

## The Future of Retail in China – Initial Thoughts

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It's just over a year since I became a resident of Hong Kong. Early on, I decided that I wanted to learn all I could about the consumer here. Of course living on the doorstep of China, one can't help but be drawn to look to the North. With this the true focus of my professional life, I hope to eventually test the techniques of store planning and design, product and service presentation, promotion, and employee delivery of the brand promise I have used elsewhere, refining as necessary.

I have scoured magazines, read books, attended conferences and watched streaming video to learn what the best retail minds think about shoppers' behavior in China. Talking to retailers, suppliers, sales staff, shoppers and those who prefer internet shopping over going into a store, I am learning what these individuals think about retail here.

And while Chinese marketing researchers and retail futurists see a change in locals shopping habits, that vision appears to go against the cultural norm that has been the consuming nature of the Chinese for 3,000 years. Will Chinese consumers really spend as easily as some might predict or hope? What are actual facts and indicators that can demonstrate potential new shifts in the way consumers respond to retailers' enticements or their own wants and desires?

Additionally, I have observed situations that appear to support or refute predictions based on the principles of human nature and emotion. I have also seen and learned that shoppers in lower tier cities like Danyang, act differently than those in Beijing or Shanghai. So without a doubt 1.4 billion Chinese do not all think and act alike. But are the observed behavior variations reflective of the retail environments they are experiencing, or are there distinctive cultural derivations that naturally occur, based on ethnic, social, or philosophical influences?

Unfortunately, it would be premature to answer those questions now as the study continues. In truth, I am not a researcher or a social scientist, but a keen observer and questioner. I judge what I see against the overwhelming exposure I have had elsewhere, of how people seek out, inspect, sample, and then make a purchase in any environment created for the sole purpose of 'selling.'

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In summing up this introduction, I neither want to assume nor prematurely predict the conclusion of my work before significant facts are in. However, I am prepared to show you the many topics of my continuing study. If these directions are of interest to you, I encourage you to share your opinion. I am a strong believer in the concept of 'the wisdom of crowds.'

Therefore, following are a list of strings I am following. Some are continuations of thoughts and actions of others, while a few are unique to my view of China. In either case, I believe each will have a profound impact on the future of the shopping culture in China and possibly the global consumer experience.

### **The population of China is 1.4 billion people**

How can the population, specially the 1 billion predicted to be living in urban environments in China, be served by retail? Is China under stored? Is the strategy of the megamalls, centrally located and located in highly congested areas, a failing concept? While architecturally huge, many of the malls I visited are missing the kind of foot traffic necessary to build shopper confidence.

### **A More Diversified Product Assortment**

The history of China demonstrates compliance to the country's leaders and their authority. But as the Chinese consumer gets a taste of independence and individuality, will the customer want even more freedom of choice? Will the new market economy allow for greater diversity in product assortments and brands to support lifestyle differentiation? Will innovation and the inventiveness of China's businesses begin to become evident, or will the habit of copying designs and attributes of market leaders continue?

### **Bling is in, in China**

Many luxury retailers have targeted China as their best hope for growth. Their strategy for the nation is so far paying off as China is one of the few markets recording sales increases of luxury products. The average income level of the Chinese workers wouldn't seem to support that activity, however.

Today Chinese consumers are drawn to luxury products like moths to a flame. Does the desire for impressing friends or family members with internationally known brand names sold at many times the average citizens' monthly wage reverse a cultural propensity for savings and frugality? Will these purchase patterns of today last?



Many shopping center developers in China prefer International luxury brands over local brands. The results are as follows. In some situations, stores are doing well because of location and recognition by the local luxury shopper that this is the place to shop (and be seen shopping by others). In other examples, the developer and retailers are investing in the future. While stores are empty now, they envision a day when more Chinese are affluent and will desire a personal brand image of owning and displaying luxury brand items.

Conversely, mass-market goods will have to show how they are an alternative to the luxury branded items. Eventually the most visionary mass brands will figure that out. In China's sports apparel industry, one can witness some of that happening already. Watch expanding Chinese stores like Li Ning, 360° and Xtep.

