

# Analysis on the Mode of Multinational Retail Enterprises Entering Chinese Market

—Take Walmart, Carrefour and Metro as Examples

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## Abstract

With the rapid development of the world economy and the increasingly prominent trend of globalization, retail enterprises have gone abroad to the world. But their operation in the Chinese market is not optimistic. This paper mainly researches multinational retail chain development strategy in China, and analyzes their poor performance in Chinese market, then learns from foreign retail chain enterprise development experiences, puts forward some suggestions for Chinese retail enterprises to enter the foreign market, fully explores the competitive advantages of Chinese retail enterprises.

## Keywords

Multinational Retail Enterprises, Globalization, SWOT Analysis

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## 1. Introduction

With the advancement of economic globalization, the main measure for the survival and development of multinational enterprises is still to adhere to the method of going global. For multinational retailers, entering foreign markets is an inevitable choice for them to improve their popularity and expand their profits. However, in a cross-cultural context, it is not easy for multinational retailers to enter foreign markets, and some marketing models and professional skills that used to be applicable at home may not work well in new foreign markets. Therefore, by analyzing the patterns of these multinational retailers entering foreign markets, it is possible to know what marketing strategies are effective and which are not in a new foreign market.

In this paper, the author makes a comparison between three world-renowned multinational retailers, Walmart, Carrefour and Metro. It is well known that

these companies have rich experience in the domestic retail industry and unchallenged market position. To succeed in international business, these companies must understand the demands of the new market environment. In order to enter new markets, companies usually try to adjust their business strategy to suit the local market.

In the Chinese market, with the development of the retail industry and the implementation of the comprehensive opening policy of China's retail industry, global multinational retail enterprises also take this opportunity to enter into the Chinese market and expand in China step by step. But after nearly two decades of development, Walmart, Carrefour, Metro and other famous multinational retailers' development in China is not satisfactory. Based on this, the focus of this paper is to answer two research questions, which are aimed at analyzing the specific strategies of the entry mode of these three multinational retail enterprises into the Chinese market, and analyzing the reasons for their poor operating conditions after entering the Chinese market.

Even if each country/region uses a different language, words have different meanings everywhere—multinational retailers should not rely solely on language equivalents when entering foreign markets. It is important to consider how people from different cultures interpret products and behaviors. In contrast to the US market, which is characterized by cut-price promotions, consumers in Asian markets value quality and durability over price and quality. Consumers consider price discounting by retailers to be suspicious.

According to the data, it can be found that the turnover of world famous multinational retailers such as Walmart (America), Carrefour (France) and Metro (Germany) in the Chinese market is declining year by year. But these retail enterprises have good sales performance in domestic and other foreign retail markets.

With this in mind, we can now define the research questions to be answered in this article:

***RQ1: What are the specific strategies for multinational retailers to enter the Chinese market?***

***RQ2: What are the reasons for the poor business performance of multinational retail enterprises after entering the Chinese market?***

## **2. Literature Review**

China's retail market has maintained impressive growth since it was fully opened to the outside world at the end of 2004, attracting an increasing number of foreign retailers to land or plan expansion in China [1]. At present, many multinational retail enterprises not only occupy the retail market of the first-tier cities in China, but also aim at the second and third-tier cities to accelerate their entry. From the end of 2006 to the end of 2011, the number of Walmart stores in China increased from more than 70 to 267, most of which are located in second-tier cities. Multinational retailers have been able to gain a competitive advantage in the

Chinese market largely due to their effective transfer of expertise accumulated in their home countries and their multinational operations to China. Retail expertise is a set of core knowledge owned or effectively utilized by a retail enterprise, which can make it reflect its competitive advantage in a specific regional market. So multinational retail enterprises to enter overseas market, professional skills of the effective transfer is not a simple copy, but both the standardization and localization of a dynamic evolution process, need to depend on the communication between the parent and each subsidiary, as well as various subsidiaries and local competitors, local governments, collaborators, interaction between consumers and other institutions.

There are many development motivations of multinational retail enterprises in China.

1) The industrial policy for foreign investment is relaxed and the market access area is expanded for foreign investment in China. With the development of China's economy, equity restrictions for foreign investment have been relaxed, allowing joint ventures in more industries [2]. The change in the policy, in which foreign investors hold a controlling stake of 51% or more, has encouraged the establishment of sole foreign ownership.

