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**“THE STUDY OF CHINA'S RETAIL MARKET
AND RETAILING ENTERPRISES' STRATEGIC
CHOICES”**

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**CHAPTER I:
INTRODUCTION**

Introduction

The background and the purpose of this study:

Since reform and opening-up in 1979, as economic development and advancement of technology in China, consumer market of China is gradually extended, great changes have taken place in retail of China, new retail patterns are constantly emerging, merchandises and services are increasingly abundance, shopping has becoming increasingly convenient. Retail is a traditional industry, has changed from a peripheral industry to dominant industry of national economy, and has a bright prospect. However, in the process of fast developing of China's retail, there are many problems that have not been completely solved. According to agreements of WTO, China's retail market will remove protective restrain on quantity and region, expansion speed of foreign large-scale retail corporation is accelerating, competition is extreme heated in China's retail. Foreign large-scale retail enterprises which have absolute advantages in resource, technology and management utilize their advanced managerial technologies to seize chain supermarket domain which is easily to manage according to scale management, which makes China's retail facing more serious trials. In the face of competitive and complex market environment, how to survive and seeking to development for China's retail is not only an issue all the retail operators have to face, but also attracts common attention of researchers. This article will exhaustively analysis the development history, current situation and development of main formats of China's retail, and combined opportunities brought from changes of external environment, advantages of supermarket format and problems exist in China to analysis principal market strategies of local retail, development strategies in China and replies to local market for foreign investment enterprise. That provides some experiences for the development of China's retail.

Retail is an important part of the country's economy, and one of industry that has the fast changing and the most vibrant in recent years in China. For the development of China's retail, on the one hand, due to be influenced from economic globalization, informatization and the impact that China joins to WTO, etc, so that facing unprecedented challenges and opportunities. On the other hand, China's retail completes changes of retail format since the western half of the 19th century in a relatively short time. There are many places should be improved in the theoretical study and practical experience. Especially, theoretical exploration of development model and strategic choice exist insufficiencies in China's retail. Therefore, this thesis systematically researches development and strategic choice in China's retail which is a research topic with important theory and practical significance.

Firstly, this thesis summarizes the main factors that affect the development of retail through researches the development process of developed countries and China's retail, and researches several major formats in China's retail that analyzes the status of development in several major formats. It hopes that provides the new ideas for the development of retail through analysis of the development and format's changes in China's retail in order to form a reasonable pattern of retail formats.

Afterwards, systematically summarizes existent problems and causes for the development of China's retail. At the same time, advances relatively existence opportunities and advantages. When China's retail enterprises reply international competition, its competitiveness will be low. This problem is not just arisen in the process of opening up in China's retail, and the accumulation of problem in the long term. Therefore, completely analyze causes of existence problems and arising problems in the development of China's retail, which is a basis that advances targeted

development strategies in retail.

The strategic choice of China's domestic retail is advanced in order to provide the reference and guidance for large domestic retail enterprises. It advances how to find a way out for domestic retail enterprises which is a real and serious issue.

With increased extent of opening up in China's retail market, more and more multinational retailers enter into the Chinese market, so that the local retailers generally sense unprecedented competitive pressure and existential crisis. In this context, researches completely strategy and response of local market in multinational retailers in China which has important practical significance.

This framework of study has five parts:

In the introduction, it mainly elaborate the background of selected topic in this thesis, as well as research the development model and development strategy in China's retail, and summarize the major work in this thesis.

In the second chapter, briefly describe the development process and retail's status quo of developed countries and China's retail. To process comparative analysis in the different development stages of developed countries and China's retail development, and the showing characteristics in each stage, so that sums up the factors to drive the development in retail. It introduces that retail formats and other related concepts. From the number of stores, business area, annual sales, the proportion of each format and other aspects, analyze the situations of several major formats in China's retail.

In the third chapter, the main research is that the development status quo and

development problems in China's retail. Through examples, data and related policy analysis, China's retail exist the reasons and main problems which are found out, such as excessive competition, irrational formats structure, regional structural imbalances, excessive openness of retail market, etc.

In the fourth chapter, according to key point in the domestic retail strategic research, combine with typical case of the retail giant in China, and analyze general theories, practical experience and shortcomings of several major business strategies in the domestic retail enterprises. Through the examples, discuss the importance of strategy and the necessity of the development strategy in China's retail at this stage, and advance how to find a way out for the domestic retail enterprises which is a real and serious issue.

In the fifth chapter, from the perspective of the retail internationalization process, researches market behavior and response of local retailer in China in multinational retailers. The research regards the size and speed of expansion, location, mode of entry, format selection, localization strategy, withdraws from the Chinese market, and the response of Chinese government and local retailers as a whole in multinational retailers in Chinese market, and analyzes specific strategies that local retailers aim at behavior of multinational retailers. Finally, it advances proposals and suggestions for the Chinese government and local retailers.

This study mainly adopts the methods for research as follows:

- (1) Historical Method. The development of retail and the track of format's changes are investigated by the historical method, so that revealing the internal mechanism on development of retail and changes of format.

- (2) Comparative Approach. Compared with the similarities and differences between developed countries and the development of China's retail, and characteristics of retail format in different stages of development. China's retail and trends of strategy's development are analyzed by comparison of historical data.
- (3) Case Study Method. In view of a few influential cases, give the secondary evidence and description for analysis of the retail strategy, and process summary and analysis from the cases.
- (4) Literature Method. Through see the literature documents, process summary and further analysis for the key point of research in the domestic retail strategy, and in the perspective of the retail internationalization process, build up a comprehensive strategy of multinational retailers in China, and the frame system is responded in the Chinese government and local retailers.

The limitation of this study:

- (1) Retail industry study, which is founded on the basis of marketing management, does not own its own basic theory. The classic theories such as Wheel of Retailing Theory (McNair, 1958) , Retail accordion theory (Hollander, 1966) , Retail Life Cycle Theory (Davidson, 1976) , etc. just are some branch study. And sometimes because of insufficient support data, it's very difficult to verify by empirical methods. Although China's retail development has many similarities with the developed countries, China's retail industry couldn't learn a lot from them to put into practice. And there are only a few papers in Chinese Retail theory study that we can use.

(2) In addition, we only study the development of China's retail industry from a macro view without some in-depth analysis of enterprises. And because most of the current business information platforms are created by their own, we can't get enough specific official statistics to analyze the impact of strategies.

**CHAPTER II:
DEVELOPMENT OF CHINA'S RETAIL
INDUSTRY**

1. History of Retail Industry Development in Developed Countries and China

1.1. Developed Countries' Retail Industry Development

According to <Modern Industrial Economics 2nd edition> by Su (2005), the development of retail trade in developed countries could be roughly divided into 3 stages according to generation and development of main states.

(1) The first stage: the generation and development of department stores, chain stores.

In 1852, the first department store Bonmarche was founded in Paris, France. Department store has large area of business site; businesses establishments are comparative perfect, operation items are comparative complete, which satisfy the diversified requirements of customers, and provide manufacturers fixed sites to show their products. Its appearance indicated retail formats have changed from decentralized, single-crop farming store to department store which mixed farming varies goods. Since 1860's to 1920's is the golden age of the development of apartment store. The Great Atlantic and Pacific Tea Company (A&P) which founded in 1859 is regarded as real chain store. The chain store was under the control of headquarter and operate the same kind of products by branch stores, use the same trademark and adopt uniform purchase and distribution, which realizes scale-operation retail corporation. After nearly one century's development, in 1950's, chain store has been one of the most important format in American retail business. It adapts the requirement of social production, organically combines the scale-operation of modern production and circulation, and free purchase and personalized consumption of consumers.

(2) The second stage: the spring of supermarket.

In 1930, Michael Kullen set up the first supermarket all around the world in New York. The supermarket mainly operated foods and daily suppliers, it advocated the operate mind of “one-stop shopping” and the consumption pattern of “self-service”, carried on the advantages of department store and chain operation, and adopted the sales strategy that great deal of purchases and in large quantity of selling, tried to reduce product price, surrender part of profits to consumers. The appearance of supermarket adapted to the fast stage living of people, satisfied residents’ weekly shopping requirements. It greatly affected and promoted the development of the whole retail industry.

(3) The third stage: the appearance of emerging formats such as shopping mall, franchised store, warehouse store, discount store, and incorporeal stores.

As the enlargement of the gap of incomes, and the difference of consumers’ requirements, retail formats which aim at different consumer groups have appeared. Shopping mall is a larger business place which integrates shopping, catering, entertainment and leisure. Not only that, it also solves the difficulty of parking in department stores. Franchised store is a reflection of consumers’ loyalty to a certain brand. While warehouse and discount store attracts consumers who were sensitive to the price.

Since 1990s, as the broad exercise of electronic technology, telephone-order, TV shopping, on-line shopping, post selling and other no-store formats emerged as required. Especially electronic business, it could be regarded as the greatest success of incorporeal store selling, which has advantages of 24 hours, cross-boundary, fast speed, low cost, high accuracy and fasten feedbacks of consumer information and so on, at the same time, because of bi-directional communication, people could know the requirements of consumers in time, which sufficiently satisfies personalized requirements of consumers.

Presently, foreign retail formats with multi-arrangement, multi-form, multi-function, which adapt to different consumer groups, have basically formed a retail operation system which takes department store and supermarket as stem, other formats development jointly, presently, there are four main types as follow: firstly, large-scale chain supermarket which set distribution center as basis, which mainly through distribution center radiate to regional business networks which make up of a number of supermarket; secondly, set large-scale supermarket as core, links of scale shopping center which has includes many franchised stores at urban and rural connecting areas and besides high way; thirdly, integrated mall which includes catering, entertainment, accommodation and so on, and based mainly on large-scale department stores, this is a main retail formats in big and medium-size city; fourthly, retail operation network that makes up of small and medium-size supermarket, convenience store, discount store and franchised store so on.

1.2. Chinese Retail Industry Development

According to < Chain store operation and Development> by Wang (1998) and < Development process of China's retail (1981-2005) > by Li (2006), Chinese retail industry could be mainly divided into 3 stages:

(1) The first stage: from early 1950s to late 1970s.

In this stage, China practiced pure planned economy, it was in typical “shortage economy” era, social production level is low, as well as the level of marketization and commercialization, relationship between supply and demand is strained, almost all the merchandises are over demand, politics, economy, culture, technology, population and family environment all do not adapt to development and growth of emerging retail

formats, market was dominated by large-scale and medium-scale department stores and small-scale retail stores which reflect the requirement of planned economy, format structure is comparative solidified and lack of sufficient market competition. This retail format structure is roughly matched with consumption level and market situation of this stage.

(2) The second stage: from early 1980s to middle 1990s.

After reform and open, China continued devoted into the transform from planned economy to merchandise economy, even to Socialist Market Economy, domestic economy grew fast, during the 13 years, from 1979 to 1991, the average annual growth rate of GDP has reached 9.02%, while during the 26 years, from 1953 to 1978, average annual growth rate of GDP was just 6.03%; At the same time, income condition of urban and rural residences has improved a lot, especially in the early 1990s, it stood out, concrete condition is shown in table 1:

Table 1 The Table of Growth Rate's Change on Per Capita Income of Urban and Rural Residents from 1990 to 1994

Project Years	Changes on Per Capita Net Income of Rural Households		Changes on Per Capita Disposable Income of Urban Households	
	Annual Growth Rate of Monetary Income (%)	Annual Growth Rate of Real Income (%)	Annual Growth Rate of Monetary Income (%)	Annual Growth Rate of Real Income (%)
1990	14.10	1.88	9.78	7.22
1991	3.24	1.99	12.60	9.65
1992	10.64	5.92	19.17	9.50
1993	17.55	3.18	27.18	8.50
1994	32.49	5.04	35.65	4.88

Source: Adapted from Jin (1999).

* 1 Euro = 10 Yuan = 1.4 US Dollar (Source: China Statistical Yearbook on S&T 2006)

According to incomplete statistics, before 1979, there were less than 30 marketplaces which has over 10,000 m² operating area, and an annual turnover of over 100 million Yuan in China, it increased to 94 marketplaces in 1991, and 291 in 1993, then jumped to 625 in 1995, and plumped to 831 in 1997 (Li, 2002). In late 1980s and early 1990s, Chinese market was extremely easy, and most state-owned enterprises were in slump while large-scale departments outshine others, have distinguished achievements, and created the myth of “department store” format. But because of over emphasizing on the extension of single-scale, marginal adaption and innovation of format itself has been ignored, vicious competition aggravated in the industry, by 1995, the growth of sales and profits of some large-scale department stores tended to be slowly, individuals began to appear negative growth, which indicates prematurity of department store format, and foreshows the format’s winter round the corner.

All in all, in this stage, Chinese retail formats presented a pattern of multi-element coexist. Traditional department stores were supernormal expanded; emerging formats such as supermarket, warehouse store, and convenient shop etc had a powerful momentum.

(3) The third stage: from late 1990s to now.

Firstly, traditional department stores have difficulty progressing. According to statistics, the quantity of large-scale department stores which founded during “the 8th 5 year Project Period” is equal to the sum of the previous 40 years, this blind expansion foreshadowing the decay of traditional department store. Entering into late 1990s, traditional department stores began to all-round turning down. In 1996, it began to

appear the phenomenon that luxurious shops went into bankrupt or close, and that grew in intensity in 1997. Not a few large-scale retail department enterprises, for example, the brunch store of Shanghai Yi Bai in Xian, Guangzhou Qian Cun shop, and Beijing Ka Ma commercial shop went out of business one after another; from 1996 to the first half year of 1997, seven large-scale and middle-sized department stores closed down in Hangzhou, the quantity of failed large-scale department stores kept climbing in 1998, somebody even call that year “the fail year of large-scale department stores”.

At the same time, new formats present a vision just like a hundred flowers in bloom, a supermarket which provides good quality at low price, convenient store and warehouse stores etc formats are developing at a high speed, among them, the development of chain stores is fastest. Some emerging retail modes, such as online shopping, mail order etc have risen up in some big cities of China. Overall, Chinese retail formats have stepped into a new era that emerging retail formats developing while traditional retail formats optimize their layout and reorganization.

Table 2 Comparison and Analysis with the Retail’s Stage of Development and Characteristics between China and Developed Countries

Stage	Developed Countries	China
The first stage: The rise and heyday of department stores. Large-scale socialized production causes that the types of goods rapidly increase. Appearance of department stores make the same stores sell more categories of goods possible.	Many types of sales. The department stores of price tags, after-sales service and operation of high-grade goods are accepted from market. The increase of urban population promote that department stores have a rapid development in the city center.	The early stage of the reform, China has the transition from planned economy to market economy. The goods change form shortages to rich, so that promote the rapid development of the department stores. The good reputation and

	<p>The middle class become the main customer group in the department stores.</p>	<p>price tags of department stores are also trusted from the residents.</p>
<p>The second stage: The department stores occupy leading role, and supermarket emerge and develop rapidly.</p>	<p>The development of suburban shopping centers leads to department stores spread out, and along with the development of shopping centers, so that the development of department stores moves towards the crest.</p> <p>The consumer demands of different categories lead to the development of professional format.</p> <p>In department stores, sales of the commodities are replaced by supermarket industry.</p>	<p>The supermarket industry speeds up the development, and becomes major retail channels of consumer goods.</p> <p>The department stores are shocked by other formats, and management field is mainly grouped in the clothing, cosmetics, jewelry and so on.</p> <p>The rise of the middle class and upgrading of consumption promote upgrading of consumption on such goods.</p>
<p>The third stage: The steady development of the modern supermarket format and the gradual growth of specialty store, and the appearance of new format increases competition between various formats on the market.</p>	<p>The specialty stores and franchised store split constantly the market share of department stores. The department stores are fiercely shocked from other industries.</p> <p>The development of chain becomes market mainstream.</p> <p>The advancement of modern</p>	<p>The business model of shopping center is favored by department stores.</p> <p>The specialty stores have rapid development, and account for a large market share.</p> <p>The new formats start to appear, such as TV shopping, mail order,</p>

	technology motivates the new formats, such as non-store business.	online shopping and so on. The department store format begins to decline, and through constant upgrading to maintain their competitiveness of industries.
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Source: Adopted from summary in contents above

Over all, since 1990s, various internationally popular new retail formats, such as the supermall, warehouse store, the convenience store, franchised shop, specialty store, the discount store and online shop, etc. have gradually come into China. According to the promise in China's accession to WTO, China has cancelled the region and quantity restriction for the access of the foreign retail enterprise on the 1st of December in 2004, and cancelled the restriction of the controlling interest of the foreign retail enterprise in 2005. At present, the retail market has become one of the industries in the economic growth with the fastest change, the highest marketization level and the most furious competition.

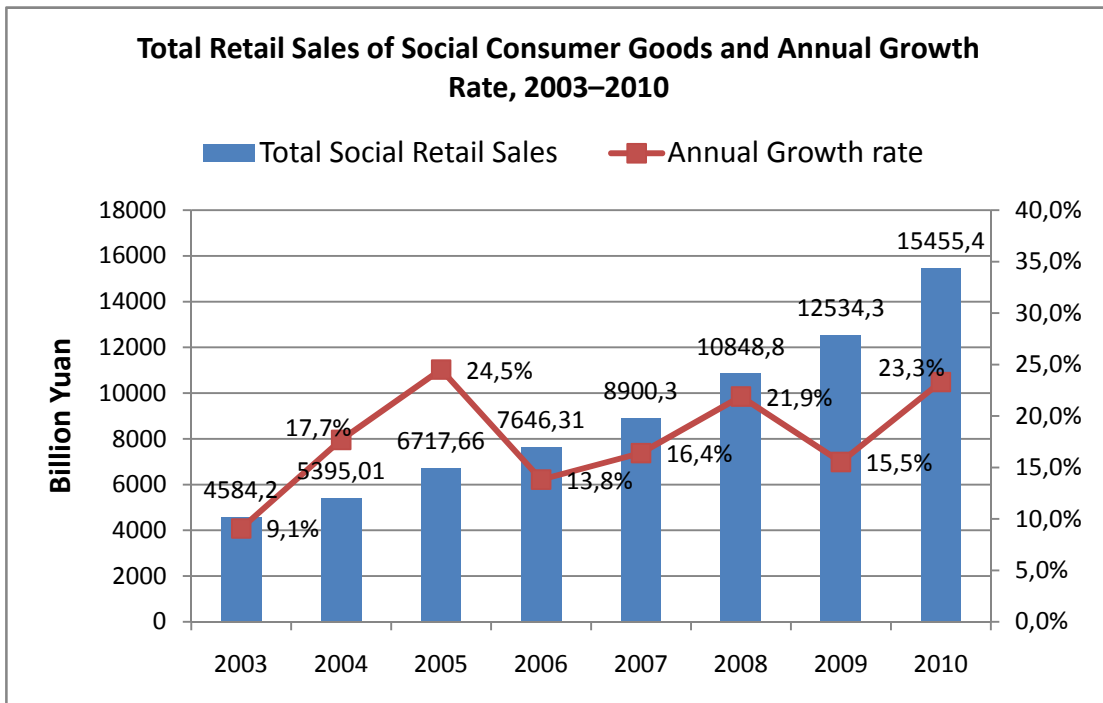
2. Development Status Quo of Chinese Retail Industry

2.1. Increasing scale of the retail market

With the continuous increase of the resident's purchasing power, the abundance of the commodity supply on the market and the increasingly expanding scale of the market operators, the retail scale of the product on the retail market in China is rapidly expanding. From 1997 to 2010, the actual average growth rate for the total retail sales of

social consumer goods in China exceeds 10%. Since 2004, the upgrading of the resident’s consumption structure further promotes the momentum of stably and rapidly growing of the consumer market in China. From 2003 to 2009, the actual average growth rates for the total retail sales of social consumer goods in China are 9.08 %, 17.69 %, 24.52 %, 13.82 %, 16.40 %, 21.89 %, 15.5% and 23.3% (Table 3) respectively with the growth rate increasing year by year. In 2010, the total retail sales of social consumer goods in China achieved 15,455.4 billion Yuan, increased 23.3% than 2009. The stable and rapid development situation of the consumer market indicates that the development of the consumer market in China has entered into a new stage that the market scale has jumped onto a big expansion platform and will develop with an annual growth rate in trillion Yuan.