### **How Do The Chinese Spend Their Leisure Time?**

Free time made available for shopping is earned as people are released from daily responsibilities and rituals of life. But observing the pace of life in China and Hong Kong, I've wondered if the people of the region appreciate free time. What are the tendencies for using leisure time? When the government first encouraged the five day business week, they found many workers accepting a second job to gain more wealth and students engaging a tutor to further excel in studies. Now officials are promoting to the public the value of participating in travel, cultural growth, sports and shopping

### **People on the Move, On a Collision Course**

It is difficult to get anywhere in a timely fashion within any of China's major cities today. Trips that are expected to take a half hour, actually requires three times more. Outward signs of frustration, incidents of verbal attacks, even physical assaults, would be expected. But instead, the current experience is that when two moving forces meet head-on, they hardly acknowledge one another. Will the Chinese continue to be so calm?

Traffic congestion has an effect on shopping patterns, and the attractiveness or avoidance of the Chinese megamalls. Today, if a customer decides not to deal with traffic congestion, they revert to shopping in one of the many local, free-standing, unsophisticated, mom and pop shops. This should be an indication to those involved in retail development that there exists a huge opportunity for neighborhood, walk-in, shopping centers.

I think it is important to offer alternatives to the shopper. The Chinese consumer population can be served equally by both.



## **Moving People Between and Around Big Cities**

There certainly still will be a draw and a reason to go to the heart of the big cities in China. But another inevitable trend has become apparent; 2<sup>nd</sup> and 3<sup>rd</sup> tier cities are planning major hubs of working, living, shopping and healthcare facilities that will reduce the reason to travel to overcrowded 1<sup>st</sup> tier cities. Are these cities' infrastructure and planning capabilities up to the task?

Just consider how much effort is wasted in getting to your destination; that's lost shopping time for customers and lost sales for retailers. This lost time can be regained by making shopping more convenient and putting it where the consumer lives.

China can be expected to witness a continuing rise in automobile ownership, leading to congestion on the street becoming even worse than it is today. Therefore, there is more planned expansion of their very efficient mass transit system too. In either case, this will offer more people the opportunity to live further from the city. Families are already buying more than one home, purchasing weekend houses in the country.

## **An Aging Population**

While researchers study the youth of China and are excited about their frivolous, live for the moment spending habits, little is known or publicized about the older, aging population of China. A significant amount of the newfound wealth that is the topic of much attention is also in the hands of adults, a generation rapidly moving towards retirement age. Two questions ache for further study. Do hard-working Chinese consider retirement an honorable life stage? Secondly, and more immediately, what are their current and future spending habits? While without question they are financially supporting their children's consumption of fashionable and trendy items, how, when, and where do they reward themselves.

## **Living in a Connected World**

With the proliferation of marketing communication and brand positioning aimed at China, there will be new challenges to secure the shoppers' interest and expanding discretionary spending potential. The media channels are ensuring that there exists a more informed shopper by delivering features and benefits information, comparison shopping technology, and customer recommendations. Brands, whether luxury or mass, will have to live up to the promises made in all marketing formats or they will lose their status of trust.



## **Tailoring to the Culture and Behavior of the Local Market**

Just as I have been told repeatedly that to know the ideology of a Chinese person does not mean you know the Chinese people, the ethnic diversity of the country adds an additional ingredient to the complexity of understanding Chinese culture. With distance and geographic impediments contributing to the Chinese peoples' sense of separation and disconnection from each other, these regional distinctions provide the opportunity to celebrate the differences between people with different histories and life experiences.

## **Encouraging International Trade**

English appears to be the leading language of retail in many parts of the world and particularly China. Most stores express their prices and product brand names in English. While Beijing attempted to be accommodating to international and particularly English-speaking visitors during the 2008 Olympic Games, Shanghai must be equally prepared for the large influx of visitors during Expo 2010. For successful trade on both a consumer and business to business level, all aspects of communication between people of different nationalities has to be accounted for and made simple in aspects of travel, accommodations and shopping. It is not the first-time traveler, but the repeat visitor which the nation is striving to capture.

Note: During a visit to the Olympic Village this past December, it was noted that signs directing visitors to amenities and restaurants which were closed after the games completed, are still in place. This is frustrating for tourists looking for a rest room or snack.