2) There are not a few cases in which the management concepts of conflicts and cultural conflicts between the two parties of the joint venture are not in conformity with each other or the internal friction is greatly increased due to cultural differences. According to an international survey of joint ventures, the average success rate is only a third [3]. One of the most prominent problems in the management of many multinational joint ventures is the conflict of management and culture between the two parties. With joint ventures, a lot of effort is needed to harmonize management systems and styles, and coordination costs are high.

3) To maintain the ownership advantages of transnational corporations the ownership advantages of transnational corporations are mainly reflected in the aspects of technology, enterprise scale, organization and management, especially the most important advanced technology [4]. These are their comparative advantages over their competitors in the host country, and they are the core competence for enterprises to obtain long-term competitiveness.

According to the existing research results, most of the literatures have analyzed the motivations and corresponding measures of multinational retailers to enter the Chinese market. However, there are still three deficiencies: in terms of research methods, most of the literatures only use written descriptions to analyze the measures taken by transnational retail enterprises to enter the Chinese market, without systematic analysis of how different transnational retail enterprises develop in combination with their own advantages; In terms of research conclusions, most of the literature fails to take into account the continuous decline in the operation status of multinational retail enterprises in the Chinese market in recent years. In terms of research and Suggestions, most literatures fail to provide Suggestions for Chinese retail enterprises to go global by combining the ex-

perience and lessons of multinational retail enterprises. Therefore, this study takes the poor operating conditions of multinational retail companies in China as the research background, and through SWOT analysis, systematically expounds the advantages of different multinational retail companies and their own disadvantages that do not adapt to the Chinese market, and gives their development status in the Chinese market. The reasons for the poorness, and finally combined with its development experience, provide some suggestions for Chinese retail companies to enter foreign markets. This study has certain theoretical guiding significance for promoting the development of China's retail industry.

### **3. Methodology**

This article USES the methodology of SWOT analysis will attempt to compare three famous transnational retail enterprises in China: Walmart, Carrefour and Metro [5]. Here, we analyze each of these companies, with a focus on the company's method—the company is to enter a new market and the best practice to use a certain degree of cross-cultural development strategy.

#### **3.1. Company Background**

##### **3.1.1. Walmart**

Walmart was founded in Arkansas in 1962 by Sam Walton. After more than 50 years of development, Walmart has become the world's largest retail chain and has repeatedly topped the fortune global 500 list.

Walmart entered China in 1996, opening its first Walmart mall in Shenzhen. After more than 20 years of development in China, it now has about 100,000 employees. Walmart has opened more than 400 stores and about 20 distribution centers in more than 180 cities in China. It has served 7 billion customers.

##### **3.1.2. Carrefour**

Founded in 1959, Carrefour group is the founder of the concept of hypermarkets. In 1963, Carrefour opened the world's first hypermarket in France. On August 30, 1999, Carrefour merged with promodeus to form the world's second largest retail group. Today Carrefour is the largest retailer in Europe and the second largest in the world. In 2014, Carrefour group was ranked the 39th among the global top 500 enterprises by fortune magazine.

Carrefour after entering China in 1995, using international advanced supermarket management mode, is committed to the social from all walks of life to provide quality and cheap products and excellent service, get the favour of broad consumer and sure, now, the company has already successfully entered the 25 cities in China, established more than 100 large-scale supermarkets, employ more than 30,000 employees.

##### **3.1.3. Metro**

Metro is the largest retail and wholesale supermarket group in Germany, the second largest in Europe and the third largest in the world. Metro AG has sever-

al Metro cash and carry stores under the Metro brand. Metro AG is a component company of the German stock index DAX and one of the world's top 500 companies with branches in 32 countries. Founded by Otto Beisheim and currently based in Dusseldorf.

Metro came to China in 1995 and cooperated with Shanghai Jinjiang group to establish Jinjiang Metro Cash and Carry Co., LTD. Jinjiang Metro cash and carry is the first joint venture to win Chinese government approval to set up chain stores in major Chinese cities. Metro opened its first mall in Shanghai's Putuo district in 1996, and it was a stunning success from the start. Metro brings a new concept to China and fills the gap in China's warehousing business.