Table 3 Total Retail Sales of Social Consumer Goods and Annual Growth Rate, 2003–2010



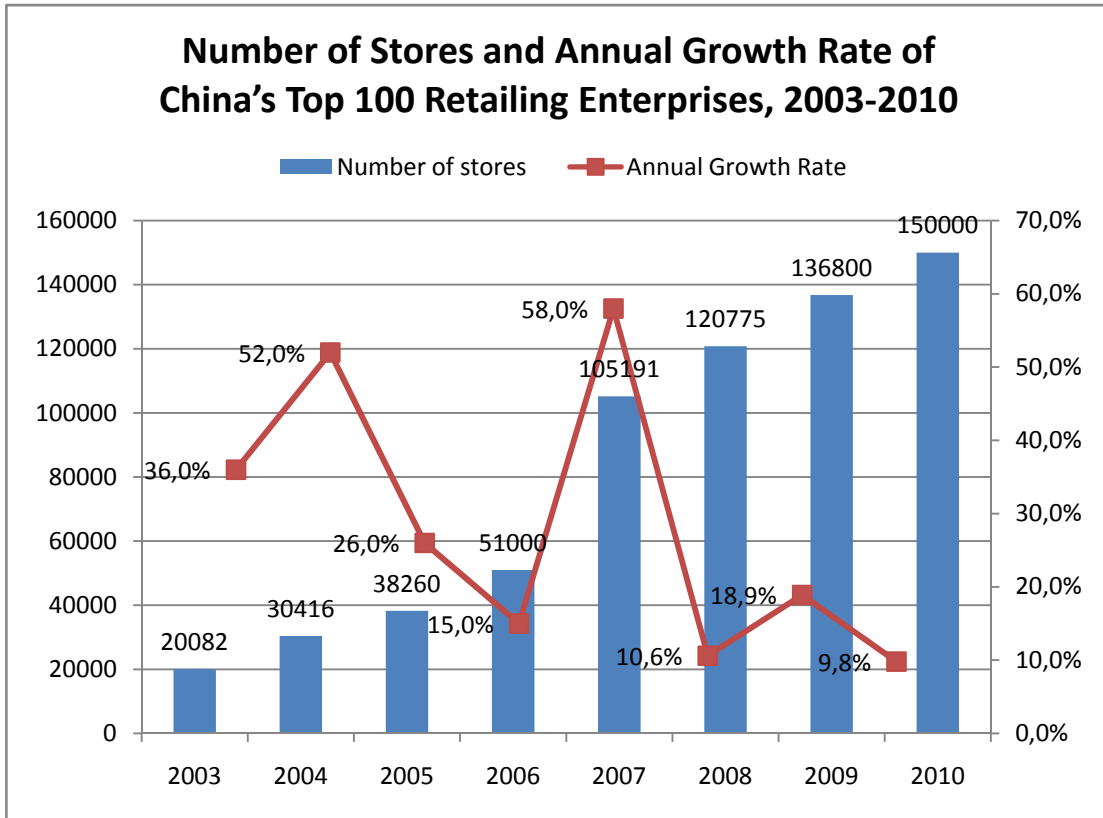
Source: National Bureau of Statistics (NBS), Access Asia.

2.2. Rapid rising of the new retail market

At the beginning of 1990s, most retail formats which have appeared in the Western countries for a century enter into the retail market in China, including the supermarket, warehouse store, discount store, shopping mall, specialty store, no-shop retail, warehouse mall and online shopping, etc and the dispute situation appears.

In 2010, the sales of China's top 100 chain enterprises achieved 1.66 trillion Yuan, up 21.8%, accounting for 10.6% of the total retail sales of social consumer goods in China. In the meantime, the number of stores of top 100 chain enterprises reached 150 thousand in 2010, up 9.8%, which was the lowest growth rate since 2003; moreover, 18 of the 100 enterprises didn't open new stores or even shut down existing stores in the year.

Table 4 Number of Stores and Annual Growth Rate of China's Top 100 Retailing Enterprises, 2003-2010



Source: National Bureau of Statistics (NBS), Access Asia.

And in the top 100 enterprises in the retail market, 56 Multi-format retail enterprises have the total sales amount of 978.43 billion Yuan, accounting for 58.80% of the total sales amount; 19 Department stores have the total sales amount of 127.52 billion Yuan, accounting for 7.66% of the total sales amount of the top 100 enterprises; 16 supermarkets have the total sales amount of 136.76 billion Yuan, accounting for 8.22% of the total sales amount. (Proportion of the sales amount of the enterprises in retail format (10,000 Yuan) to the total sales amount of Top 100 enterprises (%))

Table 5 China's Top 100 Retailing Enterprises Composition 2009–2010

China's top 100 retailing enterprises composition 2009–2010					
		Number of Stores		Sales amount (10,000 Yuan)	Annual Growth Rate of sales
		2010	2009	2010	2009
					2010

Multi-format retailing enterprises	56	62	97,843,315	85,753,186	14.10%
Department store	19	14	12,752,188	8,495,311	50.11%
Supoer Market	9	10	13,676,373	12,015,271	13.82%
Specialty Store	11	10	38,999,821	29,385,759	32.72%
Others	5	4	3,140,457	1,033,473	203.87%
Total	100	100	166,412,154	136,683,000	21.75%

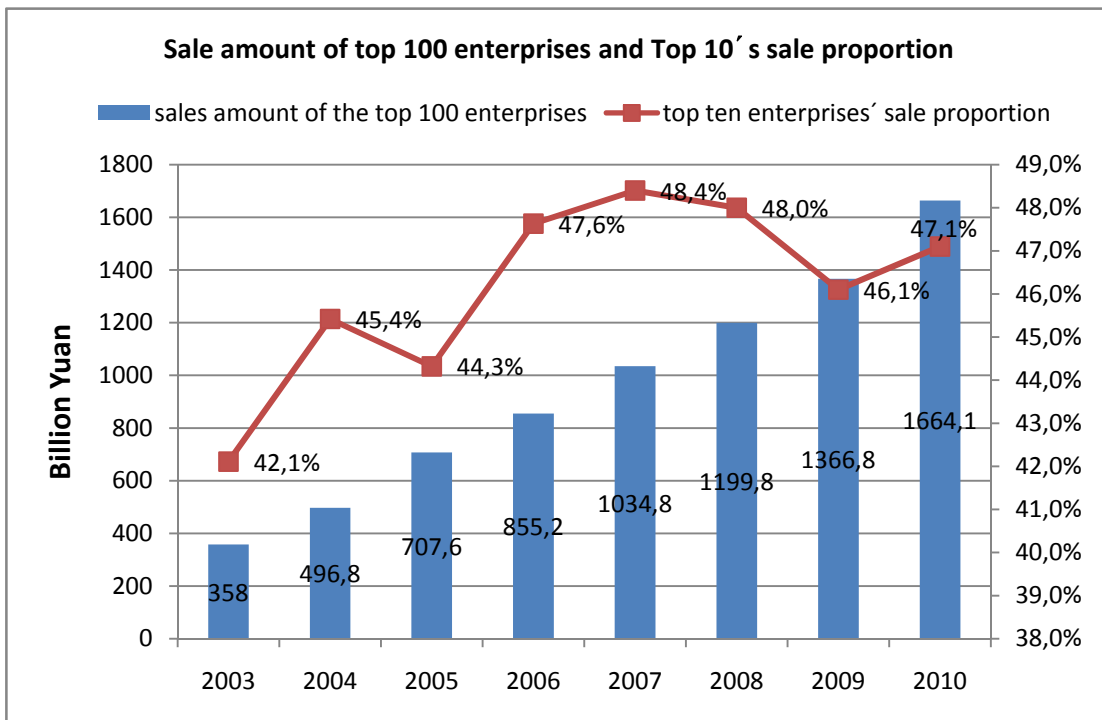
Source: China Statistical Yearbook 2010 and National Bureau of Statistics (NBS).

Seen from the above statistics, the Multi-format retailing enterprises take up half of the retail market in China and have become the major retail organization. China has formed the format situation with supermarket, Department store and specialty store as the principal and the parallel development of the convenience store, discount store and membership store, etc.

2.3. Rapid development of large-scale retail market

In recent years, the leading role of large retailing firms in the retail market in China has been gradually strengthened. On the one hand, large retail enterprises have continuous and rapid growth that from 2003 to 2010, the average annual growth rate of the top 100 enterprises in the retail market is 28.3% and the annual sales amount jumps to 1.66 trillion Yuan. On the other hand, large retailing enterprises have the trend of increasing scale and market concentration: the first ten enterprises in the top 100 have 47.1% of the total sales amount of the top 100 enterprises.

Table 6 Top 10's Proportion of the China's Top 100 Retailing Enterprises' Sales Amount



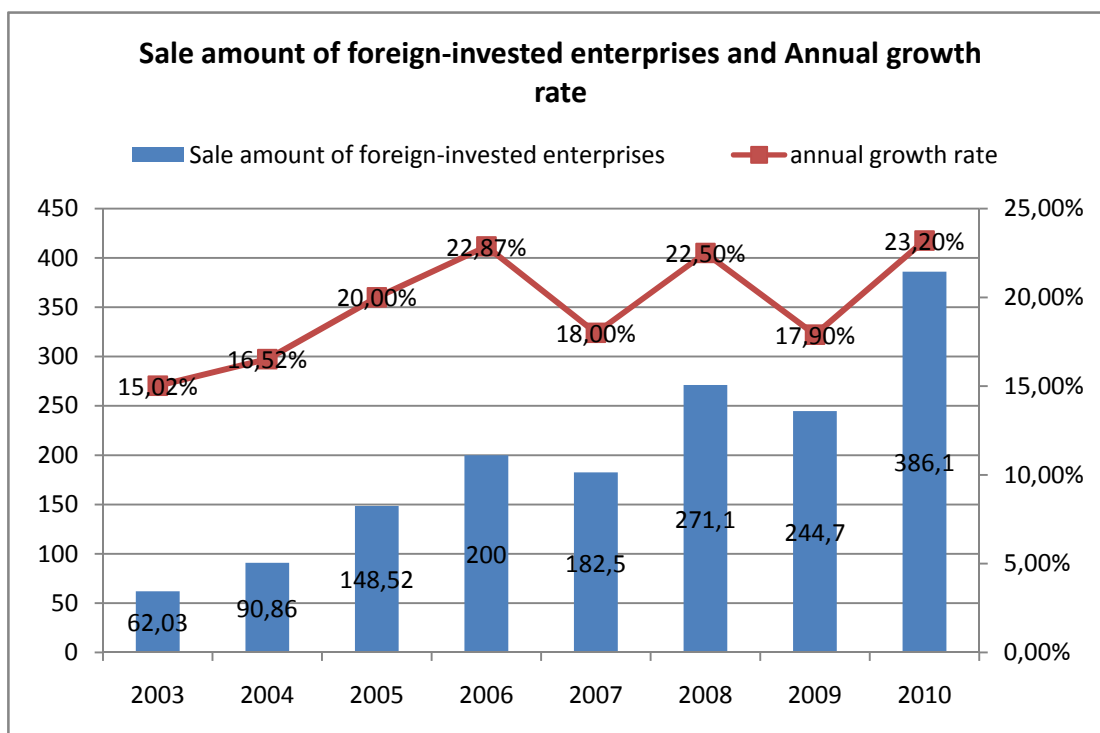
Source: China Chain Stores and Franchise Association, www.linkshop.com.cn.

2.4. Development status quo of the foreign-invested retail market in China

Since China's retail market had been open up to the outside in all aspects in 2004, the foreign-invested retailers have speeded up the expansion in China. From 2004 to 2006, there are average 74 new stores of for eight internationally famous retailers to be opened each year in China including Carrefour, Wal-Mart, Lotus and Metro, etc. Up to the end of 2009, there are 13,625 stores totally. According to the materials in State Statistics Bureau, only in 2007, there are newly-added 7,546 foreign enterprises invested in China's business (including wholesale, retail, accommodation, catering and other living services) and the actual use of the foreign capital is US \$ 4.44 billion, accounting for 19.9% of the total newly-added foreign enterprises and 5.9% of the actual total use of the foreign capital that year respectively.

There are 19 foreign-invested enterprises among top 100 enterprises in China's retail market in 2010, accounting for 23.2% of the sales amount of the top 100 retail enterprises. The sales amount of the foreign commercial enterprises takes up about 5% of the market share in the whole country. The foreign retail business has become a force not to be ignored in China's commerce field and has more and more influence in many aspects including the market share, format innovation, trade expansion, technology upgrading, growth promotion and social influence, etc.

Table 7 Sale amount of foreign-invested enterprises and Annual growth rate



Source: China Chain Stores and Franchise Association, www.linkshop.com.cn.

3. Analysis of China's Main Retail Formats

3.1. Introductions to some main formats in retail industry

According by <China Retail formats category> by Chinese Department of Commerce 2004, it categories 12 types of retail formats, which including grocery, convenient shop, discount shop, supermarket, large-scale supermarket, warehouse member store, department store, specialty store, franchised store, home center, shopping mall, factory outlets center according to the structure characters of retail stores, and their operation modes, merchandise structure, service function, and site selection, trading area, scale, store establishment and target customs, in addition, there are 5 types of retail formats that with out concrete formats, including TV shopping, mail order, on-line shop, vending machine and telephone order, totally 17 formats, each retail formats has its competitive advantages itself, investigation on different competition is important to the development of formats. Among them, department store, supermarket, convenient shop, specialty shop and non-concrete shop operation are retail formats which are fast developing in recent years. And the following are introductions of 6 main formats in Chinese retail industry.

Table 8 Chinese Retail Formats Classifications and NAICS Definitions

Formats	Location	Target Customers	Operation Area	Merchandise Lines	Sale Modes	Service	Information Management Level	NAICS Definition
Department Store	Located in business center of urban district class, and forms commercial aggregation	Based on customers with pursuit of quality and fashion	6,000 - 20,000 m ²	Based on clothing, footwear, bags, cosmetics, household products and household appliances	Combination of counter sales and open-shelf sales	It focuses on service, set catering, entertainment and other services and facilities	High	NAICS 452111 It has separate departments for various merchandise lines, such as apparel, jewelry, home furnishings, and linens, each with separate cash registers and sales associates Department stores in this industry generally do not have central customer checkout and cash register facilities
Supermarket	Located in the urban commercial centers or residential areas, and district residents as the main target market with the radius of 2 km or more	Customers who need on one-time shopping	Below 6,000 m ²	It operates packaged food, fresh food and commodities	Open-shelf sales, self service, car carry and outside settlement	It focuses on the development of its own brand; It has open-shelf-demand and unified billing; The trading hours have more than 12 hours	High	NAICS 445110 It establishments generally known as supermarkets and grocery stores primarily engaged in retailing a general line of food, such as canned and frozen foods; fresh fruits and vegetables; and fresh and prepared meats, fish, and poultry Included in this industry are delicatessen-type establishments primarily engaged in retailing a general line of food
Specialty Store	Located in urban commercial centers, department stores and shopping centers	Customers who purpose to buy certain goods	According to different features of goods, sizes of operation areas are different	Based on sell certain types of goods as electronics store, food stores, jewelry shops and so on, and reflecting the professionalism, depth, rich variety and great choice	Combination of counter sales and open-shelf sales	Employees with professional expertise	High	NAICS 445299: All Other Specialty Food Stores NAICS 451110: Sporting Goods Stores NAICS 44529 Other Specialty Food Stores
Convenience Store	in the Central Business District or transport routes, stations, hospitals, entertainment venues, office buildings, gas stations and other public activities; Its business district has a small range, and walk to reach within 5 minutes	Mainly single people and young people, and more customers have purpose to buy	About 100 m ² and have high utilization	Based on quickie food, beverage and small merchandise The types of products have about 3000, and the price is higher than the average market price	Open-shelf choice, and the cash register process uniformly to settlement	The trading time is long and usually 10 hours or more, or even 24 hours, all year, and opening a number of services	High or Middle	NAICS 44512 It establishments known as convenience stores or food marts (except those with fuel pumps) primarily engaged in retailing a limited line of goods that generally includes milk, bread, soda, and snacks
Franchised Store	Located in the prosperous business district, shop streets or department stores and shopping center.	Based on customers with special needs	The setting of operation area based on the characteristics of the operational goods	The majority mode of operation chooses direct selling operation, and based on famous brands and popular brands; It has many specialized varieties and achieves serialization	The sales reflect small amount, high quality and high-margin It adopts pricing sales, and emphasizes brand reputation	Employees must have rich expertise and provide services with professional knowledge	High or Middle	NAICS 533110 It establishments primarily engaged in assigning rights to assets, such as patents, trademarks, brand names, and/or franchise agreements for which a royalty payment or licensing fee is paid to the asset holder
Non-Store Business	-	For consumers who need low commodity prices, greater choice and save a lot of time	-	mainly refers to several major forms, such as TV shopping, mail order, online store, vending machine, telephone shopping and so on	has high accuracy, speed up customer feedback and other advantages while as the two-way communication, and it can understand timely customer requirements so that fully meet the consumer's individual needs	It can operate all day, and cannot be limited from place of business	High	NAICS 454 Industries in the Nonstore Retailers subsector retail merchandise using methods, such as the broadcasting of infomercials, the broadcasting and publishing of direct-response advertising, the publishing of paper and electronic catalogs, door-to-door solicitation, in-home demonstration, selling from portable stalls and distribution through vending machines. Establishments in this subsector include mail-order houses, vending machine operators, home delivery sales, door-to-door sales, party plan sales, electronic shopping, and sales through portable stalls (e.g., street vendors, except food). Establishments engaged in the direct sale (i.e., nonstore) of products, such as home heating oil dealers and newspaper delivery service providers are included in this subsector

Source: Chinese Department of Commerce, US Census Bureau-North American Industry Classification System (NAICS).

3.2. Trends of Development on the Main Formats

The development scope of retail depends primarily on extent which the national economy and consumer demand accept its products and services. International experience shows that per capita GDP reach \$800-2,000, which is during the birth of supermarket chains; Per capita GDP in \$2,000-4,000, and being the times which convenience stores, fashion franchised store and specialty store are produced with a large number; More than \$4,000 per capita GDP is that the popularity of luxury brand franchised store.