## **Seeing and Hearing without Observing or Listening**

The Imperial leaders of China in the 15<sup>th</sup> century announced that there was nothing of value outside of the country's borders, nothing they could learn from the rest of the world. With emphasis on past achievements, the country became insular and cut itself off from the rest of the world until 1949 when the Communist party took control. With the global press and pundits studying China's current growth statistics, is the country once again looking solely inward to solving challenges of development, technology, social change and quality of life? Watching Asia develop, a disturbing pattern seems to be emerging that says glitzy architecture, an abundance of luxury shopping outlets, and international sports make a city, world class. Is someone, watching, studying and learning from the success or failure of others?



## **Who's Minding the Store?**

Finding good sales help is an international challenge. But it appears an even bigger challenge in China. With planned expansion of many retail chains, the recruitment and training of floor personnel will become critical to continued success and contribution of a company's brand image at point of sale. One HR professional I met additionally pointed out that, "As consumption levels seen today are relatively new, older, working class generations have never known how to be a good shopper. They are accustomed to long lines and short supply of goods, so shopping etiquette wasn't often practiced. There are few personal recollections of service or how a customer should be treated." This makes the personnel departments' job infinitely more difficult.

Note: As this topic was in most demand of further study, I've recently completed an article for *Inside Fashion*, a Hong Kong based magazine, on the subject. It will be available in February.

## **Shopping Dilemma**

Through this study, I'm beginning to have the opportunity to observe retailing in China from the developers', retailers', and shoppers' perspective. It appears at this time, these parties as a group, have completely different goals. For developers, many have a focus on real estate turns and are not interested on how well their centers operate. Designs of many centers seem out of touch with the districts they serve. Retailers appear to be trying to get in on the huge market that China offers, at any cost. Store frequency, to the point of oversaturation, seems evident in some markets.

And for many shoppers, they are simply enjoying the new experiences of shopping in stores with modern amenities and filled with merchandise they have only heard about before.

Shopping, as an activity to fill consumption needs or for entertainment, should be singularly focused on satisfying and delighting the customer. Remember, on-line shopping with all its conveniences, is waiting in the wings.

## **Population Growth versus China's One Child Policy**

While China's one child policy has garnered much of the world's attention, in reviewing China's most recent census, the country's population growth curve is flattening out. So the leaders appear to be softening their approach.



Couples can pay the government to have a second child. The chances of that happening are even better when the first child is a girl (given the Chinese cultural desire for boys, which is of course resulting in a shortage of marriage-age women). In Shanghai, the government is already encouraging approved couples to have more than one child.

Practically, I would also think that following the unfortunate circumstance of the Sichuan earthquake, in which so many families lost their only child, couples are thinking of having more than one child if they can afford it, so as to ensure there is a family heir.

### **Gambling as a New Opportunity**

It has been well documented that the Chinese love games of chance. So much so that throughout history, China has introduced policies and punishment to limit or shut down gambling in the country, supposedly for the good of the people. Today the Chinese government uses the limitation of visas to the casinos in Macao and horse racing tracks in Hong Kong to control gambling. There are also periodic raids and crackdowns on China's so-called underground casinos.

However, I see the possibility of legalized gambling expanding. Having heard about and personally observing shopping centers with dangerously inadequate occupancy levels and theme parks lying dormant, one can begin to imagine an alternative use; government supported gambling and resort facilities. It can be expected that complexes which have a large entertainment segment or built on lakes and waterways will be the most desirable for this repurposing – sounds like a reinterpretation of Tunica, Mississippi!

### **Let's Have a Seminar about That**

Much of what I've observed thus far has been facilitated by or my travel became part of attending educational events and retail forums in Hong Kong and China. Some of these programs have been more beneficial than others. The best have allowed dialogue between presenters and participants so that questions with real content attached can be discussed. The worst have been those that allow speakers to drone on for 30 minutes about how great their companies are.

Retailing in China has many obstacles, many of which I have illustrated here. There appears a huge opportunity to frankly discuss these trials and tribulations for the improvement of the entire industry. The sharing knowledge and experience is a necessity.



## **Conclusion**

Throughout my study into China's retail sector thus far, I have observed significant potential still untapped. Over and over I have been told the script has yet to be written; it is blank sheet of paper. And while each of the 1.4 billion consumers, may not all be ready to buy luxury products, they still strive for at least a better life and some level of acquisition. Retail, done correctly, can service the needs of the populous as well as satisfy its own vision.

The future of retail in China can have a significant impact on the country's success and contribution to building a harmonious market economy. Hopefully it will be accomplished with sensitivity, care and with respect for the rich Chinese culture.

**Thank you.**