### 3.2. Comparison SWOT Analysis

Upon looking at **Table 1** below, it can be concluded that the established strengths of multinational retailers are related to their competitive advantage or their success in entering new markets. These competitive advantages are the main factors for Walmart, Carrefour and Metro to enter the Chinese market. The following is a summary of the main competitive advantages of the three companies entering the market.

#### 3.2.1. Walmart

**Global brand image:** Walmart ranks the first in the global top 500. It is also the world's largest retail company. Walmart doesn't need any pictures to identify them because everyone knows it.

**Table 1.** SWOT analysis of three companies.

	Walmart	Carrefour	Metro
<b>Strength</b>	1) A global brand image 2) Have advanced international logistics system 3) Abundant human resources 4) Highly standardized management	1) Well-known retail enterprises 2) Localization of operation and its management 3) Mature marketing model 4) Own free brand products	1) Featured membership 2) Warehouse marketing 3) Products rich 4) Low-cost strategy
<b>Weakness</b>	1) The operation scale is too large, the management level is too many 2) China's logistics system is hard to cut costs 3) Don't have enough competitiveness in key areas	1) Many of the stores are not in prime locations and have low customer traffic 2) Single store management model, procurement and human resource management is not transparent 3) Strained relations with suppliers	1) Weak price advantage 2) A rudimentary interior design 3) Membership is different from Chinese guests philosophy
<b>Opportunity</b>	1) The Chinese government encourages residents to consume and expand domestic demand 2) Scale operation, low price strategy 3) Acquisition of local Chinese retailers	1) Strengthen its cooperation with convenience stores and integrate distribution and service 2) Adopt online-offline development mode to develop B2C platform 3) Select the right store location to attract more customers	1) produce more independent brands 2) Strengthen publicity to let more consumers know about warehouse supermarkets 3) Improve your shopping environment
<b>Threat</b>	1) Its position as the world's number one retailer is a catch-up for its rivals 2) Vicious price competition 3) The impact of e-commerce	1) Price gouging incident 2) Competition from Bargaining power of suppliers	1) The product price is more expensive for individual guests 2) The address is relatively partial

**Advanced international logistics system:** Walmart has an international logistics system supported by advanced Internet big data. Under this system, Walmart can hold the transportation, sales, storage and other logistics information of its products in every store throughout China.

**Highly standardized management:** the internal management of Walmart is highly standardized and the management concept is scientific.

**Abundant human resources:** Walmart attaches great importance to human resources development and has a large number of loyal and professional operation team.

### 3.2.2. Carrefour

#### **Well-known European retail enterprises**

Carrefour is the largest European retail enterprises, with a greater brand influence, and the Chinese translation of “Carrefour” to customers to convey the concept of “happy shopping Carrefour”, has a greater appeal to Chinese consumers.

#### **Localization of operation and management**

Carrefour (China) has achieved good localization in the aspects of retail technology, human resources and operation mode, which alleviates the strangeness of Chinese customers and makes them more willing to accept its products and services.

#### **Mature marketing model**

Carrefour has brought mature marketing model from Europe, with a complete set of marketing and operation means.

#### **Own free brand products**

Carrefour owns nearly 2000 kinds of its own brand products covering various areas, such as groceries, home appliances, fresh food, textiles and general merchandise. It adopts the most favorable price control and the most strict quality management, which has great attraction to customers.

### 3.2.3. Metro

#### **Special membership system**

Metro cash and carry supermarkets will segment the market and pay more attention to target customers; through membership system, it takes specific groups of people as its service objects, provides professional services to them, and improves customer loyalty.

#### **Warehouse marketing**

As a typical warehouse store, Metro stores are like a modern warehouse with simple internal structure and large industrial shelves. The space between the shelves is large, which is convenient for the forklift to access the goods and complete the quick replenishment work.

#### **Rich products**

Metro supermarket has nearly ten thousand kinds of products, food products are relatively stable, non-food products are adjusted regularly according to the season and customer needs.

#### **Low-cost strategy**

Metro usually locates on highways or main roads in the urban fringe of big cities to avoid urban congestion, reduce investment risk due to relatively cheap land, and facilitate the flow of goods between customers and suppliers, effectively reducing operating costs.