Since the 1990s, as the decline of traditional department stores, while the new formats enter the market and rapid development with almost exactly the same time. So, we divided retail formats into the traditional retail formats and modern retail formats. The traditional formats mainly refer to the traditional department stores. Modern retail formats involve that supermarkets, convenience stores, specialty store, franchised store, non-store business and so on. As the retail formats of the national statistical data are limited, this thesis can only select data since the 2003-2009 to analyze

Table 9 Basic Conditions of Chain Retail Enterprises by Status of Registration

Basic Conditions of Chain Retail Enterprises by Status of Registration(2003&2009)												
Item	Number of Stores(unit)			Engaged Persons at Year-end (10,000 persons)			Operating Area of Retail Enterprises at Year-end (10,000sq.m)			Total Sales of Commodities(100 million Yuan)		
	2009	2003	Growth Rate%	2009	2003	Growth Rate%	2009	2003	Growth Rate%	2009	2003	Growth Rate%
Business Categories												
Convenience Store	15,779	4,447	255%	9.28	3.45	169%	144.27	62.57	131%	269.83	66.85	304%
Discount Store	859			0.80			24.32			37.17		
Supermarket	33,224	13,494	146%	48.86	38.60	27%	1,924.85	1,127.79	71%	2,569.52	1,726.50	49%
Hypermarket	2,493			32.66			1,844.77			2,443.55		
Warehouse Club	179			1.45			54.84			142.53		
Department Store	5,304	2,090	154%	23.86	12.02	99%	1,338.37	442.96	202%	2,498.25	602.95	314%
Specialty Store	82,704	15,410	437%	75.29	21.12	256%	6,075.35	420.59	1344%	13,373.94	860.44	1454%
Gas Station	29,345			26.01			4,295.23			8,996.21		
Franchised Store	24,075	3,105	675%	16.06	2.50	543%	247.15	43.75	465%	697.31	100.13	596%
Building Material Store	102			0.95			79.29			63.35		
Factory Outlets Center	410			0.10			3.24			1.52		
Other Store	10,548	543	1843%	1.56	1.51	3%	72.74	52.55	38%	143.03	77.57	84%
Total	205,022	39,089	425%	237	79	199%	16,104	2,150	649%	31,236	3,434	809%

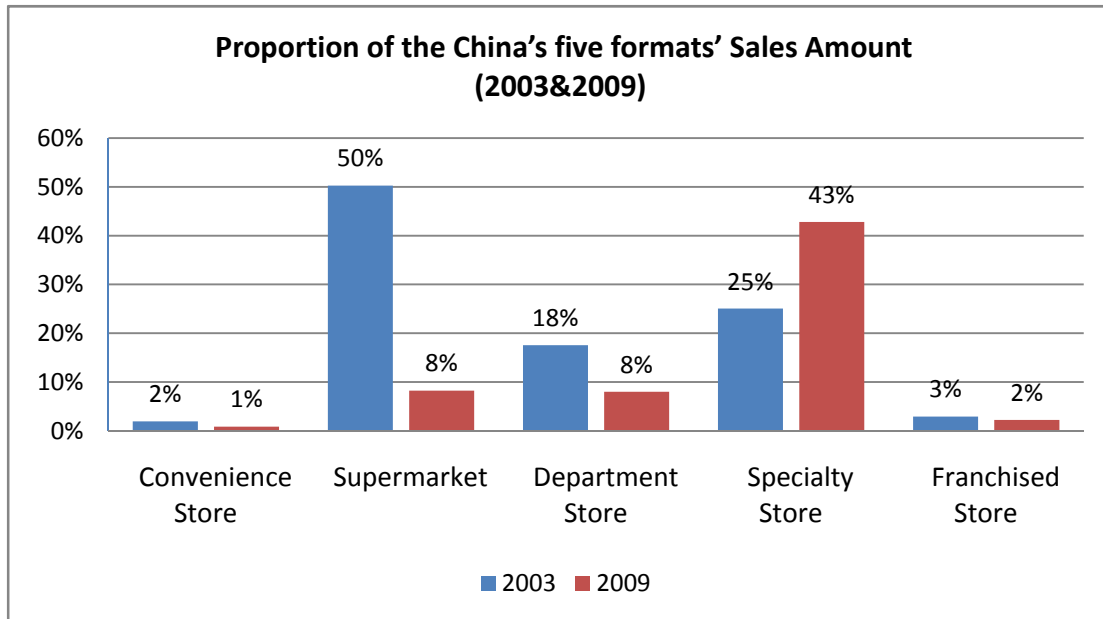
Source: China Statistical Yearbook 2010 and National Bureau of Statistics (NBS).

From the above data, we can see that the development of each retail format above limitation presents the competitive situation in recent years. Trough observes the number of stores, the largest number of stores of formats is the specialty store. In 2009, over the national limitation, and the number of specialty stores are 82,704, which are far higher than other number of stores of formats; Followed by supermarkets, convenience stores, franchised stores and department stores, and the number of stores are respectively 33224, 15779, 24075 and 5304.

Although the number of franchised stores has a small proportion, it has a fast incremental rate; In terms of the number of stores, department stores have a good momentum of development. The main reason is that the statistical number of department stores of National Statistics Bureau includes traditional department stores and new shopping centers. As shopping centers have rapid expansion in recent years, and show a good momentum for expansion on department stores (Li, 2006).

In 2009, operation area of specialty stores above the national limitation reaches 60,753,000 m², which is 13 times in 2003 (4,205,946 m²), and its rate of expansion is much higher than other formats about 2 times. We can also find out franchised store has fast expansion in recent five years. Operation area of faster expanding is department store and specialty store. As the non-store business has few statistical data, it cannot be compared.

Table 10 Proportion of the China's five formats' Sales Amount



Source: China Statistical Yearbook 2010 and National Bureau of Statistics (NBS).

From the above graph, we can see that in the total sales of selected five formats in this thesis, from 2003 to 2009, in sales of consisting of five formats, the sales of department store format decline with its proportion year by year which decline from 18% in 2003 to 8% in 2009. The market share of supermarket industry also declines from 50% in 2003 to 8% in 2009. The markets of department store and supermarket industry are gradually occupied by other new formats, which the biggest increase is specialty store, and sales accounted for 25% in 2003 enhances to 43% in 2009. In addition, non-store business format has a rapid development in recent years.

In 2005, the National Statistics Bureau began to process statistics on sales of non-store business format and workforce. In 2005 and 2006, retail sales of non-store business are respectively 1.75 billion Yuan and 1.8 billion Yuan. Although store sales above national limitation have a small proportion, as non-store business has lower cost. With the application of information technology, non-store business has broad prospects.

At the same time, we cannot ignore that the stall keeper retail format is still one of the most active area in current economic life. Director of Social Research Center of

Shanghai Social and Scientist Academy, Xiong Yang in 2004 said: “At present, the idea of urban management in China still remains planned economy age, it reflects in simply seeking clean and tidy in urban management, and adopt management mode of universal application. This management mode of formalism does not consider about consumer demands of common people in different levels, as well as economic development level of present stage in China.”

Judging from basic condition of present China, as a special economic format, stall keeper retail format will definitely exists. Normally, two types of people operate stall: one is low incomes people for instance laid-off workers and jobless people; the other one is in-city farmers. Both of them are badly-off group, in other words, weak employment ability group. From the view of sociology, stall keeper retail is an important culture form. Its existence not only has economic significance, but also has social significance and cultural significance. At the same time, because the cost of stall is relative low, the price is also relative low. It is particularly suitable for consumption level of low income people, which solves their consumption pressures. Essentially speaking, in China, stall keeper retail will definitely exist under a basic condition of country that has a large population while economic development level is not high. It solves employment problem of a part people, which supplies insurances for lives of low level people. It meet multi-level and multi-aspects' consumption requirements of citizens, while provides great conveniences. In addition, it not only has economic significance, but also has social and cultural significance. However, for many problems it produced, for instance environment pollution and traffic congestion of urban, conflicts to government administration and to some extent affects market order, we could not ignore (Ning, 2003).

3.3. Conclude to Changing Trace of Chinese Retail Formats

The change of Chinese retail formats is not pure “wheel of retailing” mode (S. C.

Hollander, 1960), it mainly reflected in the aspects of the entry and development of new formats. Take the change of supermarket as an example, in middle 1980s, somewhere of our country has ever rise a heat wave of building supermarkets, these supermarkets are not all attract people by their low price and low gross profits, the price, service environment combination are not adapt to communication and management technology of that time, the so called emerging formats cannot breakthrough the technology boundary of traditional formats, which makes emerging formats just like a dead fetus in uterus. By early 90s, the standard of Chinese circulation and management has improved a lot, scientific technology achieved rapid progress, chain supermarkets breakthrough the boundary of traditional formats, which threat traditional formats by its particular advantages, and gradually substitute it. From this point of view, the change of Chinese retail formats is to some extent follow the “new retail wheel” mode. It can be seen from that, the change of retail formats in the Chinese economy transition stage has comparative strong Chinese characteristics and complexity.

**CHAPTER III:
CHINESE RETAIL MARKET
DEVELOPMENT:
PROBLEMS, OPPORTUNITIES AND
ADVANTAGES**

1. Problems and Causes in the Development of Chinese Retail

Industry

According to <Introduction to modern retail> by Wang Chengrong 2007 and <China's retail industry development issues and strategies> by Chen Man 2008, the situation could be analyzing from the following aspects.

1.1. Excessive competition

1.1.1. Low concentrative degree of market, small-scale of firms

In recent years, Chinese retail market has a tendency of big-scale, the expansion of pace is big, but the entire scale is not big, especially the scale of foreign invested retail firms is comparative small. The domestic retail market has not formed the big scale and big retail groups with strong power yet, particularly the big enterprises to combat with the international retail leader. The enterprise scale is an extension to focus on the website resource without reflecting the scale effect and there is greater difference with the big retail market in the world in the aspects of market sales amount or store number, etc. At present, the market concentration of the domestic retail market is only 10% while it reaches 60% in European and America countries and 50% in Japan. The retail amounts of top 100 retailing enterprises in America account for 84% of the whole market share. Speaking for a single retailing enterprise, the difference is greater. Take the data in 2006 as an example, the sale amount of GOME is RMB 86.93 billion and it is the leader of the retail commercial enterprise in China; however, only the business turnover of Wal-Mart in America is 32 times of it. And in 2010, the global sales of Wal-Mart, which stand at the top of world retail reached 408,214 million (Store.org) dollars, compared with it, the largest retail firm, Sunning, has a sales of 75,505 million Yuan in the same year, which just occupies 2.64% of the total sales. The Chinese top 100 chain enterprises realized sales of 1.66 trillion Yuan in total, occupies about 10.7% of the total sales of consumer goods in the entire society

(15,455.4 billion). Chinese retail firms are mostly made up of small-scale and middle-scale firms, which lack of large-scale retail firms, and then make Chinese retail difficult to form a scaled effect. In addition, the international retail leaders mostly adopt the central procurement policy to improve the negotiation ability with the supplier to reduce the purchase cost and maximize the access profit and meanwhile effectively prevent the happening of the business bribery and regulate the purchase behavior. However, the small scale of the retailing enterprises in China results in the high purchase cost and influences on the enterprise's competitiveness.

1.1.2. Ability of making profits is comparative weak

In the cut-throat competition of Chinese retail market, price war is always regarded as a trump to vanquish the enemy for most firms, as far as depreciation; the names are numerous, such as: points accumulation, discount sales, return sales, buy and rewards and so on. Retail price war was started form 1990s, it continued for over ten years. In 1992, the famous “Zhengzhou commercial war” was started from the price war of Chinese retail and end up with the bankrupt of the famous department store “Asia” in Zhengzhou. But the price war of Chinese retail has not stopped, the heated competition is continued. In the Xi Dan shopping festival between 28th of December and 6th of November in 2005, Zhong You Corporation has the activity of “buy 200 get 216 coupon”, Xi Dan Shopping Mall, “Buy 150 get 168 coupon”, commercial war raise one after another in Beijing. These malignant competitions are the certain results of excessive competition in Chinese retail (Chen, 2008).

The excessive competition situation makes retail operate in low profits or even without profits. The entire retail is in a low level of profits. In recent years, the rapid expansion of the commercial network is greater than the growth of the total sales amount that the competition is rapidly intensified. The commerce enterprises enter

into the comprehensive meager profit times that the average gross profit is around 17% while the average net profit is less than 2% (the average profit rate of top 500 retailing enterprises in China is only 1.47% and the average profit rate of top 100 enterprises is only 2.56%). However, the gross profit rate of the large foreign transnational retailing enterprises is generally around 10% but has 3%-4% of the net profit (Jin, 2004). China's retail market still has the great difference with the foreign retail leaders no matter in sales amount, growth speed or the net profit rate aspect, etc. It can be seen from that, the excessive competition and the fierce domestic competitions all leads to the reducing profitability of the local retailer and comparative weak ability of making profits.

1.2. Causes of excessive competition

1.2.1. Effects of system

Affected by the administrative areas, department profits and region profits, Chinese retail suffered many obstacles in the process of trans-regional development and trans-regional business restructure, which seriously affect the scale process of the firms. Market separation makes firms have to practice separately operation in the given ranges of region, it makes firms expand in low speed and radiate in weak capacity. Thus, the disheveled complexion of retail to some extent related to traditional system.

1.2.2. Low entrance bulwark

The low entrance bulwark of Chinese retail is mainly represented in the following

aspects (Yang, 1998): (1) Economy scale bulwark. Retail originally belongs to typical economy scale; it mainly realizes economy scale through chain business, large quantity purchase, and large quantity sell. But, single store operation is very common in present Chinese retail firms, the scale of store is comparative small, it is difficult to realize economy scale although chain operation. So, the entrance bulwark is very low in present stage of Chinese retail, it leads to excessive entrance of retail firms. (2) Low technology bulwark. Although informatization of retail is developing at high speed, the throw of technology is increasing in various firms, it has not form a real technology bulwark. At the same time, retail as a mature industry, industry hardware, software markets is heated compete in China, technology obstacle does not exist in fact. (3) Low cost bulwark. The start-up costs of retail is not high, besides rents has to be paid in sum in advance, opening expenditures such as store decoration fees, merchandise shelves, cashing machines and refrigerators could all in deferred payment, while most merchandises are sold on a commission basis or the retail stores are provided by producer, only a few producer requires to pay stocks in cash. Besides, it could collect entrance fees from producer, hence, costs will not be the main bulwark. (4) The bulwark of government control is relative low. Retail is one of the industries which earliest conduct marketization reform, government always holds an encourage attitude to the development of retail. Because retail is a labor-intensive industry, which could solve employment problem, hence government always supports new founded retail, not always regulate and restrict it.

1.2.3. Exit bulwark is high for large-scale retail firms

For most middle-scale and small-scale of retail firms, exit bulwark is relative low, but for large-scale retail firms, economic factors such as sunk costs, high liability ratio will produce strong effect to prevent exit. For state owned firms, local government always adopt favorable policies such as tax revenue, investment, bank loan to support

firms which are in inferior position or in loss to survive in competition, it makes many retail firms cannot successfully exit although in a loss.

1.2.4. Mass in burst of foreign investment

Open to external of Chinese retail leads to the inburst of large quantity of foreign investments. At present, over 40 of the top 50 largest retail firms has “landing the dangerous shoal” of China, including “Wal-mart”, “Carryfour”, “Metro”, “Itoyokado” and “Makro” etc. retail magnates. Foreign investments are mostly concentrating in large-scale and middle-scale cities, but retail has been in saturation, the entrance of foreign investment further accelerate the heated competition of retail in these areas.

1.3. The irrational formats structure

Before analyzing retail formats in China, we first look at the formats structure of U.S. which has highly developed retail. From 2002, the distribution of formats of top 100 retail enterprises in U.S.: Department stores accounted for 5.4%. Supermarkets accounted for 29.8%, and specialty stores accounted for 25.70%. Supermarkets play a leading role in the retail of U.S. (Store.org), and the proportion is relatively stable; the department stores have small proportion, and gradually reduce; the proportion of specialty stores grow rapidly. According to National Bureau of Statistics, the expiry date was the end of 2004, in the legal entities of general retail, the retail entities of department stores are 18,000, and accounted for 39.3%. The retail entities of supermarkets are 6,900, and accounted for 14.8%. Other general retail entities are 21,000, and accounted for 45.9%. In the middle of 1990s, the hyper-normal expansion of the large department store in China is against the objective law and runs in the opposite direction with the social and economical condition at that time thus to push

the general merchandise market into the possessed situation. With retail open deeply up externally, China's retail has changed the single format mode of department stores in the past. A variety of new retail formats form appears constantly so that forming situation of diversified format competition. Compared with the retail formats in U.S., the Chinese retail format structure is obviously irrational. In China, the proportion of department stores is still higher, and some new formats are still relatively low, such as supermarket, specialty store, franchised store and so on. The department store was leading role with retail in all the big cities for a long time, but exposes many problems in the fierce competition. In recent years, achievement of department stores falls sharply in general in a recession, and cannot compete with foreign hypermarkets. The market positioning and mode of operation cannot meet diversified needs.

1.4. Causes of irrational retail formats structure

1.4.1. Development of formats lack of long-term planning

In the late 1980s, the rapid development of economic promotes that people's living standards enhance constantly, and social purchasing power expand rapidly, which are contradictory with the "shortage" of stores. Under the supermarket has not yet been introduced to China at that time, the department stores become the first choice for the development of retail local on everywhere. Local governments also actively promote the department store to greatly expand. Under promote by the external environment, medium and large department stores are constantly established throughout the country (Hu, 2006). According to statistics, in the first five years of the 1990s, in China, the numbers of new stores are four or five times or more of sum of the previous 40 years. In the developed countries, the department stores have already entered a recession. In China, it indeed is over-investment, and lead directly to some irrational situations at

present in China. For example, the retail formats still are based on department stores. The new formats have lower proportion. The research of main reason is that the Chinese government lacks of long-term planning on the development of retail formats, and do not give right guidance for retail investment, which is one of main reason that lead finally to the department stores have rapid growth.

1.4.2. Difficulties of format adjustment

Adjustment effect of China's retail format is not very satisfactory. Because of traditional department stores are limited from geographical location, building structure and other aspects, the transformation are difficult, and restructuring of format structure is difficult. On the one hand, the traditional format transformation has many difficulties. On the other hand, in the development of new format, retail lacks of innovation. In China, retail should develop format which adopt the Chinese consumers, level of consumption and consumption habits, and optimize China's retail formats structure. In this respect, Japan should be learnt from us. The Japanese retail combines the characteristics which domestic customer market has high degree requirements with its freshness and convenience, and strives to develop convenience store so that gains a great success.

1.5. Regional structural imbalances

According to < Chinese Western Retail market Analysis and Strategy Development> by Wang Xingbang 2008, the regional structural imbalance of retail mainly represents in the following areas:

1.5.1. Obvious gap between eastern and western areas

China's retail like China's economy that shows a situation, which west has strong economy system, but east has weak one. The development of eastern retail has high level, and holds many competitive retail enterprises, while the development of western retail has low level. Most of the enterprises belong to small businesses with the small and poor competitiveness. Some enterprises shortlist "2004 Retail Top 100" where distribute in 21 provinces. In the eastern region (graph 2), the number of hundred enterprises are much higher than in western region, in which Beijing has 15, Shanghai has 10, Jiangsu has 9, Guangdong and Shandong has respectively 8 (not including foreign funded enterprise), while the western region has only 7. In terms of the sales, the highest of the five provinces are Shanghai, Beijing, Jiangsu, Shandong and Guangdong, and their proportion of sales accounted for total retail sales top 100 were 21.5%, 15.0%, 9.9%, 6.5 % and 5.9%, while the western region has only 5% (CCSFA).

1.5.2. The gap between urban and rural areas is serious

In the current retail market, the large superstore in the city has the hyper-normal development, repeated construction of the traditional commercial center and lagged development of the new format in the rural area. In the rural area, as the rural residents have low income level, lagged consumption concept and emphasis on the quantity rather than quality, which decides the low proportion of the new format with the small size trend. Also the old business way and lagged management method make the small-sized enterprises become more and more difficult. Retail formats are based on the traditional grocery store, and mode of operation still is based on way of the old shelves. The development of retail is lagging behind.

