

FEATURE Deep pockets and sharp elbows needed to muscle into China's \$2.3 trillion retail sector

Retailing in China

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BC entrepreneurs who want a piece of China's multi-trillion-dollar retail scene should come in big, at multi-levels, and be backed with brand-name cache to have a shot at success. The potential is enormous but so are the risks, says Hong Kong-born **Anthea Wong**, a China retail analyst with **PricewaterhouseCoopers**.

Even such a strategy is no guarantee that a North American retailer would survive on the competitive streets of such cities as Beijing or Shanghai. Witness **Home Depot**, which pulled out of the Chinese capital last year, shutting six stores after a losing a two-front battle against lower-priced competition and convincing middle-class Beijing residents to do home repairs themselves when labourers can be hired for less than \$2 a day.

Best Buy shut its last store in China a year ago, and has relaunched under the **Five Star** banner with a Chinese joint venture. Even **Mattel** closed its Barbie store in Shanghai, unable to compete against much cheaper but precise knock-offs.

Still, Swedish furniture giant **Ikea** is thriving, **Apple** outlets are packed, the **Gap** chain is expanding and, when Wong went shopping for a \$500 **Hermes** scarf in Shanghai (where the high-brand retailer has a 40,000-square-foot outlet), the entire stock was sold out. **Levis** found that sales increased in Beijing when it doubled the price of its famous blue jeans to \$200 a pair.

Luxury brands are huge in China, Wong said. "**Louis Vuitton, Chanel** and **Gucci** have a strong hold," she told a recent Vancouver seminar on China retail, also citing **Hugo Boss** and **Ermenegildo Zegna** as enjoying "tremendous success" in a male-dominated and growing middle- and upper-class consumer market.

China's middle-class – defined by those earning the Canadian equivalent of \$10,000 to \$80,000 per year – now totals about 104 million consumers, but there are at least a million Chinese with personal wealth of more than \$1.5 million and 60,000 individuals worth in excess of \$20 million.

"China is on its way to becoming the world's biggest market for luxury goods," Wong said. On the other hand, more than 5 per cent of the country's population, or 650 million people, are listed at a poverty level, equal to earning \$1.25 per day.

Wong, who couldn't name a Canadian brand name other than **Lululemon** and "maple syrup," said B.C. retailers could start their Chinese foray with a multi-level marketing approach.

"Chinese online retail transactions have increased at a staggering rate," she said, adding that 62 per cent of consumers now do at least some shopping online – from near zero six years ago – compared with 66 per cent in Canada and 47 per cent in the U.S.

Opportunities also exist in the franchise sector, which is worth about \$50 billion in annual sales. There are now more than 4,500 franchise businesses with 400,000 stores in China. Vancouver-based **White Spot**, which opened in Hong Kong nine years ago, now



Nanjing Road, Shanghai: retail space rents are steep, but shoppers are plentiful.

has three locations in Asia's biggest country.

Wong cautioned, however, that Chinese franchisees are often "fiercely protected" by local governments, which could make it hard for a foreign franchisor.

It takes deep pockets to lease retail space in the major cities that represent 86 per cent of China's

\$2.3 trillion consumer market. In Shanghai, annual lease rates for ground-floor space on East Nanjing Road, a premium shopping district, run to \$347 per square foot, while even lower-tiered streets can top \$150 per square foot, comparable to Vancouver's Robson Street, according to a report from **Cushman Wakefield**'s Shanghai office. Wong recommended foreign retailers look at second-tier

Retail comparison: Shanghai and Vancouver

	Shanghai	Vancouver
Population	19.3 million	620,000
Retail sales (2011)	\$107 billion	\$22 billion
Annual sales increase*	14 per cent	1.3 per cent
Unemployment	4.1 per cent	7.2 per cent
Prime retail lease rate**	\$300-\$347	\$150-\$200

Sources: Cushman Wakefield/Changjiang Securities Co./Central One Credit Union
*2010-11 **Annual, per square foot, triple net

cities, where development of high-speed rail transit and highways has opened markets.

Aside from luxury items, the fastest-growing retail sectors are fashion, furniture and food and beverages. The latter category could hold potential for Canadians. According to PricewaterhouseCoopers, China is on a fast track to become the world's biggest market for beer. ♦