## 4. Results and Findings

Walmart, Carrefour, Metro, respectively enter the Chinese market in 1995, 1996 and 1996, they now have developed more than 20 years in the Chinese market, but its operation situation is not optimistic. We will focus on studying these transnational retail enterprises in China's development strategy and try to analyze the cause of poor performance in the Chinese market.

### 4.1. Spatial Layout Strategy

#### 4.1.1. Walmart

The distribution of Walmart stores, in addition to south China to Shenzhen as the center, southwest Kunming as the center, north China to Beijing as the center, northeast Dalian as the center of the regional development pattern has taken shape, and is now entering the western China [6]. Walmart first, on the same level to choose city development area as the center, and then according to the city to spread around, Walmart will choose high grade in the beginning into the city, as the market is relatively mature, the rapid economic development, need only a short time can be stabilized, so each other can keep in touch again, to supply the goods is very convenient, cost is not too high, can also be pulled by store development in central cities surrounding its development, in the shortest time to adapt to the market.

#### 4.1.2. Carrefour

Carrefour is based in eastern China and will expand into western and southern China. Carrefour in the site selection less and host country many businesses together cluster, Carrefour not only consider the site prosperity, but also pay more attention to the overall layout and long-term development.

#### 4.1.3. Metro

Metro group's main business is the warehouse stores, the first a cash-and-carry store opening is in Shanghai, before 2000, Metro, 8 home owner if distributed in the Yangtze river delta, then expanded to Chongqing, Dalian, Xian, Wuhan, Shenyang, Tianjin, gradually into the central China, north China, southwest and northeast of the market, after 2005, metro, and march to southern China, in Shenzhen, Guangzhou and other large cities expansion, it is selective selected cities, usually in the development of high degree of first-tier cities, for the major areas has its influence to the footing.

### 4.2. Marketing Mix Strategy

#### 4.2.1. Product

Product sourcing: build a global sourcing network to provide cheap products to

consumers.

Localization strategy: before opening new stores, multinational retailers investigate local consumer preferences, determine the structure of products on shelves, and negotiate with suppliers to reduce procurement costs [7]. When multinational retailers entered China, the proportion of local products was not high, but they found that many foreign products could not meet the needs of local Chinese consumers, so they increased the proportion of local products.

Product display: in order to enable customers to find their desired products quickly, multinational retailers will set up many sales zones in their stores and plan product display based on Chinese consumers' shopping preferences.

#### **4.2.2. Price**

Daily parity: the positioning of multinational retail enterprises is the lower middle class, dealing in clothing, food and various daily necessities. They try to keep operating costs as low as possible, using slogans such as "everyday low prices" and "one-stop shopping" to lower prices to attract consumers.

Profit promotion: stores will regularly carry out major promotional activities, such as the anniversary celebration and some major holidays. At the same time to carry out regular discount sales of seasonal goods.

Membership system: these multinational retailers will invite customers to join the store membership. Customers with membership status can enjoy preferential prices, excellent service and other privileges according to the articles of association.

#### **4.2.3. Promotion**

Advertising: multinational retailers have traditionally spent less on advertising.

Promotional activities: Stores will choose appropriate products for promotion, such as holding annual moon cake and Lantern Festival promotions, which can greatly increase the turnover in a short period of time [8]. At the same time, by organizing some social activities, giving gifts or inviting singers or bands to perform to attract more consumers.

Public relations: these retail enterprises entering China pay great attention to building their public image. They regularly carry out public activities, such as reducing advertising expenditure, and actively devote themselves to charity and public works, which make a good impression on Chinese consumers.

#### **4.2.4. People**

Staff localization: local employees know more about the local customs, culture and economic environment, and closer to the consumer, also is easier to deal with the government, to ensure that the enterprise culture and the integration of local atmosphere, in addition, employees localization will eliminate the distance of the heart to the enterprise, make it easier for consumers to accept the enterprise products and services. Multinational retailers in China also mostly employ local staff, except for a few senior managers, the staff has basically realized localization.



### **4.3. Reason for Pool Performance**

#### **4.3.1. Consumer Preference**

In the United States and Europe, large retail stores and small retail enterprises are in a complementary relationship. Consumers usually buy a small number of items in nearby small supermarkets and convenience stores, and they are used to going to large retail stores to buy daily necessities at a fixed time every week, and they also purchase a large amount each time. However, the consumption preference of Chinese consumers is quite different from that of foreign consumers. People are more willing to go to small supermarkets, convenience stores or farmers' markets close to home to buy a few items every day.