Currently, sales of rural consumer market accounted for 60% of the total population of the country which is still less than 32% of the retail sales of country for goods. The development of rural retail can be summarized as small scale, single format, lagging behind of operating (Bao, 2006). Meanwhile, due to the over-expansion of the same industry, it is inevitable to overlap the structure with the gradually developing large chain shop, supermarket, warehouse mall, the discount shop, etc.

1.5.3. Imbalance of regional distribution within the city

China's central district of the city is also often traditional urban business central district. In the central district, there are a large number of department stores, specialty store, franchised store and other retail stores. City suburb, urban fringe and around commercial facilities are relatively small in large residential areas, and the location of stores are dispersive, so that difficult to meet the needs of residents. On the one hand, this commercial layout promotes that the business is excessive concentration and leads to excessive of competition in the central business district. On the other hand, in the city suburbs, because of retail stores are little and living of residents is inconvenience, demand of residents is difficult to be met. With the accelerated process of urbanization, this contradiction will become more prominent.

1.6. The causes of generation about regional structural imbalance

Differences in level of economic development are the main reason about imbalance of regional development in China's retail. China's economic development exist a serious imbalance that show as the gap between east and west and gap between urban and rural. The eastern region get earliest into reform and opening up that has rapid development of economic. The level of consumption about residents has increased

rapidly, which create huge market demands for development of retail. However, in the western region, economic development is relatively lagging behind so that limiting its development of consumer market. In 2010, in China, per capita income of urban residents is 21,033 Yuan, and per capita income of rural residents is 5,919 Yuan (NSB). Per capita income of urban is 3 times of per capita income of rural. Because of the farmers have the low level of income, and live is scattered. Hence, the vast majority of retailers are not optimistic about the rural market. New formats would be difficult to enter into rural, and it is based on the small family business store in rural retail market. Low level of economic development is an important reason about development of lagging behind in rural retail. Therefore, if we want to eliminate on the root imbalance of regional development in retail, must reduce difference in level of economic development between areas.

1.7. Excessive openness of retail market

1.7.1. Faced with stronger competitor, foreign-invested retailing enterprises

Since the foreign capital has rapid expansion on the retail market and the difference between the local retailing enterprises and the foreign enterprises, the domestic retailing enterprises are faced with the situation to contend against with the strong transnational retailing enterprises. Particularly after 2007, our retail market faced with the greater danger after the completion of the policy protection period (Liu, 2005). In recent years, the international retail leaders in Japan, America or France, etc show their own stores in the big cities successively, which indicates that the international retail groups have transferred from the penetration stage into exploitation stage, just like the internationally famous brands such as Wal-Mart, it is not longer the single form but the chain form blossoming everywhere that the uniformed management and

distribution has the obvious scale effect, making the competition more fierce. The domestic retailing enterprises need to ponder to deepen the reform and seek for the innovation to improve the competition with the foreign enterprises.

1.7.2. Local government examines and approves in excess of authority which lead to retail ahead opens

China joins WTO in a developing country's capacity that promise to have plans and gradually open up the retail market. The State Department has the right of examination and approval to foreign-funded retail enterprises. However, some local government processes to examine and approve in excess of authority in order to political achievement and sectional interests, and gives all kinds of preferential investment conditions. It presumes to open up the retail in advance, so that the extent of opening up in China's retail far beyond the Central Government's Commitment. Local governments take some alternative measures when the retail attracts foreign investment. For example, the retail enterprises are registered in the name of Chinese side, and give it to the foreign for operation. The other industries are approved to use foreign investment projects to operate covertly retail, so that many multinational retail giants landing China's retail market at an amazing rate. By the end of 1998, there are 20 commercial enterprises of joint venture are formally approved from the State Council. However, it is all local self-examination and approval. There are 227 non-pilot enterprises which are illegal operation in various forms (www.xinhuanet.com). The timetable for opening up is won through difficult negotiations in order to win a few years of protection for China's retail enterprises. However, in fact, local governments are not proceeding according to open policies by country, so that the Chinese retail market is that the front door is still closed, and the back door has been opened. Foreign retailer enterprises advance into the Chinese market.

1.7.3. "Super-National Treatment" leads to unfair competition in the retail

From the current situation, the domestic and foreign retail enterprises enjoy unequal treatment that has affected the fair competition in market. Foreign-funded retail enterprises enjoy the Super-National Treatment that express mainly in the following few aspects. The first is tax incentives. In foreign investment enterprises, central and local of income tax rate combine as 33%. Although the nominal rate is equal with the domestic enterprises, most of the region generally does not levy local income tax in order to attract foreign investment. Therefore, domestic and foreign funded enterprises have unequal effective tax rates. In the five special economic zones and foreign-funded enterprises in Pudong, Shanghai, enjoy the "two exemptions and three reductions" of low tax incentives. Secondly, some local governments competing each other and provide preferential policies to foreign merchants in order to meet attracting business and investment, and engage in the performance requirements of image projects. Some local governments examine and approve illegally foreign-funded to build stores, and implement "Super-National Treatment" to foreign-funded retail enterprises in the land, taxation, region of expansion, commercial outlets and other respects (Wang, 2006). Especially, in the site, it does not spare to sell the prime location in city and gives the most favorable policy. Foreign-funded retail enterprises and domestic enterprises do not have the same starting line. If foreign-funded retail enterprises still enjoy the "Super-National Treatment", they will take the more absolute advantage in competition with domestic enterprises. This is one of the important reasons that the foreign-funded retail can expand rapidly in China.

1.8. Causes of excessive openness

1.8.1. Government lacks judgment for strategic position on the retail

Retail is the leading industry in the national economy that plays an increasingly important strategic role in guidance in consumption, promotion of production, guidance in investment, promotion of industrial restructuring, achievement of economic virtuous cycle, improvement in operational efficiency and effectiveness of the national economy and other aspects. However, because of China is influenced by the traditional concept about "segment of society" and "attach importance to agriculture and contempt business" for a long time. Society has insufficient general understanding for the strategic status in retail. The Chinese government also paid attention to the retail industry. Now China and other countries of the world struggle to protect their domestic retail. However, differences are that the Chinese government not only advances to open markets, but also gives "super national treatment" to foreign-funded enterprises. These are performance that the government has insufficient understanding to strategic status in retail.

1.8.2. The central and local government lack a unified regulation

At present, in opening of China's retail, emerge the phenomenon of "two super" (Phenomenon of "two super" refers to a phenomenon which the number of local governments have ahead of the opening to retail for local interests, and give "Super National Treatment" to foreign-funded enterprises). It is directly relevant to uniform regulation and control of central and local government, and work of attract investment in the long position management. Although the central government has more stringent checks for opening of the retail, some local governments and officials do not spare to go against the wishes of the central government, blind attract investment, and even does not consider the country's industrial security in order to pursuit performance. All levels of government work each for them, and lack of coordinated system, so that

create chaotic situation in opening of the retail.

2. Opportunities and Advantages for the development of the retail market in China

The good environment of the continuous and rapid economy development in our economy and the rapidly developing, huge and potential consumer market provide the vast space for the sustainable development of the retail market in China.

2.1. China has the huge market potential

From 2008 to 2010, the growth rate of the retail market in China increased more than 15%. The total retail amount of the consumption products reaches 1.66 trillion Yuan and the consumer market jumped into a new stage with trillion Yuan growth speed each year. And it is predicated that, from 2012 to 2020, China's consumption demand will take the leading position in the economy growth. Thanks to the factors of macro-economy growth, increase of the resident's income, urbanization and change of the consumption concept, it is predicated from 2010 that China's retail market will keep the stable growth speed of 8% to 10%; up to 2020, the total amount of the consumption products will exceeds 20 trillion Yuan and the role and effect of the retail market in the national economy will be greatly improved (www.xinhuanet.com). There is still the vast space for the expansion of the domestic market. Since China has a large population and vast field, according to the statistics, 60% of the population in China is in rural area; however, the retail amount of the commodity in the rural area is less than 32% of the total of social consumer goods in the whole country. Seen from the below figure, the per capita income of the resident in the rural area has great increase each year, therefore, it will be a bright spot of the retail market development

in China to grasp and do well of the rural market.

2.2. More and more perfect of the government policy and market environment

2.2.1. Formulation of relevant law and regulation

Since 2004, China has issued many laws and regulations including <5 Management Method for Foreign Investment Commercial Field>, <6&5 Administration of Direct Selling Regulations>, <6&5 Management Method for the Fair Trade between Retailers and Suppliers>, <6&5 Management Method for the Promotion of the Retailers>, <6&5 Commercial Franchise Management Principle>, etc to promote the rapid development of the circulation market including the retail market, adapt to the increase extent of the circulation market to the outside world and the establishment requirement of the modern circulation market system and establish fair, regulated, orderly and effective market environment.

2.2.2. Financial support

In May 2005, Bo Xilai, Minister of Commerce Department and Chen Yuan, President of China Development Bank signed “Agreement on Commerce Department and China Development Bank Supporting the Circulation Market in Developing the Development Financing Cooperation” (www.xinhuanet.com). According to the agreement, China Development Bank will arrange 0.1 billion Yuan of the policy loan to particularly cultivate the large circulation enterprises with their own brand and proprietary intellectual property rights, the highlighting principle business, strong core

competition ability and initially with the international competitiveness ability.

2.2.3. Brand support

For the retailers, the commodity is the motive power to attract the customers, so, it is a major method to sell the feature products and self-owned brand products to win the customers. Many large foreign retailers have experienced the process to gradually develop from the general brands to self-owned brands. Some large retailers have 20% to 25% of their self-owned brand (Wang, 2007). The self-owned brand could sufficiently satisfy the market supply; moreover make use of the intangible added value and image to create the brand product. Comparing with the similar products, it could further stimulate the loyalty of the shoppers and make the scale development of the supermarket company show the longitudinal development advantage to bring more profits to the company. However, it is almost blank for the retailing enterprise in China in the development aspect of self-owned brand.

So China's Commerce Department makes the classification for the retailing enterprises. Since 2007, the classification work has entered into the comprehensive development stage that the working scope is expanding from nine pilot cities to 35 central cities, municipalities directly under the central government, capital cities and municipalities with independent planning status and the evaluation format has expanded from the general merchandise store to the supermarket, the convenience store, etc. (CCFSA) The classification work for the retailing enterprise is an important part of the brand tour work of Commerce Department to promote the establishment and development the self-owned brand of the local retailing enterprises.

2.2.4. The country increases the support of the finance for the economy growth

in the global financial crisis

On November 9, 2008, China issued <Ten Measures to Expand the Domestic Demand>. One of the measures is to increase the support of finance for the economy to cancel the credit restriction of the commercial bank, and reasonably expand the credit scale, increase the financial support for technological reformation, merge and restructuring of the key project agriculture, the countryside and farmers and medium-sized and small enterprises and cultivate and consolidate the credit growth point with the target. It provides the opportunity for the technology upgrading, merger and expansion.

2.3. The financial crisis brings the good merger opportunity for the retail market

Impacted by the global financial tsunami, some retail businesses went bankrupt due to breaking of the capital chain; meanwhile, many enterprises trapped in the difficult situation had to consider selling the shares. It means that the retail enterprises will be faced with great change that the crisis brings the cheap merger and market upgrading chance for the retail enterprises with strong capital. Some analysts think it to provide China's retail enterprises good opportunity to become more powerful.

2.4. The advantages for the development of the retail market in China

2.4.1. Location advantage of the store

For the retailing enterprises, the store location is an important factor to form the market competition ability of the retailing enterprises. The location usually decides

the passenger flow volume and sales amount of the commodity. Within the better commercial circle in the big, medium and small cities even in the county, town and bustling business district, community and scenic region, etc most of the stores in retail format including the general store, supermarket, the convenience store, etc are owned by the commodity retailing enterprises in China and there is limit space for the foreign retailing enterprises to enter into those commerce circles.

2.4.2. Advantage to occupy the rural market

The strategic emphasis of the foreign retailing enterprises for the development in China is mostly placed on market in the big, medium-sized and small cities with the relatively developed economy. Even the foreign retailing enterprises want to develop towards the rural market, since China has established the chain stores in the county, some stores are opened in the rich village and town that it not only has the convenient hardware condition in the store expansion aspect but also taken the first impression in the software aspects of the enterprise image promotion and culture color, etc (Wang, 2003).

2.4.3. Local advantages

On the one hand, it is the mastery for the consumption culture and consumption habit of the consumers. Since having operated for many years on our own land, the retailing enterprises in China have profound local culture base and practically known the consumption culture orientation and change trend. Different places have various customs, then establish different consumption habits thus and form different consumption features. In those aspects, the foreign businesses are hard to understand (Chen, 2008). On the other hand, it has formed the feature advantage and certain

brand advantage. In the commerce business for a long term, many retailing enterprises in China have long history and local features and established their own operation features, the unique brand advantage and cultivated the loyal customer group.

**CHAPTER IV:
STRATEGIC CHOICES
OF CHINESE DOMESTIC RETAIL
ENTERPRISES**

According to the main thoughts of <Retail Management A Strategic Approach (10th edition)> by Barry Berman & Joel R. Evans, <China Marketing Research Analysis-based on Chinese bibliometric research> (2007) by "21st Century China Management Development National Project", and the current focuses of Chinese marketing strategic adjustment, The strategic choices of Chinese local retailers mainly represent at the following aspects: at the following aspects:

1. Chain Operation

Chain Operation is a main strategic choice of domestic retail enterprise. In 1990s, as the appearance of chain operation pattern in China, Chinese retail began to rise rapidly in China. In the short over a decade years, Chinese retail has completed twice reforms of retail which to take about 50-60 years in developed countries.

Chain operation and supermarket are regarded as two indications of “modern circulation reform”. In some developed countries, chain operation has become the most important circulation form, and became the dominant mode. By 2000, a worldwide sale of chain operation has occupied 60%-70% of global total sales. American chain operation has account for over 80% of national retail sales, however, development time of retail operation mode is relative short in China, and the proportion is only about 25% (Zhang, 2007). In recent years, merchandise retail chain operation was fast developing in China in recent years; it fast increased by 50% per year in average, the growth rate was faster in economic developed areas such as Beijing, Shanghai and Guangzhou etc.

1.1. Fast developing Chain industry and extending scale of enterprise

According to the business report 2002 of Shanghai CCFA (www.scea.org.cn) at the end of 1999, there were 1500 chain enterprises in China, 26,000 different typed stores.

The sales has arrived 150 billion Yuan. By the end of 2000, there were 2100 chain enterprises, and 32,000 stores, total sales 220 billion Yuan, which occupied about 6.5% of the total consumption merchandise sales in entire society. While by the end of 2003, total sales of Chinese chain operation has reached 700 billion Yuan, which account for 15% of total social retail consumption merchandises. Hence, “Chinese chain industry has stepped into a new historical stage of multi-formats, trans-regional, high speed developing.”

Consumers’ recognition degree to chain enterprises has largely improved; chain operation has increasingly integrated into people’s lives. According to the surveys of China Chain Store & Franchise Association (CCFA) and other relative institutions, chain supermarkets has become the shopping site which consumers visit most often. Especially in the position that the entire food safety is not optimal, chain market has become the site which most makes consumers fell secure.

In addition, because of the fast development of chain enterprises and the strong energy shown by them, capital market increasingly favors chain enterprises. In 2004, numbers of chain enterprises have become listed in Hong Kong and Mainland China successfully; some enterprises also got the favor of large-scale international risk investment funds. The entrance of a great deal of capital brings hope to retail enterprises which difficult to expand by their own capital, and accelerates the development of chain operation.

However, in recent years, this expansion speed always presents a decline tendency, one of the reasons is the amplitude of stores largely overweigh the amplitude of sales, which affected the single store’s ability of making profits, capital that supporting expansion has reduced. On the other hand, management level and operation ability of enterprises is hard to catch up with the development speed of enterprises, hence

expansion speed slowed down. In addition, competition of chain enterprises has not only reflected between domestic and foreign investment, local and nonlocal investment, but also reflected in different formats: the form of large-scale format has a great impact on other retail formats. In the government report of 2003 financial report of Dongguan State Administration of Taxation (www.gd-n-tax.gov.cn), it claimed that expansion of large-scale supermarket has threat to the development of other formats. In trading areas which 3 km away from large-scale supermarkets, the sales normal supermarket reduced by 15%-30%, while 20%-40% reduction for department stores. Supermarket also extends to both large-scale supermarket and convenient shop. Development of specialty chain stores, especially large-scale specialty chain stores seized market of chain supermarkets. Specialty supermarkets for instance B&Q, OBI, Home Mart, IKEA, Gome, Sunning etc come to rob subdivision markets, for example, the first set up of Gome, who sales domestic electronic equipment made the sales of domestic electronic equipment in large-scale supermarkets slide by 31% in a month. Sales in department stores also declined (Wang, 2006).

1.2. Local featured expansion strategy

Under this situation, local chain enterprises also got certain achievements, for example local featured expansion strategy. It can be represented at the case of Wu-Mart (Han Huiming 2003), which has a successful expansion strategy in its development history.

Expansion strategy of Wu-Mart. could be generalized as: all-dimensional expansion, consolidate north position, stress regional advantages.

Case 1. Wu-Mart's Expansion Strategy

At the end of 1994, Zhang Wenzhong originated “Beijing Wu-Mart Shopping Mall Ltd., co” with some friends. In the first year that the first supermarket set up, it created an excellent performance of 180 million Yuan sales. Zhang Wenzhong had anticipated that the sales in China would be over 10 billion Yuan in 2000, while by 2010, retail enterprise with exceed 100 billion Yuan sales would be appeared.

Base on this optimistic judgment, Wu-Mart set up two branches in 1996 and 1997 respectively. It changed its name to “Wu-Mart Commercial Group” in 1997, main attack chain commerce. However, the development of Wu-Mart met bottleneck, lacked of experience and capital. Also at that time, opportunity appeared. A passel of old state-owned commercial enterprises met unprecedentedly difficult in 1997, in the face of concussion of emerging supermarket, some district-owned commercial enterprises have difficulty progressing. Zhang Wenzhong incisively found the business opportunity that in the reform process of state-owned enterprises. Wu-Mart undertook a great number of state-owned retail enterprises through long-term trusteeship, Wu-Mart also developed quickly by the low-cost expansion mode. Under the integrate management of Wu-Mart, mandated enterprises began to released energy again. Wu-Mart then obtained substantial support of government. By the end of 2001, Wu-Mart and 17 state-owned enterprises reformed over 170 original stores in terms of trusteeship, joint venture and cooperation etc, Wu-Mart already had 250 branches at that time, sales had raised to 2.500,000,000 Yuan, occupied the first of chain supermarket in Beijing. By the end of 2004, Wu-Mart had 608 branches in total; it had strong competitive power in Beijing and perimeter area.

Wu-Mart has become chain operation enterprise with abundant formats, large

quantity of stores, largest scale and highest sales in North China. The formats include: community, subway, convenient shop at bus station, comprehensive supermarket, large-scale supermarket etc. We could see its expansion strategy of Wu-Mart on stress regional advantages, and foster core ability in the plan of integrating state owned commercial networks of Tianjin.

