wu-Mart	8	13	18	12	13	11	14	11	12
Haoyoudou	7	10	8	10	10	9	13	9	8
Huarun	14	15	15	7	16	17	7	10	10
Wankelong	11	8	11	5	4	4	4	6	6
Jizhidao	3	3	1	1	3	16	1	3	1
Shanghai Hualian	12	16	19	10	12	15	8	13	12
Shanghi Lianhua	10	18	16	11	17	18	10	14	8
Carrefour	15	9	9	9	8	8	9	7	4
Xinyijia	11	11	10	13	16	10	11	15	13



# Build up competitive advantages through retail strategies

(Li, Wang, and Li, 2006)

Retailers	Positioning Point	Primary Strategy	Secondary Strategy	Non –focused strategies
Auchan	Low price	Price	Parking and bag storage	5 items > average
Rt-Mart	Easy product return	Service	Promotion	6 items > average
Wal-Mart	Comfortable environment	Environment	Product quality	7 items > average
Metro	Variety of products	Merchandising	Unclear	8 items > average
Jizhidao	Super service	Service	Facility	6 items > average
Ito Yokato	Super Service	Service	Facility	5 items > average
Tesco, Carrefour	Unclear	Unclear	Unclear	7 items > average



# Standardization vs. Localization

- ▶ Discussion question: Are concepts and practices developed in the West directly applicable to China?
- ▶ *“The initial assumption was that China was so different from US (20% same, 80% different) because it’s too far from US and has the different language and culture and completely different business model. However, when Best Buy came in China, we realized that it went too far local and needed to get back to basic operating basic principles around what it works in any retail environments(80% same, 20% different). Finally, Best Buy found it moved too far to the other side. Today, the proportion is close to 50% (understand the market and customers) -50% (take Best Buy principles)”*

*-Kal Patel, the executive vice president of emerging business of Best Buy*



# Standardization vs. Localization

## ► Standardization vs. Localization

### ■ Standardization

- uniform, efficient, low-cost, easy to remember
- neglect local conditions, may not be effective
- Language and cultural barriers
- Sometimes more costly

### ■ Localization

- Closer to the local knowledge
- Consumers and market more responsive
- More effective
- Lower cost





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