#### **4.3.2. High Operating Cost**

A big reason why big retailers do well in America and Europe is that they have low operating costs, which in turn means they sell goods at relatively low prices. But in China, multinational retail enterprises advanced satellite positioning system and efficient logistics management technology in our country are subject to certain restrictions, so they need to take more logistics, warehousing, information, and management costs, leading to large retail stores are selling commodity prices and small retail supermarkets almost no difference. Although the scale of small retail supermarkets cannot be compared with large retail stores, they have the advantages of large number of stores, low logistics and storage costs. Most consumers do not choose to shop only in large retail stores because of the wide variety of products and strong shopping experience. Instead, they choose to buy the required products in the nearest supermarket or convenience store. Foreign large retail enterprises have lost their price advantage in China, so it is difficult to get good development.

In addition, compared with domestic retail supermarkets in China, multinational retail enterprises have to bear more tax burdens, which also weakens the competitiveness of foreign large retail enterprises to some extent.

#### **4.3.3. Site Selection**

In the United States and Europe, because consumers regularly go to large retail stores for shopping, these large retail stores are mostly located in the suburbs. The low rent can save a lot of construction costs, and at the same time, larger parking lots can be provided for customers. But Chinese consumers do not have such shopping habits, and if the store layout in the suburbs to save costs, it will be difficult to attract customers to come to spend.

Compared with small supermarkets and convenience stores, large retail supermarkets have the characteristics of high construction cost, large floor area and wide radiation range. In order to gain more customers, multinational retailers developing in China generally consider to locate their stores in the central business district. However, due to the policy restrictions, it is generally difficult for multinational large retail enterprises to obtain the location of the prime location, resulting in low customer flow, and ultimately difficult to maintain their basic operations, so they have to withdraw.

#### **4.3.4. E-Commerce Impact**

Walmart, Carrefour, Metro and other multinational retail enterprises did achieve ideal development results when they first entered China. But with the rapid development of e-commerce in China, bricks-and-mortar retailers have been greatly impacted. With the advantages of convenience, low price and abundant products, consumers prefer to shop online at home instead of taking the time to specially go to large retail stores to buy the products they need.

#### **4.3.5. Strained Relations with Suppliers**

Large retailers entering the Chinese market usually earn profits by charging suppliers high entry fees, shelf fees and other fees, or by requiring suppliers to provide a certain percentage of the annual commission on merchandise sales and warehouse commissions, resulting in the tension between these multinational retailers and local suppliers in China.

In summary, although multinational retail companies have their own advantages and have taken various measures to increase their share in the Chinese market, the uniqueness of Chinese consumer preferences and the huge impact of e-commerce in China have led to multinational retail. After more than two decades of development in the Chinese market, profits have continued to decline.

### **5. Suggestions**

Based on the analysis of the mode of the world famous multinational retailers entering the Chinese market, we can find that although multinational retail companies such as Wal-Mart, Carrefour and Auchan have well-known global brand images and have actively taken various measures to enter the Chinese market, their operating conditions have not been optimistic in recent years. These development experiences have important reference and reflection significance for the overseas development of Chinese local retail enterprises. So this paper puts forward the following three suggestions for Chinese retailers entering the foreign market.

1) For the choice of investment host country, the first consideration should be a higher level of per capita GDP or growth invest in faster markets, not in less developed ones to avoid competitive pressures [9]. In addition, factors such as per capita GDP, urbanization rate and competition should be taken into account. For this reason, emerging countries in the market transition can be considered, because the economies of transition countries tend to have the following two characteristics: rapid economic growth and large population.

2) In the process of outward investment expansion of the retail industry, it is necessary to fully recognize the progressive nature of international investment in the retail industry [10]. In the early stage of entry, it is necessary to have a clear understanding of the politics and economy of the host country, as well as the consumption capacity and preferences of its citizens through full research, and carry out gradual investment expansion based on certain successful experience.

3) Since the cross-border investment in retail industry is also affected by the

retail saturation of the host country, after Chinese retail enterprises enter a foreign market, they can take the method of rapid regional centralization to select the domestic market for expansion.

### Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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