By listing on and financing, Wu-Mart had adequate assets which used in the expansion of enterprise. Then Wu-Mart cost 3 years' time to invest 2 billion Yuan to reform state owned commercial enterprise network of Tianjin, and establish community chain operation network. Among these, cooperate projects includes: establish large-scale modern logistics distribution center which radiates North China; under the support of Tianjin, set up large—scale supermarkets in Tianjin, stride forward large-scale formats domain; comprehensively coordinate “change farms to supermarket” project of Tianjin, according to programming, set green, health, safe and good quality at low price as starting point, set up vegetable, subsidiary foods and bread supermarkets in community, establish green foods sales system, which could substitute irregular commercial networks, road pedlars and agricultural fair. It can be imaged that Wu-Mart will safely seize agricultural fairs of Tianjin. But all of them could not be separated from its unique expansion way and support of government. That also could be reflected in the successful merging of Wu-Mart to Chao Shi Fa (www.bjcsf.com), and the good position in negotiation with Dang Dai Shopping Mall (www.modern-plaza.com.cn) about the take-over case.

1.3. Inspiration to local enterprises

There is a gradual process in development. Local enterprises are developing at a high speed; the expansion speed is extreme high. However, common problems of our enterprises are that debt ratio is not rational, poor financing ability, adds gross profits

is not high in enterprises, excessive fast expansion will lead to a failed enterprise operation which caused by rupture of capital chain and low management standard etc. The terms of trusteeship, cooperation, joint venture and join in of Wu-Mart is a good way of low costs expansion, which not only helped government, but also realized self-development.

During the period that Wal-Mart entered in China, its open up speed is not important, instead, its strategic distribution is important, but this distribution is not suitable for domestic enterprises. Domestic enterprises do not have enough assets as Wal-Mart to support, and also unnecessarily catch the step of Wal-Mart. Actually, what domestic enterprises need to do is to study the expansion strategy of Wal-Mart in early years in America---infiltration strategy that consolidate at every step, set state as an unit, and fill in town by town, until the markets of entire state has been saturated, they began to develop in next state (R. Duane, 2008). They need to improve capacity and form scale advantages in area ranges when foreign enterprise had not occupied monopoly position in China, or before the formal start of their outbreak period of expansion. They have to utilize their knowledge of local cultures and market environment to develop new service modes. On the other hand, the advantages which could exert concentrating strategies within certain area, logistics distribution system and human resource management are easy to realize. According to the Logistics Management theory(Zhitai, 2005), only if under the condition that center city has enough radiate effect to surrounding satellite towns, as well as quantity of branches reach a certain level, logistics distribution center is efficient. Core competition of enterprise in certain area could be enhanced through this way. There are many points that deserve learning in the way of Wu-Mart, the innovating expansion route makes Wu-Mart could develop by dint of external advantages. Domestic enterprises need to fully utilize various potential resources, external conditions, to make them stronger.

The conclusion of Wu Zhongjian, assistant president of Wu-Mart is quite reasonable: “operating chain enterprises should bring scale effect, so Wu-Mart constituted regional development strategy; it is to intensively set up shops in a certain area, so they could integrate purchase, integrate management so that enterprises could easily cope with management, logistics, suppliers support etc.”(Issue Records of National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) 2008)

1.4. Problems exist in chain retail market

According to the review of China's retail chain business situation analysis report (2008-2009) of CCFA (www.ccfa.org.cn) and its recently issue focus, there are various problems in the chain retail market as following:

1.4.1. Low concentrative problems

At present, fierce competition made the profit rate of entire industry constant declining. Quantitative business is a key point of seeking exists and development for retail. But because of reasons such as politic system etc, market economy of China is still in a developing process, although domestic enterprises constantly broaden their operation scale to make the centralization of industry have a raise, but the “small, excessive, dispersive” pattern still exists in domestic chain retail enterprises.

1.4.2. Blind expansion of enterprises

The profit of enterprises is on quantitative operation, operation costs could be reduced by utilizing economy of scale. Domestic retail enterprises began to large-scale expansion by its advantage of utilizing economy of scale since 2001. But expansion of

domestic enterprises is different from foreign enterprises, domestic enterprises is low in gross profits, high in debt, weak in financing capability, assets risks is high in expansion. On the other hand, in the process of fast expanding, domestic enterprises may have a shortage in human resources, which could makes enterprises out of joint, operation would get in a confused complexion.

1.4.3. Unstable cooperation relationship with suppliers

Fierce competition, globalization of economy makes the competition upgrades from enterprise level to supply chain level. The relationship between enterprises and suppliers upgrades from business relationship to strategic partner relationship with common fate. To chain retail enterprises, the relationship between retailers and suppliers became much tighter, mutual exist and more dependent. Domestic retail enterprises should stand on the strategic height to treat their relationship with suppliers, and create a fast supply chain. However, in the relationship between retailers and supply chains at present, less of them want to cooperate, and most of them attach importance to immediate interests and mutual suppress (Yi, 2001). In practical operation, most chain enterprises set suppressing suppliers as an important resource of profits of enterprises, by charging unreasonable expenditures from suppliers, defaulting payments of goods, in order to reduce costs or use for the development of enterprises. Then the entire supply chain will be increasingly weak.

1.4.4. Domestic enterprises suffer concussion of operation idea

Many chain enterprises still manage their operation according to experiences, instead of a complete regulation system, which lack of standardization and regularization, it could lead to imperfect institution and function of headquarter, management standard of each branch is different, some branches even still use the management method of

single store, which cannot fully exert their scale advantage, price advantage and brand advantage of chain stores..

Foreign funded retail enterprises that entered in China, all need to experience dozens years' development and have mature operation idea as orientation, their operation ideas is obviously superior to domestic enterprises. They paid more attention to preferences of requirement of consumers, psychology of consumers and cultures. Review Chinese retail enterprises, they paid attention to prices while ignored long-term strategic plan, lack of operation characteristics. The situation that “same type for thousands stores” is serious (Chen, 2008). Advanced operation ideas will certainly produce huge energy on market response, market infiltration, and market competition etc, and bring concussion to Chinese retail.

In the long term, the chain operation will inevitably become the primary strategic choice for development of retail in China. Therefore, when we face competitions from foreign-funded chain enterprises, we should strengthen reform for the commercial chain industry.

2. Shopping Mall

Shopping Mall is an important strategic choice for domestic retail enterprises. The development of shopping mall is a strategic choice that retail enterprises expand new functions in service district. Shopping mall refers to super business center that has large-scale and integrates into shopping, leisure, entertainment, food, etc, and includes department stores, supermarkets and many chain retail stores. In general, a business area of shopping mall is above 100,000 m². In US, the International Council of Shopping Centers (ICSC) has provided the five characteristics of shopping mall: (1) The planning, development and establishment, operation for shopping center are

operated in a unified organizational system; (2) It adapts that needs for unified management and requires a unified property rights, and cannot be divided and sold; (3) It respects the customer's choice right in order to achieve the purpose of one-stop shopping. (4) It has a sufficient number of parking lots. (5) It has contribution for updating area or creating new business district.

2.1. Chinese Shopping Mall development

In mid-1990s, shopping malls began to sprout in the Mainland China. In late 1990s, there were some successful cases, such as Guangzhou Teemall (www.teemall.com.cn), China Plaza (www.china-plaza.com), Dalian Victory Square, New Mart (www.xa-newmart.com), etc. Simultaneity, there also were Hangzhou Yongjin Square, Guangzhou Zhonglv Mall and other failure cases (Chen, 2004). At present, shopping mall should be a promising retail format.

Looking at the basic regular of the world retail industry development, when the per capita GDP reached 1,000 dollars, department stores is growing up; When it reached 2000 to 3000 dollars, supermarkets is growing up; When it reached 6,000 dollars, convenience store is growing up; When it reached 8,000 dollars, warehouse stores is growing up; When it only reached 12,000 dollars, it is a times for shopping mall's development. Beijing's level of per capita GDP has still a great distance from this standard. Certainly, Beijing as the capital, and has its special situation. Because Beijing gathers on a large number of high-income groups, Beijing has entered the times in order to pursuit high quality of life. From the perspective of current China's practical environment, the current gross national products, per capita income and urban development cannot fully support this development of format. From the perspective of development, the level of development in China is rapidly approaching with developed countries. In the partial developed areas, people's spending capacity

has begun to support this development of format. Therefore, the development of China's shopping mall dose not only follow the basic rules of the development in the world retail formats, but also based on the situation of China's reality economic. The development of shopping is not suitable with a great fanfare so that it only can have progressive development from areas where have conditions. We can take the statute of Beijing Century Golden Resources shopping mall as an example (Zhan, 2006).

Case 2. Century Golden Resources shopping mall

As known as the world's largest shopping malls --- Century Golden Resources shopping mall opens for business in Beijing in the October 24, 2004. Golden Resources Shopping mall is invested by the Century Golden Resources Group. The total investment is 3.8 billion yuan, and total construction area is 870,000 m² about single building, and across 600 m from east to west and span is 120 m from north to south. There are six floors on the ground and two floors underground. It is a "giant" with commercial area of 680,000 m². When Golden Resources shopping mall is positioned as part of Century City, Century City also will be developed to become the largest residential area in west of Beijing that became a place where converge popularity have large purchasing power. In the planning of Century Golden Resources shopping mall, cover business district with 300 km. Because of the rapid development in the highway, residents of some cities are included in the potential customers, such as Tianjin, Shijiazhuang, Dalian, etc. It will be the giant shopping mall in Beijing and whole North China. In the initial construction, according to the forecast in authorities, the passenger flow of Golden Resources shopping mall reached 100,000 passengers every day. Annual sales are more than 5 billion yuan. At present, Golden Resources shopping mall in addition to the Yansha Friendship Shopping Mall flagship shop, it also has Guiyou, Easyhome, Lotus and several main stores, and Gome, cars supermarket and more than 10 semi-main stores. It gathers Times Club, Stellar theater, Guanjun skating rink and other 10 entertainment venues, as well as has 600 brand franchised stores and 50 theme restaurants. In other words, the current various forms of China's commercial circulation gather to the Golden Resources shopping mall where build the most luxurious "five star" brand stores. In Golden Resources shopping mall, the leading position is Beijing Yansha Friendship shopping mall. In the area of operations of 40,000 m², and it gathered totally many

international and domestic brand flagship stores.

Currently, the actual operating conditions of shopping malls cannot achieve the desired goals. Main exhibition is that the lack of tourists so that sales cannot meet the operational needs in shopping malls. According to the survey: the current passenger flow is less than 20,000 people at shopping malls every day, and reached to 60,000 people in holidays which cannot meet with the operational needs of the original forecast's 100,000 people every day and 250,000 people in holidays. It cannot far meet operational needs. In the shopping malls, the current sales are far from the annual sales are forecasted more than 5 billion before open for business, and the actual operating conditions are temporarily optimistic.

2.2. Main reasons of Century Golden Resources shopping mall's statute

According to the Review of Shopping Mall Theory Research (Tan, 2004) , we can analyze of the main reasons of Century Golden Resources shopping mall's statute from the following aspects:

2.2.1. Consumer group's lack of Awareness

This is mainly because such format is a new thing in retail market which has big difference with China's traditional department stores. Nowadays, China's retail industry still is mainly based on department stores, supermarkets and small shops. Therefore, regardless of the operating environment or the consumption habits, it all needs people's cognition, and this process will have a longer period of time.

2.2.2. Decentralized lease

The ownership of Golden Resources shopping mall vests in Century Golden Resources Group. For the store's operation, it only rent separately to different units as mentioned earlier some of the main store, the half main shops and so on. Therefore, it exist some problems that decorative style of the shop are different, management models are different, operation cannot blend and insufficient coordination with each other, and just caused internal friction alone is enough to form a huge business resistance, so that affect the development of enterprises.

2.2.3. Overlapping structure of goods and high repetition rate of brands

This is a big problem for China's shopping mall development. In terms of the development of department stores in China in recent years, the supply of goods is a small amount for consumer demand, especially high-end consumer, so that it cannot simply meet the increasingly obvious personal consumer demand, and the repetition brand operation also brings a great pressure on the business.

After all, according to the thoughts of <Marketing Management Theory (fourth edition)> by Cuo (2009) in the process of the development of shopping malls in China, there are three kinds of management models should be considered as following: (1) To hire a professional commercial retail management company to have an unify management; (2) To develop and manage enterprise's joint venture, cooperation and introduction of advanced management technique in foreign shopping mall with the famous shopping mall in the world; (3) To develop chain shopping malls or more series of shopping malls that need to build a professional management team in shopping malls, and recruit and reserve large amounts of talented managers.

To sum up, China is still located in the exploratory stage of establishment, management and operations of shopping mall. In terms of the current commercial

development, we have to consider the national conditions and economic development to adjust the development of shopping malls. Only in this way, the construction and operation of shopping malls can steadily promote the development of China's circulation area, and play a stimulating role for China's national economy.

3. Differentiation and Fashion

Differentiation and Fashion is the most strategic choice of single department stores. Department store industry exist some insufficiencies in operation principle, management techniques, product structure, etc. The stronger department store can try expansion mode of "chain" and "shopping malls". However, strength of most department stores is not strong, or the expand opportunity is premature, and the current top priority is its own survival. Differentiation, fashion is the best strategic choice of single department store. According to the introduction of <Differentiated Marketing> by Feng (2006) and <Consumer Behavior (10th edition)> by Blackwell, Roger D, we can analyze its development from the following aspect:

3.1. Positioning differentiation

Positioning refers to the enterprises identified in a reasonable position in the minds of existing or potential customers in the market. The basic principle of positioning is that influence the mind in consumers. Therefore, positioning must find own special features, and convey this special to the minds of consumers. American McMillan Doolittle Company has proposed "EST positioning model". The model thinks that a retailer must do the best in a certain respect to the specific customer groups, and cannot expect to do the best for all outstanding in all respects. The EST theory thinks that retail enterprises can do the best in the one of inexpensive, rich, popular, convenient and fast. Therefore, retailers must choose one aspect as their own position

from above five respects, while ensuring that other respects above the passing level or average level. In addition, according to the EST positioning model (Adams, D. 1998), combined with customer satisfaction model, it can also break out the price perception, store goods, personnel services, after-sale service, checkout process, shopping convenience, store facilities, shopping environment, store policy, corporate image and other factors, which each factor can be subdivided into two secondary factors. Through satisfaction surveys, the actual situation about each anchor point of the enterprise can be obtained, and then compare scores with competitors so that gain the ranking of various factors, which it can identify whether there is a clear anchor point. The best enterprises should generally be two anchor points that one is a main anchor point and another one is a second anchor point, and the same anchor point can also have different focus. If it doesn't have anchor point, it will need to focus on the shape. Otherwise, it will cause that the enterprise gets into a "retail black hole" (Norman H. McMillan, 2010) and fail in the end.

3.2. Product differentiation

The goods can mainly process differentiation from the category, price, quality and other aspects. Specifically, the specific way as following: Firstly, develop its own brand. The development of its own brand is an important measure in order to achieve differentiation and enhance profits of rate. The supermarket not only can adopt a large number of own-brand, but the department stores also can be. Secondly, there is commodity-grade differentiation. Part of the strength of enterprises begins to tend to the direction of luxury and gentrification, and fully introduces international frontline brands in order to provide high level of consumption for affluent groups. However, the differentiation exist some difficulties in achievement of the chain. Thirdly, the combination of low price and fashion merchandise builds high-end discount department store. As Beijing Cuiwei department store (www.cwjtd.com), it's the

representatives in this type which is committed to provide a pleasant, time-saving shopping experience. The product quality is higher than traditional discount stores that the price is much lower than department stores (crrc.org.cn).

3.3. Service differentiation

Service differentiation is major direction of efforts which department store achieves the differentiation. Service differentiation must first understand consumer demand and consumer expectations (Pan, 2004). The domestic department stores generally attach importance to behavior and language specification which has certain benefits to improve its service. However, this is not the all of service attitudes. The more important services are that it can provide sincerely personalized experience service for consumers, and can solve honestly problems for customers. In the speed of service, in addition to increasing the speed in cash register checkout, timeliness of service is also very important.

3.4. Environments differentiation

For example, in the past, retailers always try to make the consumer go more ways in the store through layout of the store so that produce impulsive and derived consumption. Nevertheless, in nowadays, under the consumers are increasingly busy, and the purpose of shopping is increasingly strong, the past way should be adjusted in layout of the store that too complex layout and too large area may even make customers sick.

3.5. Brand and communication differences

In fact, brand image still is rooted in enterprise positioning that brand image must be

consistent with enterprise positioning (Scott M. Davis, 2000). If it needs to establish a good brand image in order to achieve differentiation, it usually will need to do: Firstly, to enhance enterprise's brand awareness, which is base with enhancement of reputation and loyalty. Secondly, to enhance the quality of service that promotes enterprises to have intimacy and affinity that develops distinctive services for enterprises at the same time and form the brand association of enterprise for consumer again. Finally, cultivate brand loyalty of consumers to enterprises. Methods with enhancement of brand loyalty usually have: To enhance the level of management and service in order to make satisfaction for target customer, and encourage spread of public praise between consumers; To adopt membership in order to establish a good relationship with the customer. According to the different situation of customers, adopt personalized marketing strategy; Own-brand goods are also a way to improve loyalty that own-brand products of high-quality and high recognition can also attract repeat customers.

Overall, differentiation can make department stores to avoid strong competition of new format. Department stores form their own characteristics in the merchandise mix, service mode, promotions, etc. Through reduce the purchase quantity of daily necessities and food, and the competition can be avoided from the supermarket. Through gradually withdraw from the sale of home appliances and other goods, and the competition can be avoided from the household electric appliance chain stores. The department store has been adjusted that gradually formed its own merchandise mix features. Secondly, the fashion is the only reason which department stores attract consumers. General daily consumption can be resolved by the supermarkets, and the rest is higher-level for needs of lifestyle and concepts. However, the department store should be a guide of modern urban life that use more factors of culture, leisure, sports, fashion and travel to adapt the new changes of urban work, life and consumption patterns so that meet the needs of modern life for urban residents.

4. Informationization

4.1. Informationization management's development in China

Informationization management is the basic insurance of prevailing in retail competition. World top 100 retail enterprises are widely using informationization management system, for instance electronic statistics disposal system, customer relationship management system, supply chain management system, decision making supporting system etc advanced information system to manage various segments such as buying and selling, and storage operations of retail enterprises, which greatly improved circulation efficiency of merchandises, reduced operation costs, and enhanced core competition of enterprises, that could make them stabilize at the position of world top 100 (Li, 2008). American company Sears Department has introduced B1 in 1994, sales of that year and second year both increased by above 20%, stocks reduced by 60%. Informationization of Wal-Mart is even more all-dimensional and systematize, they launch satellites to monitor worldwide logistics system, and it becomes one of factors which make step on the road of success (Charles Fishman, 2006). It fully indicates that informationization management which based on information system is the development direction of modern retail enterprises. If Chinese retail enterprises want to compete with international opponents in the market for development, besides necessary scale, modern information management will certainly become the key point of Chinese market which should be strengthen in the future. Only in this way could Chinese retail stay on top in the heated competition. In other words, informationization management is the basic insurance of China to join competition. It should be said that informationization is the basic strategy of the development in retail, and key point to make enterprises larger and stronger.

Moreover, informationization management could greatly reduce logistics costs of retail. After expansion of enterprise, how to reduce management costs, improve integrate management efficiency and to cope with constantly changing market and international competition has been bottleneck of further development in Chinese domestic retail. According to analysis of social economic statistics report, logistics costs of Chinese chain retail occupies 27% while developed countries only occupies 10%, it can be seen that high logistics costs of Chinese retail industry is the important reason which makes the low profits of Chinese retail(Liu, 2008),. Top 100 of world retailers have already deeply realized that advanced informationization management of logistics is the last virgin soil which could reduce the costs of retail enterprises, informationization would makes retail own high efficient logistics distribution ability, which could quickly and accurately seize and satisfy the requirements of every store, at the same time support that logistics distribution with low logistics costs, then truly exert the function that logistics costs is the “third profits source” of retail.

In addition, informationization could enhance satisfaction of customers. Modern chain retail enterprises are facing increasingly accelerating of global competition, supply capability and requirement of customers are increasing at an unexpected speed, this makes every retail enterprise has to seriously consider to change its organization structure and operation mode to adapt the global development and change. As the exerting of information technology in retail enterprises, retail enterprises could grasp customer’s information faster and more accurately, which could satisfies more requirements of customers, and provides more human-based services.

American information system expert Nolan advanced famous information system evolution model according to practice and experiences conclusion on developing information systems over 200 companies, which was Nolan's stage model (King, 1984). Nolan held the opinion that there is an objective development road and

regulation for any company who wants to develop from manual information system to computer-based information system. Disposal and development of statistics involve the advance of technologies, extension of application, the change of plan and control strategies, and conditions of users. Nolan emphasized that any organization who wants to realize computer-based information system needs to develop from one stage to next stage, it cannot realize the development in jumps.

According to the basic study of < Introduction to E-commerce > by Dai (2009) and <E-Business (8th edition)> by Schneider G. P, the development of information management could be divided into 3 stages as following:

The first stage is initial stage of application in simple information technology. The character of this stage is independent application of information technology tools; they are usually used in certain concrete work of retail, such as POS machine and electronic balance etc, just in order to improve the speed and efficiency of a concrete work, and reduce the work intension of that work post, at the same time improves the accuracy of statistics in that segment. The second stage is the development stage of information management system in retail; it includes collection of statistics and purchase, sales, stocks information management of management information system, the main function is to serve enterprise management, provide support to operation decision of enterprises according to single item management and information management of purchasing, sales and stock. And the third stage is completely informationization of retail enterprises. In this stage, information technology support business operation of retail enterprises which based on information sharing in whole process, it supports whole process management in various department, branch institution and subordinate stores of inner enterprise. And supply chain management of inner enterprise.

Most chain retail enterprises of China exert sales management, stocks management and financial management systems; it indicates that informationization standard of domestic retail enterprises have mostly stepped into the second stage, but analysis from concrete aspects, domestic retail still exists relatively large gaps in aspects for instance, investment standard, informationization achievements, integration level of system, and profits it brings to enterprise etc.

4.2. Sunning 's Informationization Strategic Development

Although informationization construction of Chinese chain retail started late, technology content level is relatively low; the operation mode still mainly based on labor-intensive type. But the informationization consciousness of Chinese top 100 chain retail enterprises is relatively high, as well as informationization level; they have also tasted the sweetness of informationization construction. For example informationization management of Sunning (Li, 2009) gained fruitful achievement.

Case 3. Sunning 's Informationization Strategic Development

Information construction of Sunning electrical equipment was far ahead of other Chinese retail enterprises, and became the unique retail enterprise which is selected in "top 500 Chinese informationization enterprises in 2005" in top 100 enterprises. During the 16 years when Sunning group was expanding its operation scales, that was 16 years' informationization development of Sunning: experienced service system informationization, sales and financing informationization, ERP informationization, SAP/ERP informationization. Sunning constantly input to informationization, it made informationization level of the enterprise improved year after year; it also made this sort of new high-tech content mode increasingly mature, and became the powerful backing which makes Sunning electronic equipment constantly and healthy developing. That was retail informationization No. 1 project ---Sunning SAP/ERP system, this system symbolized Sunning advance traditional business firm to modern operation standard, which completely changed the operation mode, and it completely advanced traditional simple, extensive form, physical business operation to modern, great amount science and technology intensive business operation. The main characters of SAP/ERP system including adapt management and deal with increasingly large amount of market statistics requirement, build complete, integrate, scientific daily decision analysis table searching system, fully utilize abundant statistics, deeply process information; conduct in-time, efficient, high value market analysis, provide companies and customers high quality information, and provide leadership and operation department efficient information support to decision-making management, improve timeliness, accuracy, overall importance and coherence; Improve operation efficiency, optimize allocation of capital resources; According to organically analysis on operation risks, supported with building integrate risk mechanism, efficiently defend and control

risks etc. Run and perfect after-sales service (delivery management, installation management, repair management) of that system provides a powerful basic service platform to customer service center; Building advanced technological communication platform, VOIP telephone voice system, mutual exemption of telephone fare in everywhere; Video meeting system in national wide, connecting link various order, policies, video transmitting system realized unified television training for employees of other places, improved ability of communication, training, and connecting link, enhanced management and control power, which saved a great deal of costs. Implementation of advanced information system has begun to reflect competitive advantages of Sunning . Sunning has member system, each customer of Sunning has a reputation card, and customer information has been recorded in the card; including home address, phone number etc. Before it, if customers want to purchases electrical equipment, they need to fill delivery order, but now, just sweep the card, relative information of customers could be automatically recorded into the system. This information could be directly conveyed to backstage storage, delivered by storage; it could be said basically realized non-paper operation. Sunning saved over 9,000,000 Yuan by this information system. By 2010, Sunning could save 100,000,000 Yuan just by this segment. And this information system changed upstream manufactures' storage to Sunning 's storage, the distribution Channel of Sunning is extremely flatness. Sunning could save costs, shorten logistics cycle; at the same time arrange resources supply flexible, without daring the risk of overstock goods. And Sunning 's system has realized directly connect with most suppliers' systems; Suppliers could enter into Sunning 's system, check the sales rate of progress and storage situation at any time, reduce operation communication costs and labor intensity, at the same time utilize market information which get from Sunning 's direct contact with consumers, suppliers could clean out stocks more quickly, which could produce marketable products, supply chain could be perfected in this circulation, it helped Sunning save 40% costs. Sunning 's achievement of

advanced information system construction has become one of the most core competitions of Sunning . Just because continued perfection of Sunning in informationization management, it became the only selected Chinese retail enterprise of Chinese chain electrical equipment industry in world top 2000 enterprises which publicized by <Forbes>.

Naturally although some domestic retail enterprises paid attention to informationization construction, because of various aspects' reasons, they could not insist, and could not get anticipated profits.

5. Cost-Leadership

"Cost-Leadership" is the main strategic choice of supermarket format. According to Porter's theory of competitive strategy, cost-leadership strategy refers to gain the overall cost leadership in the industry through use a series of specific measures to aim at reducing costs. From the new value chain of view, retail enterprises choose cost-leadership strategy to obtain cost advantages. The angle of view doesn't depend on the cost of competitor or degree of differentiation, but depend on meet the customer's actual needs in order to create more value for customers. They will translate this cost advantage into price advantage so that make customers feel more value for money in order to attract customers, and ultimately gain competitive advantage in respect of price.

According to <Cost leadership strategy paradigm> by Li (2005) and theory research by Jones (1988) approach of cost-leadership strategy is implemented by retail enterprises as following:

5.1. Through chain operation, and achieve economies of scale

Relative to the production enterprises, retail enterprises have more obvious economies of scale. Retail enterprises in addition to reduce the cost through cost savings of procurement, sharing of fixed costs, enhancement of risk resilience, the increment of volume per unit area and other aspects, but also can achieve a strong expansion of economies of scale via highly unified chain operation model and "Copy" expansion of low-cost. Foreign-funded retail enterprises generally linked with the chain operation. Because of network, scale and purchases are large, so that they could gain more concessions on prices to reduce purchase costs, and gain more customers by low prices. However, due to the long-standing lack of market system, weak enterprise-owned capital and inadequate technical capacity, so that scale of China's retail enterprises generally is small and market concentration is low. Therefore, it cannot get economies of scale. The disadvantage of small-scale leads to higher procurement costs in China's retail enterprises that it is difficult to create its own characteristics (Liu, 2010). It cannot attract customers so that affecting the competitiveness of enterprises. In order to meet the requirements of competition, many China's small and medium sized retail enterprises attempt to transform the existing organization forms of retail in the form of chain operation so that form scale. At the same time, China's large-scale retail enterprises explore to form a mixed commercial enterprise group in the capital as the link and the mode through mergers and acquisitions.

5.2. Strictly control the value chain costs in different levels

Retail enterprise must take advantage of the relation of internal cost in the value chain in order to enhance cost control. Through corporate efforts of administration section, purchasing department, transportation department, warehousing department and sales departments, achieve cost-leadership. Trough use some measures, such as unified

procurement, direct purchase from manufacturers as far as possible, increase local sourcing, buy out procurement of goods and other measures, and it can make the purchase price drop to a minimum. In the distribution sectors, because of retail logistics costs is located in its composition of total costs, it often is 20% or more. Therefore, the retail enterprises reduce logistics costs via the establishment of advanced logistics and distribution system and improving of distribution efficiency. In the link of sales, reduce marketing costs that use more effective retail advertising medium, and reduce unnecessary advertising expenses. In the respect of loss prevention of goods, the use of high-tech measures can minimize the loss of goods. Through controlling all links of costs in the value chain, and strictly control all management fees.

5.3. Attentions about implementation of cost-leadership strategy

Firstly Cost-leader doesn't have to be a leader in respect of differentiation. Cost-leader doesn't attempt to be an industry leader in respect of differentiation. Only when the customer needs certain features or services, he can provide. For example, the cost-leader firstly won't provide the DVD with theater-style sound, and he should wait until the customer clearly needs this feature to provide (Xu, 2008).

Secondly, low cost doesn't equal to low price. In the choice of cost-leadership strategy, cost advantages of retail enterprises will inevitably reflect in the competitive advantage of price. Underselling of goods is always a powerful weapon in retail competition. However, the cost advantage is not equivalent to the price advantage. Underselling is just an operation strategy which enterprise implements cost-leadership strategy. The improper use will inflict an unexpected loss in retailers. Due to successful cost-leadership strategy is rational underselling that not only helps consumers, but also helps business through improved operating management and

lower supply chain costs, and reduce the price of goods.

Although rich and appropriate merchandise mix weaken the individual requirements in prices of single goods to a certain extent. However, because of the supermarket format has characteristic of low price as distinguished from other formats, fully strive to obtain cost advantages still is that strategic objective cannot be ignored by local retailers. Under the conditions of limited capital capacity, according to the knowledge of local suppliers, extensive product, producing area and relevant knowledge, develop partnership with supplier so that gain supply price advantage. It is another competitive advantage can be researched and supported by local enterprises.

6. Mergers and Acquisitions

Mergers and acquisitions is the development trend of china's retail. Foreign-funded retail enterprises often have full penetration in the form of the chain. It has effects in economies of scale that often has a huge comparative advantage in the competition. Therefore, China's retail accounts for less and less share on the market, and earned profits are also increasingly less. Through collection of capital, market share, expansion of scale and enhancement of benefits both sides with mergers and acquisitions, against the challenge of foreign retail giants, and this is a wise method. Because the largest advantage of mergers and acquisitions is that it can rapidly expand the scale of enterprises in the short term. For time is running out in China's retail enterprises, this is naturally a best choice.

According to the analysis study of <Publication of China top 10 M&A> by CCFA 2007 and <Mergers, Acquisitions, and Corporate Restructurings (3rd edition)> by

Gaughan (2004), the M&A strategy works in the following aspects:

6.1. Diverts the business risk, and implement the diversification, mergers and acquisitions

Traditional retail listed companies face increasing risks. On the one hand, China's retail is a trade that opens relatively early and speed of entry is quickly in foreign investment, especially after joining the WTO, a series of provisions causing a lot of pressure to China's retail. On the other hand, the development of new retail format forms a strong impact on the traditional format retail enterprises. Form of the original format, such as department stores and specialty stores which continuing to develop for the standardization. The supermarkets, chain stores, franchised stores and other new formats also grow up quickly. Nowadays, the warehouse stores, discount stores, mail order, TV shopping, online shopping and other non-store format have also come out one after another. These new retail formats with great Chinese characteristics have decent performances in the production and development, so that these enterprises seek to continue to develop in order to reduce business risk, and through transfer or expand the main business, make its scope of business to process mergers and acquisitions, and make business to expand into more areas in order to diversification, in which multi-format acquisition can achieve portfolio diversification and improve stability for enterprise. In its different periods of economic development in different retail formats, results of operations are not the same. In the different economic periods, behavior of consumers is different. The preferences, income levels and knowledge structure of consumers directly affect behavior of consumers, so that different formats have different sales performance. Multi-format acquisition diverts business risk in a certain degree, and reduces the ups and downs of sales, so that enterprises maintain the stability of earnings within a certain range in enterprise.

6.2. Synergy effects

The synergy effects are achieved from retail mergers and acquisitions that there are three main points (Zhou, X. 2011): Firstly, to achieve economies of scale. Enterprises expand the scale through mergers and acquisitions. On the one hand, it further integrates sales channels. On the other hand, it integrates supply channel. In the procurement of enterprises, because of the scale of procurement is larger than the past that it can certainly secure more concessions when have negotiations with supplier. Secondly, after the acquisition, it can eliminate competitors and expand the market area in enterprise, and improve the advantages of operation and competition in enterprises. Thirdly, to achieve the complementary advantages with both sides in acquisition, so that enterprise has more efficient after the acquisition, and achieve overall value of enterprise is greater than the sum of values of both sides before the acquisition.

6.3. Reduce financing costs and improve financial situation

After the acquisition, enterprises will make internalization in the parts of the investment opportunities of industry. The enterprise will transform external financing into the internal financing. Due to the cost of internal financing is less than the external financing, improve financial position and achieve financial synergies to a certain extent (Qi, 2005). After the acquisition, enterprises reduce the possibility of bankruptcy and increase possibly credit rating so that the chances of external financing are increasing.

6.4. Merger and acquisition acquires revenue preference reasonably

For instance, the merged enterprise suffered a loss before the merging. Merger

enterprise takes on all the debts of it. If merger enterprise made profits before, it could use a part of debts of merged enterprise to deduct a part of tax income, then makes merged enterprise reduce taxes reasonably (He, 2005).

6.5. Reduce bulwark that non-retail enterprise enters into retail

If an enterprise which never stepped into retail wants to invest a retail store, it will definitely meet the industrial bulwark. Because the lack of operation and management experiences of retail, its management resources is hard to get effective integration, splendid management team and operation experiences of retail could be acquired through merging and acquisition, which reduced the risks that invest and build retail stores they itself.

After all, in the respect of China's retail, Shanghai Hua Lian cooperates with Beijing Xi Dan shopping mall, supermarket to develop chain operation and behavior that Hua Run, China acquired Shenzhen Wan Jia both took a delightful step (Jiang, 2006). However, successful implement of this strategy, is actually a challenge to business elites in abilities of "fast study" and "cooperating competition". In 21 century, people who have better ability of resources integration could have indisputable core competition. Hence, there was a cooperation heat wave in Chinese retail in a long period; this is also the best strategic choice of integration of resources.

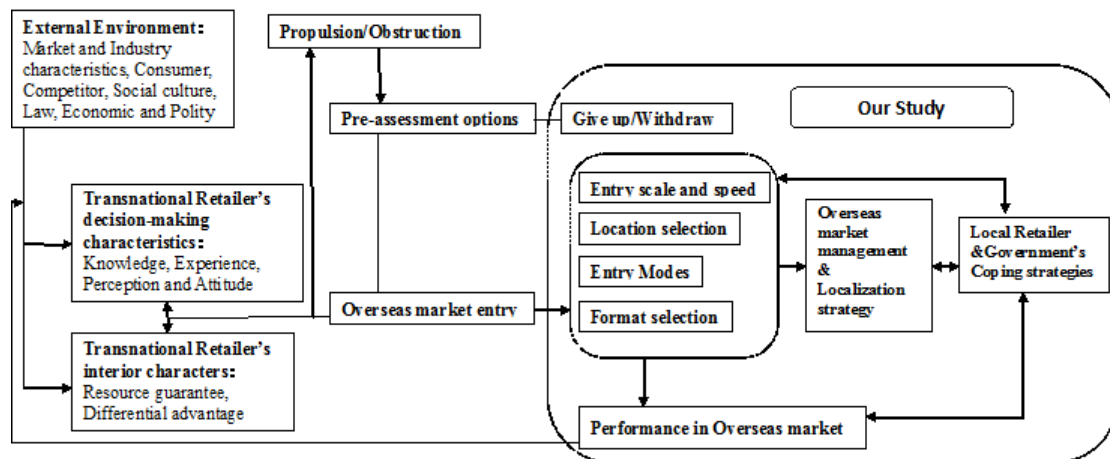
**CHAPTER V:
STRATEGIES OF TRANSNATIONAL RETAIL
ENTERPRISES IN CHINA
AND
COUNTERMEASURES OF DOMESTIC
RETAILING**

Transnational retailers enter into overseas market is the combined effect of external market environment, internal resource insurance of retailers and differentiation advantages, knowledge of company executives, experiences and attitudes (Williams, 1991). Mutual effects of these factors are consist of the pushing force and resistance of retailers' international decision, if pushing force overweighs resistance, retailers will choose entering oversea market; if resistance overweighs pushing force, retailers will give up or evacuate from oversea market.

Once retailers decide to enter oversea market, the important process is to define entry scale and speed, entry location, entry mode and the type of entry format. These four decision-makings will directly affect the oversea market performance of transnational retailer. Besides, after transnational retailers enter into host country, operating strategies and localization effects will also directly affect their market performance in host country. After transnational retailers enter into host country, it will certainly make some effects to host country; however, these effects will lead to counterattack of host countries' government and local retailers in host country, it makes transnational retailers have to adjust their operation strategies. The strategic adjusting among transnational retailers, local retailers and host country's government is a long-term interaction process; it also becomes an important part in the process of retail internationalization. At last, retailers' performance in host countries' market will affect their internationalization strategy in next round, including retail internationalization degree, it will also has some relative change. What should be drawn attention is that retailers' internationalization strategies will not always persisting. Many literatures show that retailers' exit from global markets maybe happens in every stage in the process of retail internationalization, but normally, exit is mostly appear in the early stage of internationalization (Douglasand & Craig, 1995). For example, in the early 1970s, after Penney and Sears enter into Belgian and Spanish market, they quickly exited (Cirulli, 1993).

In summery, the process of retail internationalism is a complex dynamic system process, which including key factors for example, the agents why retailers enter into oversea market, entry scale and speed, location selecting, format selecting, localization strategy, oversea market exit, coping strategy to host country's government and local retailers etc, however, there are mutual dependent and mutual affect relationship among these factors.

Graph 1 Framework of the Internationalization Process



Source: Adapted from Chen (2004)

1. Transnational Retailers' Strategy in Chinese Market

1.1

1.1.1. Scale and Speed of Retailers that Enter Into Chinese Market

In recent years, the scale of foreign investment that enters into Chinese market is increasingly accelerated. It could be reflected from the following two aspects: (1) From the quantity of transnational foreign invested retailers which entered into Chinese market, by the end of 1997, only 18 foreign invested retailers entered into

Chinese market, however, by the end of 2004, formal approved foreign invested retail enterprises have reached 314. In 2009, there are 793 foreign invested enterprises which have already approved by Department of Commerce; it was 2.5 times of foreign invested retail enterprises in 2004. (2) From the proportion of transnational retailers sales to see, before 2001, foreign investment business sales occupied less than 1% of total sales of consumer goods in the whole country. It just reached 1% in 2001, while reached about 10% in 2009. The main reason that transnational foreign invested retailers enter China in a larger scale and faster speed is due to gradually open of policy restriction in Chinese retail market, which creates a favorable environment for the expansion of transnational retailers in Chinese market, it has more obvious performance after China joined “WTO”, and after Chinese government completely abolished restriction on foreign investment area, stock ownership and quantity at the end of 2004(Jing 2002).

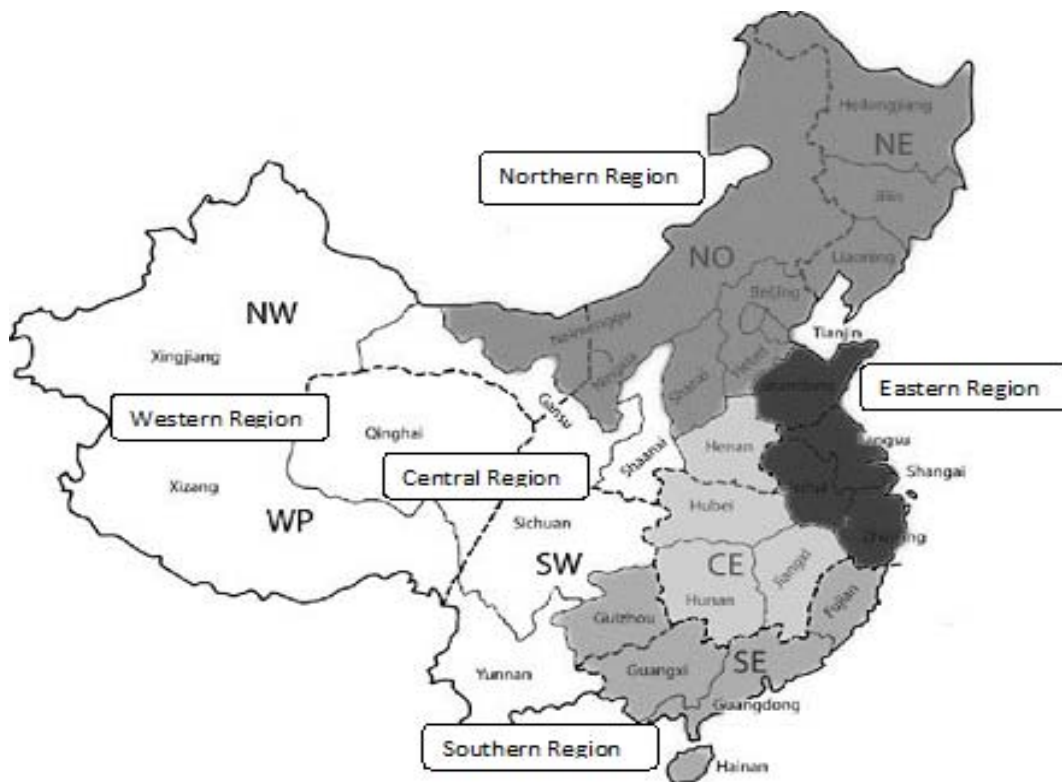
1.2. Location Distribution of Transnational Retailers in Chinese Market

Transnational retailers mostly concentrate in east littoral of Chinese market. During 1999 to 2003, the proportion eastern China's foreign invested retail stores in rural foreign invested retail stores shows a decrease tend while the proportion of middle and western China's foreign invested retail stores are gradually increase. It indicates that attraction of eastern China to foreign invested retail firms is tending to be stable, middle and west area (especially west area) are increasingly regarded by foreign invested retail enterprises. There are three aspects of reason why transnational retailers concentrate on western area: Firstly, consideration about its entirety expansion; Secondly, attracted by a series of government policies which encourage foreign investments enter into western area; Thirdly, in recent years, the develop space of retail market is smaller and smaller in east area, while the development space of

retail market is comparative large in west area, competition intensity is much low than east area. At present, Wal-mart, Metro, Carrefour, Auchan, Ito-yokado, B&Q all set up shop in western China, such as Chengdu, Kunming, and Xian etc early or late.

No matter in east, middle or west area, the distribution of foreign invested retail stores all present disequilibrium, in 2003, in east area, just Shanghai, Guangdong have occupied 75% of total foreign invested retail stores, among this, Shanghai occupied 65.13% (NBS), while Hainan and Hebei province only account for 0.82%; For middle area, the amount of foreign invested retail stores in Hubei province always hit the top of middle area, and presents an increasing trend year after year; in 2003, the amount of foreign invested retail stores in Hubei province accounted for 68.09% of total; in east area, foreign invested retail stores mostly concentrate in Chongqing and Sichuan.

Graph 2 Map of China (excluding Taiwan) and Its Five Subunits



Source: Adapted from Lelej (2002)

According to empirical study on seven foreign invested retailers, including Wal-mart (224), Carrefour (176), Metro(48), Auchan(40), Trust-Mart(104), Tesco(91), it was further founded by the end of 2010, the six large-scale retailers totally set up 638 stores in 116 cities of China, among them, the amount of stores in provincial city and city specially designated in the state plan have reached 263, in which population are all above 1,000,000 in these cities, average GDP per capital are all above 10,000 Yuan, Engel's coefficient are all below 0.43, it also indicates economy development standard is high, population scale is large, consumption of cities which changing from being adequately fed and clad to being fairly well-off are the focus area foreign invested retailers joust for markets (CCSFA).

1.3. Entry Modes that Transnational Retailers Used into Chinese retail Market

The modes that transnational retailers use to enter into Chinese retail market are as follow: (1) Joint venture. Between 1992 that retail domain opened to external, to just before China joined WTO, Chinese Government regulated the only legal form transnational retailers could enter into Chinese market is joint venture, most transnational retailers adopt this mode. (2) Commission administration. Because input foreign administration will not be limited by Chinese Government, some local retailers commit foreign partners to manage in the terms of paying administration fees, transfer stock ownership, lease etc, Chinese side just take basic profits (Chen & Zhao, 2004), for instance, Bai Sheng, Malaysia. (3) Transfer residential property. Sino-foreign joint venture open up estate (hotel and office building) is comparative easy to obtain project approval, but after the built of hotel or office building, the opposite side always directly use a part of the building into retail operation. (4) Delegation import. Foreign merchants delegate local Chinese enterprises agent sale branded merchandises of foreign invested retailers; or develop franchising through

licensing mode, for instance, French company Lafayette and Japanese company Sogo department in Beijing. (5) Sino-foreign joint venture sets up subsidiary of enterprise. Some joint ventures manufactories utilize Chinese policy that permits foreign investment manufactory enterprises sell their productions in China, to sell their products in terms of directly sell or set up franchised stores, such as French brand Pierre Cardin, American brand Play Boy. (6) Merging. In July of 2004, British Company, Tesco Corporation, spend 140,000,000 ponds to merge 50% stock authority of Tesco chain store, and entered into Chinese market through merging. (7) Sole proprietorship. Since the end of 2004 that China abolished the stock limitation on foreign invested business, phenomenon that transnational retailers enter Chinese market through merging is increasingly common, in 59 foreign invested retail firms which just approved to set up during January to June in 2005, sole proprietorship foreign investment firms occupied 38, it accounted for 64.4%. It can be seen from that, the modes utilized by transnational retailers to enter Chinese market present variable characteristics. What need to be particularly illustrate is, before the end of 2004, because Chinese government constrain the entry mode of foreign investment (only allow foreign investment enter through merging, and strictly regulate the proportion of stock hold by foreign side), most transnational retailers adopt the mode of merging to enter Chinese market, or through various recessive adaption in the policy regulation frame, such as commission management, residential property transplant and delegation input etc. However, Chinese government completely abolished the restriction on the stock authority of foreign investment retail firms, it will make the mode that transnational foreign investment retailers utilize to enter Chinese market increasingly similar, merging, sole proprietorship will be the dominant way transnational foreign investment retailers enter Chinese market in the future.

1.2 1.4. Format Selection of Chinese Market for Transnational Retailers

When transnational retailers enter Chinese market, they always avoid department store formats which has step into maturity both in domestic and foreign market, and mostly concentrated on the investment of emerging formats for instant, large-scale supermarket (such as Carrefour, Wal-mart shopping mall, Tesco, Auchan, Lotus etc), warehouse store (such as Metro), large-scale home center specialty store (such as IKEA, B&Q), convenient store (for instance, 7-11) etc. which present a growth tendency, among these, large-scale comprehensive supermarkets occupy dominant position. At present, foreign investment has account for 59% proportion in large-scale comprehensive supermarkets in China. Why transnational retailers prefer to choose large-scale comprehensive supermarket format when enter Chinese market is mainly rooted to the following reasons(Chen, 2004): (1) It is a popular format mode in international market, and it achieved success in the development of various countries; (2) By the strong capital strength, high effect logistics distribution system, modern information technology measures and advanced management skills, large-scale transnational retailers possess comparative advantage in the operation of large-scale comprehensive supermarkets, and accumulate abundant experiences in the operation of large-scale comprehensive supermarket; (3) This format possess double duty of supermarket and department store, while has more advantages when compare to them, it accord with requirements of vast Chinese consumers, and does not need to compete on the same horizontal line with traditional Chinese supermarket, which could archive the object of leading the market. Just due to these reasons, foreign investment large-scale comprehensive supermarkets could develop in a swift momentum in China.

1.5. Localization Strategies of Transnational Retailers in Chinese Market

Standardization and localization in the process of international operation is always the dispute focus of academic community. Markets or customers which retailers are facing is ultimate consumers, instead of industrial clients, consuming behaviors and purchasing habits of ultimate consumers are greatly affected by cultural traditions, lifestyles, nationalism and even languages, geographies, and climatic condition, in other words, retailers are facing the market which is difficult to be “localization”, hence, it is hard to adopt a global principle, measure to operate retail business of various countries and regions. For this significance, the proportion of localization should be far more than the proportion of standardization, particular factors that more approach to customers, site selection, commodity combination, service contents, shop design, and means of sales etc need to be more approach localization. Transnational retailers all regard on execution of localization strategies when operating in Chinese market. (1) To the localization of commodity combination, in the early days when Carrefour and Wal-Mart enter Chinese market, local merchandises occupied about 50%, but they found that much foreign merchandise cannot meet to the requirements of local Chinese consumers, so they continued increase the proportion of local merchandise, now in the stores of Carrefour and Wal-mart, the proportion of local Chinese merchandise has exceed 80%, besides, to meet the requirements that Chinese people like “select”, they increased the supply of the same sort of merchandises, Chinese goods such as tofu, soybean milk are selling in each branch of Carrefour, it even sells different goods in the brand of different areas, such as sell hot sauce in the brand of Chongqing, and sell flour pastry of roast duck in Beijing brand; (2) To the site selection localization, considering most Chinese people do not have cars, so Wal-mart changed usual pattern that selecting site in suburb, in the early days of entering Chinese market, it set up shopping mall in the busiest place of Shenzhen; (3) To the mode of sales localization, large-scale comprehensive supermarkets and

warehouse stores of western developed countries all adopt complete self-service pattern, but when developing in China, they add service staff in the stores, which makes it more convenient for communication with customers, and adapt to the consumption habit of Chinese consumers; (4) To the localization of service content, considering the situation that most Chinese customers do not have cars, and difficult to carry by themselves, Metro changed their operation idea of “carry goods by customers themselves” which has last for 40 years, to the bulk merchandises, they introduced free delivery service (Quan & Liang, 2002); To human resource localization, 90% staff of Wal-mart in China are local staffs, 95% staff in Carrefour are local staffs except a few French senior management.

1.6. The Exit of Transnational Retailers from Chinese Market

Oversea operation of transnational retailers is not always constant; divestment could happen in all the times, it not exception in China. Table 9 just displays the examples that foreign investment retailers exit from China. For instance, Japanese corporation Yaohan center entered Shenzhen in 1991, but it completely exited in 1999, the key reason of divestment is the lapses on format selection, orientation of Yaohan center in Chinese market is small-scale traditional food supermarket, it has no progress while comparing with domestic supermarkets, add on low speed of development, it definitely hard to keep long-term exists. In addition, Ahold entered Chinese mainland in 1997, the amount of store once reached 50 in Shanghai, however, because of operation problems, it was forced to sell the complete stock authority in October of 1999, and the reason is lapses of investment decision. Ahold set up distribution center in Shanghai which based on the scale of 100 stores, but due to the undeveloped circulation way of farm and sideline products in China, the operation costs is high in distribution center, in addition, the cooperation object is a district owned enterprise,

for the development in Shanghai, it lacks nature resources, when the development scale of stores cannot support the operation costs of distribution center, it could lead to a huge loss for years, and has to exit at last. What need to be particularly illustrated is that divestment from China itself is a strategic choice of transnational retailers; it also indicates not that transnational retailers could definitely win in the competition with local retailers.

Table 11 Indicates foreign investment firms which have exited Chinese market

Company	Origin	Format	Exit Mode
Yaohan	Japan	supermarket	It sold complete authority (actually, its operation and management have completely exited in 1997) Shanghai No. 1 department store in June of 1999.
Shanghai Seiyu	Japan	supermarket	It sold complete stock authority to Shanghai Hua Lian supermarket in June of 1999.
Ahold	Netherland	large-scale comprehensive supermarket	It sold complete stock authority (once purchased 22 stores of Yaohan in January of 1998) to Xu Hui Farm and Sideline Food Corporation in October of 1999.
Paris Spring	France	department store	It sold complete stock authority on 24 th of May, 2000 to Shanghai Yi Min Department Store.
Shanghai Jia Shi Ke	Japan	department store	It sold complete stock authority to Pacific Department store on 24 th of July, 2000.
Daiei	Japan	supermarket	It sold complete stock authority to Beijing Wu Mei in December of 2004.
Mykal	Japan	department store	Mykal transferred 70% stock authority to Da Shang Group on 25 th of June, 2003.
OBI	Germany	large-scale home center	The stock holds company of B&Q, British corporation Kingfisher declared to purchase retail operation in China from Asian stock holds corporation of OBI.

Source: Retail Network, www.retailing.com.cn

We can get conclusion from all above. Strategic of multinational retailers in China is characterized by:

The scale of development gradually increased, and the rate of expansion accelerated clearly. The location choice is promoted from east to west, and the diversified entry mode gradually is mainly based on mergers and acquisitions. The diversified formats choice is mainly based on large and varied supermarkets. Therefore, we can make the initial determination that multinational retailers have basically spent the run-in period in the Chinese market. A new period of rapid expansion has come in China, which will bring more serious challenges to local retailers. From the coping strategies are adopted by local retailers, the government has mainly implemented a policy for gradual opening up and strategy in order to financial support of the local large-scale retail enterprise, and launched a planning system for commercial online shop. However, because of issues of policy convergence in the central government and local government, leading to situation of local saturation in multinational retailers, additionally, a fair and orderly market competition should be established and improved. Vicious competition and the phenomenon for damaging the interests of suppliers and consumers frequently occur. In support of the government, enterprises mainly implement the development strategy for rapid expansion, while taking marketing strategy of cut price promotion. It leads to the core competitiveness and long-term competitive advantage is not formed. The rapid growth of scale leads to the extensive management, and the result of cut price promotions is lower profit rate (Sha, 2002). In sum up, on the one hand, the strategy of multinational retailers has shifted in China. The core competitiveness gradually shifted to China, and the competitive advantage is gradually emerged; On the other hand, partial coping strategies are disabled in local retailers, and the government's support did not translate into the competitive advantage in retail business. The competitiveness of retailers shows that weakened trend. Cut price promotions are relied on too much. It requires that China

process to adjustments of strategic thought. Thereby China can cope with more intense competition in international retailing in China for the future.

2. Coping Strategies used by China's Local Retail Industry

2.1. Coping Strategies used by Chinese Government

For the entry of multinational retailers, on the premise of maintaining the overall strategy of opening up, the Chinese government implements policy of gradual opening up of and strategies for supporting local large retail enterprises (Xu, 2006).

2.1.1. Aim at the management measures for foreign retailers

The Chinese government's policy for foreign retailers is constantly changing as the expansion situation of foreign retailers in China and the balance of forces between China and foreign retailers. The general trend is gradually opening up. However, central government and local government appear uncoordinated situation in hold of policy so that create a query "excessive openness". For a long period of time, local governments often take attraction of more foreign investment into a major achievement, so they process "policy breakthrough" one after another, and give a great discount and "Super-National Treatment" for foreign retailers, further reduce the "access threshold" in foreign retailers. For instance, the Central Government under the foreign ownership limit is 65% which often is exceeded. Many local governments bypass the central government and the ministry of commerce in order to the directly approve foreign retailers to enter into the local market, so that more and more foreign retailers enter illegally into the Chinese market through policy gap (Yan, 2004). In this context, in August 1997, the State Council issued the "Announcement of certain

problems with General office of State Council on the clean up and rectify non-pilot commercial enterprises with foreign investment”, which requires to screen and rectify for a joint venture retail enterprises, and prohibit that local government approves entrance of foreign-funded retail enterprises without authorization. In November, 2000 and August, 2001, the State Council issues two bans, which enumerate the list on required rectification’s 216 non-pilot commercial enterprises with foreign investment. By rectification, foreign retailers are increasingly standardized in China, and many excellent local retailers gradually emerge. As China's domestic retailers grow, in 2004, the Ministry of Commerce released the <Administrative Regulation on the Foreign Investment in Commercial Fields>, so that reducing the restrictive eligibility requirements for foreign investors and registered capital requirements for foreign-invested enterprises, and further simplifying the approval process while relax the market access.

2.1.2. Strengthen the planning and construction in urban commercial network

Under the foreign retailers eager to expand in Chinese market enclosure and local retailers generally feel threatened. In 2001 and 2002, the former State Economic and Trade Commission has issued policy documents twice that urging Municipality directly under the Central Government, cities with separate budgets from the central finance, and capital cities of provinces as soon as possible to develop planning in commercial network, and in early 2003, issued the < Notification on Strengthening the Planning in Urban Commercial Network> which expressly stipulates that if the city’s planning of any commercial network is not developed, it will not be allowed to declare foreign-invested enterprise projects. As of end of April 2005, nationwide 38 cities in addition to Changsha, Lhasa and Shenzhen have reported the planning draft in commercial network. Shanghai, Dalian and other cities have implemented a review system for opening the shop. However, due to various reasons, the momentum of the

blind for store expansion has not been effectively contained.

2.1.3. Give support for preferential bond discount and policy loans to retail enterprises

In order to make local retail enterprises grow as quickly as possible that the government has used a series of measures to support domestic large-scale retail enterprises. Since 2001, the former State Economic and Trade Commission give earlier preferential policy of bond discount is limited in the technical transformation of industrial enterprises to a part of business enterprises, which have the market developmental prospects and competitiveness. In 2002, the overall amount into technological transformation projects of bonds is about 20 billion yuan, in which commercial chain accounts for about 6.5 billion yuan. According to preliminary statistics, in 2002, there are 58 commercial distribution projects which are supported (Song, 2004). In May 2005, the Ministry of Commerce and the State Development Bank signed an <Agreement on Ministry of Commerce and National Development Bank Support the Circulation to Develop Development of Financial Cooperation>. The State Development Bank will arrange policy loans about 50 billion yuan that focusing on the development of domestic large-scale circulation in enterprises, so that these companies can effectively compete with foreign retailers.

1.3 2.2. Coping Strategies used by Local Retailers

For the entry of multinational retailers, local retailers take a rapid expansion strategy and tactical price promotions. However, long-term stability of competitive advantage has not yet formed.

2.2.1. Implement the rapid expansion strategy

Through diversified entry modes, multinational retailers rapidly expand in China's market, so that disadvantage of the scale's performance was becoming increasingly apparent in local retailers that it severely restricted the competitiveness of local retailers. In this background, the pursuit of rapid expansion has become a major strategy for local retailers. In 2003, in China's 10 large retail enterprises, average value of total revenue, total profits, total assets and total net assets only accounted for 2.6%, 1.0%, 2.5% and 1.6% of average value in 10 foreign-funded retail enterprises in China, while only speed of expansion much faster than cross-border retail group (Li, 2005). In the end of 2009, there are total 2016 domestic retail enterprises above limitation in China, so that increased 873 and 76.4% more than in 2003 (1143). It shows that the speed of expansion is very fast in local retailers. Large local retailers often choose restructuring and mergers and acquisitions to achieve rapid expansion, thereby acquire economies of scale. For instance, Shanghai Hualian, Beijing Xidan and Beijing supermarket work together to set up Beijing Xidan Hualian Supermarket. There are 13 enterprises set up in the capital chain commercial group, such as Beijing Xidan (www.xdgwzx.com), Xiaobaiyang, Yansha (www.yansha.com.cn), Wangjing, Jingkelong (www.jkl.com.cn), China Huarun Corporation and other companies. Shanghai Hundred, Hualian, Youyi, and the Shanghai Economic Committee Directly under the Materials Corporation merger into the domestic retail "aircraft carrier" --- Brilliance Group, and it cooperates with Dalian Dashang, and formed Dashang International Ltd. Etc. These are instances that local business has a powerful combination. Some local small and medium retailers try to enhance scale advantage through the development of the free chain, thereby achieve the real purpose for rapid expansion. For instance, in 2005, the Dalian Taiyangxi (www.solarsystem.com.cn) convenience store chain Ltd. Co. signed an agreement with 20 Free Unions which jointly form the "Xinghe business alliance" in order to scatter small and medium

retailers, so that improve the purchasing advantages, reduce purchasing costs and achieve the effect of shared interests (www.linkshop.com.cn).

2.2.2. Implement tactical price promotions

Along with increasing of number of shops in multinational retailers, the situation of saturation has emerged in retail commercial facilities in many areas. On condition that local retail industry did not form a competitive advantage, most local retailers have to a price reduction promotion in order to existence needs. According to statistics in the former China's Commercial Information Center of Internal Trade Bureau, some promotion measures can increase merchandise discount and allowance in a proportion of total merchandise sales year by year, such as reduce price, discounts, lottery sales, gift coupons of shopping and other promotions, so that merchandise discount and allowance increase in a proportion of total merchandise promotion sales year by year. In 1997, it accounts for 10.34%. In 1998, it accounts for 16.26%, and in 1999, it accounts for 23.7%. It increased 13.36% for three years, while increase the cost of sales in goods when low price promotion drives to increase for cost of sales. In 1999, cost of sales increased by 2 % in 239 big department stores. Since 2000, cut prices promotion becomes even more violent, and the phenomenon of "buy one get one free" often appears. This strategy promotes that consumers are increasingly concerned about the price, and not value. Official commercial research center once processed to an empirical analysis to retail stores in 2994 consumers, and found that most concerned factor of the vast majority of consumers is price in shopping (Li, 2003). This demand feature and cut price promotion strategy drive each other, so that it becomes the most important measure in order to maintain market share in retail, but also the main reason of decline in profit margin. The average sales profit rate basically remained unchanged, and growth trends were not visible.

3. Exploration for the development thought of China's retail market

3.1. Development thought of the local market for China's retail market

The sustainable and rapid development of China's economy and the accelerated upgrading of the consumption structure decide that the retail market in China will continue the rapid development; meanwhile the local retailers are faced with the competitive pressure from the foreign retailing enterprises and various disadvantages brought by many problems existing in the industry, which require accelerating and perfecting the policy environment of the retail market development to create good conditions for the development of the retail market.

3.1.1. Conduct the regional layout of the market format reasonably and implement the cultivation and breakthrough strategy

Within the present and future period, the foreign retail market mainly enters into the big cities and partial secondary cities in the local place. The competition of the retail market format in the commercial centers in the big cities is fierce and saturate and the market opportunity have gradually decreased while the urban community or outskirt as well as the medium-sized and small cities still have the great market chance. In order to obtain more reasonable profits, the retailing enterprises in China need to speed up the exploration of the new market, choose different formats to transfer from the commercial center in the city to the community and from the first-grade market in the city to the secondary and third markets in the medium-sized and small cities to reasonably allocate the websites and adopt the reasonable configuration in big, medium and small scales and the reasonable layout of the city, town and countryside.

3.1.2. Enhance the merger and union strength among enterprises is to achieve the scale management of the retailing enterprises in China

Under the internationalization background of the circulation industry, the scale and collectivization is the magic weapon for the retail enterprises to improve its market competitiveness in the fierce market competition. The retail enterprises in China should actively conduct the integration of the market resources and organize the open and integrated business group to open a road for its own development. On the one hand, the merger and union among the retail enterprises could improve the market concentration, expand the enterprise's scale and further promote the whole scale and intensive management of the retail market. On the other hand, it is to cultivate the industrial and commercial integrated business form, with the commercial enterprises as the principal. The retail market in China could make full use of the self-owned brand advantage and the network advantage on the market to directly enter into the production field through purchase, merger or holding, etc to restructure some commodity production enterprises thus to form the integrated production and sales business organization with the commerce as the leading, speed up the collectivization development, enhance the competitiveness power and gradually achieve the scale economy.

3.1.3. Build the new information and logistics distribution system and reduce the logistics cost

The logistics distribution level is a key standard to measure the modernization of the management for a chain enterprise, the competitive advantage of the foreign retailing enterprise and an inevitable road for the circulation market to become modernization. Therefore, the retail market in China must build the information logistics distribution system; transfer from a single regional sales network into the modern commerce network structure combined with the regional purchase network, information network and distribution network. The effective distribution could achieve the rapid turning in the time and space to achieve the maximum sales amount and the minimum cost. Meanwhile, it needs to strictly control various management expenses and adopt hi-tech means to minimize the commodity loss.

3.1.4. Strengthen the government's macro-control and create the fair and equal market environment

Faced with the pressure from the violent foreign retailing enterprises and the fierce competition among the local retailing enterprises, the government should strengthen the macro-control strength and create a fair competition market environment for the domestic retail market (theory.people.com.cn). The first is to increase the policy guidance for the domestic retail enterprises; speed up to formulate the fiscal and tax policy, establish special development fund for the medium-sized and small retail enterprises to guide the scale expansion and innovation upgrading of the retail enterprises and improve the business management level of the retailing enterprises. The second is to perfect the market competition law and regulation system of the retail market. For the relatively weak phenomenon in the law and regulation in the retail field in China, the relevant government department should further speed up the commercial legislation process; regulate the market behavior of the retail enterprises to maintain the fair competition on the market. Thirdly the government should formulate the general strategy regulation for the development of the retail market. At present, the development of the retail market lacks the strategy planning in the medium and long terms and the disorder development phenomenon is serious. Therefore, the government should adjust and formulate the whole development regulation of the retail market in China to control and guide the reasonable allocation of the market and improve the resource allocation efficiency.

3.2. Development thought of the oversea investment for China's retail market

The retail market in China should actively implement the strategy of "going out" based on making the local market greater. On the one hand, it could increase the market share of the enterprises to build the world popularity of the brand; on the other hand, it could make smooth the oversea sales channel of the manufacturer to help its faster and better development. There are following thoughts of the retail market to

explore the oversea market:

3.2.1. Improve the core competitiveness and create the brand advantage

Implement the brand strategy and set up the enterprise image. In order to achieve the external expansion, the retailing enterprise must have its own brand. The more popular the brand is, the greater the influence is. Many world retailing enterprises have fast development and one important reason is its high brand recognition. The creation of the self-owned brand is able to improve the customer's loyalty upon its own mark. The retailers with purchase of the self-owned brand have more initiative rights in the manufacture, quality control and product's distribution and have more chances to obtain more gross profit. Seen in the long term, to cultivate the retailer's self-owned brand in China is an active, initiative and effective means.

Improve the information ability and informalization level of the retail market to achieve the scientific business management. At present, the informalization level of the retail market in China has a large gap comparing with the application level of the transnational retail market. Therefore, the retailing enterprises in China need to increase the capital and technology input and strengthen the supply chain management to improve the information ability and informalization level of the retail market. It needs to integrate the commercial distribution, logistics and information flow into one system and make it possible for the enterprise's stock to become zero through the perfect information management system, laying the foundation for the enterprise in the international competition.

Implement the human resource management strategy and speed up the talent reserve and cultivation. The competition of the modern economic trade finally is the talent competition. It is the key for the retail market to build the talent team corresponding to the modern commerce development, cultivate the international operation talents who adapt to the large circulation mode and master the modern management method. On the one hand, it needs to build the scientific training mechanism to conduct the

professional, institutionalized and regular training, formulate multi-channel and multi-form training within the market to improve the staff's business skill. On the other hand, it needs to set up the modern circulation talent cultivation organization to be responsible for the systematic organization, guidance, coordination and comprehensive planning for various talents. The higher the human resource management provided by the managers, the more satisfactory the staff feels; finally it will win higher loyalty from the customers and the core competitiveness of the retail market becomes stronger.

3.2.2. Conduct the oversea merger and speed up the market upgrading of the retail market in China

The retail market in China should actively conduct the oversea merger based on doing well of its own business management and improving the core competitiveness to rapidly expand its own power and scale; particularly in the big context of the global financial crisis and downtown world economy at present, the competent retailing enterprises in China should catch up the opportunity to merger the enterprises with the modern circulation method and advanced logistics distribution system to rapidly establish the perfect, high level and efficient supply chain system to achieve the localization of the supply chain, reduce the operation cost and further improve the core competitiveness of the enterprise.

3.2.3. Government strengthens support to promote the retail enterprise to go out

Our government should formulate the relevant policies to regulate and encourage the retail enterprises' over-sea development and improve the service level so as to be beneficial for the acceleration of the international step of the retail market in China. The first is to build the national guarantee system of the insurance and financing for the oversea investment and implement the favorable policy; the second is to build the information database for China's retailing enterprises; set up the special enterprise

investment promotion organ to conduct the technology and information service and provide the information service regarding in the investment environment, policy in different countries, law and regulation, etc for the enterprise's going out; the third is to increase the cultivation investment of the human capital and speed up the training of the international talents. Many measures are adopted to encourage the conditional retailing enterprises in China to go out and conduct the international operation.

4. The Countermeasures and Suggestions

Government: The government's future policy is suggested to focus on the following three aspects: (1) Enhance the scientific and operability of planning commercial network. To aim at a current situation on large-scale foreign-funded stores excess setting up in some areas. The government has launched a commercial network planning system. However, the scientific and operability of network planning needs to be further strengthened. Future government should strive to promote the organic integration of production, learning and research, and abundantly use research strengths of local universities and research institutions to set up evaluation system of commercial saturation index. Evaluation work of city commercial saturation index should be seriously done well, and make that the development of commercial network planning is more scientific and reasonable. In addition, because of large-scale foreign-funded commercial projects have the biggest impact on local retail market. The supplement of future commercial network planning should be tailored and perfect for establishment of review system in large shops. The standard of review can be the local population density, the number of existing store, service boundaries, employment opportunities are created from the new shop, etc (Li, 2003). The review of large shops should organize a special review hearing that the hearing officers are formed by all kinds of experts, such as industry self-regulatory organization, the industry around the unit, consumer representatives, business, urban planning, transportation, environmental protection and so on. The relevant functional

departments will be based on the views of hearing that approve or adjust large commercial projects on the application. (2) To establish fair market competition system. So far, some local governments still give a series of preferences for foreign retailers, such as leased land, procurement, taxes, etc, so that the local retailers are located in a very unfair competitive disadvantage. In the macro context of the retail business fully opened in China, the government should stop this habit of thinking about "preferential policies for attract investment" that abolish all the preferential treatments are enjoyed by foreign retailers, and maintain and create a fair market environment. In addition, the government should break regional blockade and effectively resolve some issues on business registration and tax payment when trans-regional retail enterprises open up via establish relative policy, thus establishing fair business management and tax environment, and completely clearing the system, personnel and other barriers in aspects of the cross-regional acquisitions, restructuring and others between local Chinese retailers, which create a favorable conditions in order to integration of resources and development of large-scale in China's local retailers. (3) To protect and support the development of local small and medium retail enterprises. Currently, support of government is limited to large enterprises for local retail enterprises. However, a lot of small and medium retail enterprises exist in the society, and the overall contribution of small and medium retail enterprises far greater than the large-scale retail enterprises in aspect of increased employment. Therefore, support designedly some small and medium retail enterprises with the advanced format ideas and the development prospects which are strategic measures should be taken by the government in the future.

Enterprises: Currently, local retailers over pursuit scale in the development process, and ignoring the benefits. They have neither really make an effort to enhance their core competitive advantages, nor seriously study the strategic interaction with multinational retailers, which makes it difficult to truly compete with foreign-funded

multinational retailers. The future development strategy of local retailers should be based on the behavior characteristics of multinational retailers to develop. The "strategic interaction" as the basic principles, focus on cultivating core competitive advantage. The key is that the implementation of different strategies, and including spatial differentiation strategy, format differentiation strategy and positioning differentiation strategy. (1) Spatial differentiation strategy. Because of China has vast market, multinational retailers invest impossibly all over the corners of Chinese market. In the current and future period of time, multinational retailers do not often focus on a lot of the medium and small cities and rural markets. Moreover, due to the current strategic arrangement of multinational retailers in China show the overall trend with the shift from east to west. Therefore, there are still some regions with unsaturated commercial space eastern which does not cause the attention of foreign funds, so that provide developing space for the local retail. For the local retailers, spatial differentiation strategy of market space should be carried out, and lock to come to the medium and small cities and rural markets that implement to focus on supporting and breakthrough strategies. To choose market niche, rapidly expand in which the city of foreign funds cannot quickly entry. In future, it is the core in spatial differentiation strategy of local retailer market. (2) Format differentiation strategy. Large-scale supermarkets of multinational retailers have played a leading role in the Chinese market. However, the advantages of other formats are not obvious. Therefore, for local retailers, in department stores, supermarkets, boutique specialty stores, franchised stores, convenience stores and other format modes, the developing space is also great. In addition, multinational retailers do not fear learning and imitating from China's local retailers. They are most afraid of original format innovation from them. For a long time, we always introduce foreign format modes. However, in fact, compare with the foreign multinational retailers, local retailer is more familiar with the local market, and better understanding shopping habits and consumer demands in local consumers. Therefore, local retailers have better conditions than multinational

retailers to develop inventively new format mode, which adapt to local consumer needs and correspond to China's actual conditions. Therefore, in the future, local retailers should not just stay on the level of imitation in transnational retailers. However, it should be in-depth study format innovation in order to adapt China's local consumer demand. It can really compete with the multinational retailers, and gain competitive advantages via differentiation of formats. (3) Positioning differentiation strategy. Currently, the competition of China's local retailers appears similar tendency which a notable feature is that too much focus on competition between direct price and indirect price (various promotions) so that along with raise of price range, short-term sales is significantly improved, and turnover rate is significantly increased. However, profits do not increase, even decline. Solution of problem is that implement the positioning differentiation strategy. If the situation is that it has the cost advantage, companies can make stable low-cost strategies as their own position. However, if the situation is that it has not the cost advantage, companies can form a competitive advantage in aspects of products, services, environment, convenience, experience and so on. In the US, an empirical study results show that: in every transaction, there are five kinds of interests which are concerned by consumers, such as price, production, accessibility, service and experience. In the world, most successful retail stores only do well in one aspect (5 points), another aspect do excellent (4 points), and other three aspects reach to the industry average level (3 points) (Fred, etc. 2002). It indicates that the retail enterprises can create entirely competitive advantage in aspect of non-price so that maintain the desired profit rate, and also reflects that the differentiated positioning plays an important role for cultivation of competitive advantage in retailers.

Conclusion

In this study, firstly we concluded the reasons that inflect development of retail industry and change of formats, according to analyzing the processes of development in Chinese and developed countries' formats. After analyzing development tendency of department store, supermarket, specialty shop, franchised shop and convenient shop etc five main formats. And it combined development status of Chinese retail industry and main formats, analyzed characters in development process of Chinese retail industry. Then we issued 4 main problems in the development of Chinese retail industry, as excessive competition, irrational formats structure, regional structural imbalances and excessive openness of retail market, and analyzed the causes of these problems. Then it also presented the opportunities and advantages for the development of Chinese retailing market in external environment and coping strategy aspects.

Also we introduced 6 main strategizes of Chinese domestic retail enterprises- Chain Operation, Shopping Mall, Differentiation and Fashion, Informationization and Cost Leadership and M&A Strategy. After analyzing development of strategizes, we used 3 cases and various examples to explicate how they work in China's retail market.

Moreover we researched transnational retailers' strategy in China's market and coping of local retailers, which is started from the perspective of the retail internationalization process. According to this research idea, we regard behavior of transnational retailers, the Chinese government and local retailers as an interactive organic whole. On the basis of comprehensively grasp the expansion's regulation for transnational retailers in China. Local retailers aim at specific strategies for the transnational retailers' behavior to analyze so that has a better prediction for future strategic trend in transnational retailers, Chinese government and local retailers.

Because China is still in a social transition period, market economy has not completely developed and market's effect to the basic distribution of resources is not obvious. The development and variance of retail market don't completely follow the common regulation of world's retail market. The development isn't incoherence and the strategies have strong local characteristics at the same time. This study is based on a number of Chinese and forging retail studies and issues. However, due to the limited personal study level, there are still many deficiencies in the thesis, such as the quantitative analysis of foreign-funded enterprises' effect impact, analysis of format developed under the International status, in-depth analysis in coping strategies, etc. which will continue in the further study.

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APPENDIX: TABLES

Table 3

Total Retail Sales of Social Consumer Goods and Annual Growth Rate, 2003–2010									
Year	2003	2004	2005	2006	2007	2008	2009	2010	
Total Social Retail Sales (Billion Yuan)	4584.2	5395.01	6717.66	7646.31	8900.3	10848.8	12534.3	15455.4	
Annual Growth rate	9.1%	17.7%	24.5%	13.8%	16.4%	21.9%	15.5%	23.3%	

Table 4

Number of Stores and Annual Growth Rate of China's Top 100 Retailing Enterprises, 2003-2010								
Year	2003	2004	2005	2006	2007	2008	2009	2010
Number of Stores	20082	30416	38260	51000	105191	120775	136800	150000
Annual Growth rate	36.0%	52.0%	26.0%	15.0%	58.0%	10.6%	18.9%	9.8%

Table 6

Sale amount of top 100 enterprises and Top 10's sale proportion								
Year	2003	2004	2005	2006	2007	2008	2009	2010
Top ten enterprises' sale proportion	42.1%	45.4%	44.3%	47.6%	48.4%	48.0%	46.1%	47.1%
Sales amount of the top 100 enterprises (Billion Yuan)	358	496.8	707.6	855.2	1034.8	1199.8	1366.8	1664.1

Table 7

Sale amount of foreign-invested enterprises and Annual growth rate								
Year	2003	2004	2005	2006	2007	2008	2009	2010
Number of Stores	9	12	15	17	15	17	17	19
Sale amount (Billion Yuan)	62.03	90.86	148.52	200	182.5	271.1	244.7	386.1
Annual Growth rate	15.02%	16.52%	20.00%	22.87%	18.00%	22.50%	17.90%	23.20%

Table 10

Total Sales of Commodities(100 million Yuan)

Business Categories	2009	market share %	2003	market share %
Convenience Store	269.83	1%	66.85	2%
Supermarket	2,569.52	8%	1,726.50	50%
Department Store	2,498.25	8%	602.95	18%
Specialty Store	13,373.94	43%	860.44	25%
Franchised Store	697.31	2%	100.13	3%
Other Store	143.03	0%	77.57	2%
Total	31,236		3,434	