

RETAILING IN CHINA

Walmart v Wumart

THE ECONOMIST

A heap of raw chickens greets customers at a Wumart store in Beijing, heaped up on a table without packaging or protection against passing sneezers. The shop front is dirty, the decor shabby and the goods inside are displayed without the slightest attention to aesthetics. But the prices are wonderfully low.

China is the fastest-growing big retail market, and may one day be the biggest. Foreign chains such as Carrefour, Walmart and Tesco are piling in. Yet neither they nor any of their local rivals comes close to dominating China the way Walmart dominates the supermarket business in America. The biggest chain, Shanghai Bailian, has only 11 percent of the market and barely registers outside its home region.

A comparison of Walmart's Chinese operations with those of Wumart, a Beijing-based chain, is illuminating. Wumart is cheaper -- hence that heap of raw chickens. Walmart is considered more fancy, a fact that may surprise American shoppers. Its stores are well-lit and spotlessly clean. Its wares are safe, reliable and tastefully displayed, though they differ somewhat from those on offer in Arkansas. Basins brim with live fish and sea turtles that clients can kill at home or have slaughtered on the spot. Other delicacies include birds' nests, pigs' feet and sea cucumbers (which resemble foot-long aquatic slugs).

Walmart, the American giant, entered China in 1996, five years before the country joined the World Trade Organisation and liberalised its retail industry. Yet despite starting early, it has advanced slowly. In 2006 it took over Taiwan's Trust-mart, which added more than a hundred shops to its Chinese operations. Today Walmart has 338 shops in 124 Chinese cities, with 90,000 employees and annual sales of some \$7 billion. Not bad, but that is less than 3% of its sales in America.

Wumart, the Beijing-based chain, was founded in the early 1990s by Zhang Wenzhong, who had developed an IT system for retailers while at Stanford University, but found that he couldn't interest any retailers in it. He returned to China and opened his own chain of stores. By 2005, Wumart had



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more than 450 hypermarkets, supermarkets and convenience stores.

He aimed to have 1,000 by 2010, but that did not happen. Wumart today has 469 shops with annual sales of 14 billion yuan (\$2 billion). Mr Zhang, alas, is serving an 18-year prison sentence for bribery. His store is big in Beijing, tiddly elsewhere but still ambitious. "We dream about being the Walmart of China," says Fu Yu, a Wumart spokesman.

Wu Jianzhong, Wumart's chairman, thinks Chinese stores need to spruce up. "Foreign retailers wear suits when they welcome visitors, while the Chinese wear shorts because they feel they are familiar with their clients," he sighs. Chinese executives should at least wear long trousers, he reckons. Otherwise foreigners might win the fierce contest for footfall (retail jargon for the number of shoppers).

Retail sales in China are \$1 trillion a year and growing by around 18 percent

annually. China's 1.3 billion people are rapidly urbanising and ravenous for all the goods they couldn't have a generation ago. China's government is eager to promote domestic consumption. But the Chinese middle class is not nearly as rich as the middle class in rich countries. Only 1.4 percent of urban households make more than \$15,000 a year. Only 11 percent make \$5,000-15,000. And all these people save furiously, because unless they work for the state they are unlikely to receive much of a pension.

Small wonder that they love low prices. Small wonder, too, that the government, which fears anything that might provoke unrest, fears inflation. Consumer inflation is officially 5.3 percent but probably higher. The central government has cranked up interest rates, banned the hoarding of staple foods, raised subsidies to low-income families and increased the minimum wage. It also takes a hard line against

any private company suspected of stoking inflation. Unilever was fined \$310,000 earlier this month for mentioning to reporters that it might raise prices -- the news sparked panic buying of shampoo in March.

Supermarkets could cut prices if their supply chains were better-oiled. Moving food from farm to fork is a nightmare. China has few big farms. More than four-fifths of the rural population of 665m work on tiny plots. "Logistics, warehousing and shipping are still very inefficient," says Chiang Jeongwen of the China-Europe International Business School in Shanghai.

Go west, young grocer
The next big thing for retailers in China will be the less-developed cities of the country's interior. It's a "land-grab situation", says a Chinese executive. Everyone is vying for first-mover advantage. Yet although no one wants to arrive too late, no one wants to be too early, either. Those who open stores

when locals are still too poor to shop there can lose a packet.

The whole market has a Wild West feel. Huge areas of China are up for grabs, and it helps if you are chums with the local lawman. Retailers depend on local government for a licence and a place to operate. "The prime space always goes to local players," says Sunny Wong, CEO of Lifung Trinity, a retailer. Tellingly, the Bailian group, China's biggest retailer, is state-owned.

"There could be political tensions if a foreign retailer gets too big or too dominant," says Matthew Crabbe of Access Asia, a consultancy. There seems little danger of that. Neither Carrefour nor Walmart has much more than 6% of the market. Provincial governments favour provincial retailers. The national government gives a helping hand to all Chinese chains. Foreigners are on their own. Call it the Great Wall against Walmart.

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Carriers to revamp tablet service pricing

REUTERS, New York

Mobile service providers are reworking charges for wireless connections on tablet computers to lure in customers put off by costly fees.

Carriers see tablets like Apple Inc's iPad as key to revenue growth. But high prices for the devices and more fees on top of phone plans are seen pushing consumers to bypass the cellular network and rely on free Wi-Fi services.

This is expected to result in a drop in the percentage of tablets supporting cellular, potentially making operators less relevant as tablet distributors than electronics stores.

"The tablet's more natural point of sale is retail," Nvidia Chief Executive Jen-Hsun Huang told the Reuters Global Technology Summit this week. "The question is whether carriers will find a reason to bundle tablets with other services and create a subsidy model that is really appealing."

Today, carriers limit cellular Web use on tablets by charging for each gigabyte (GB) of data downloaded. For example, Verizon Wireless charges \$20 per gigabyte and AT&T Inc charges \$25 for two. Sprint Nextel subsidizes tablets but charges more per gigabyte and requires long-term contracts.

Such arrangements will gradually result in more consumers opting for Wi-Fi-only tablets, according to iSuppli, which sees sales of tablets with cellular connections falling as low as 30 percent of the total in 2015 from about 60 percent in 2010.

To avoid being sidelined, some operators are planning changes.

France Telecom says it will be ready to change pricing "soon." Verizon Wireless said it would make changes



An Apple store employee gives a class on how to use the new iPad 2 during the China launch at an Apple Store in central Beijing.

eventually but was careful not to provide a timeline. Orange, France Telecom's mobile service, is looking at offering a data plan shared between smartphones and tablets.

"Shared bundles may be an answer for these customers who don't know how much they will use on the go," Anne Bouverot, head of mobile services for Orange, told the summit in Paris.

Verizon Communications sees its mobile venture Verizon Wireless taking the concept a step further by let-

ting families share data service plans across different devices in the same way that today's voice service plans allow family members to share a bucket of phone call minutes.

"I think it's safe to assume that at some point you are going to have mega-plans (for data) and people are going to share that mega-plan based on the number of devices within their family," Fran Shammo, Verizon's chief financial officer, said at the summit in New York. "That's just a logical progression. When we get there, I have no

idea."

SHARED/SESSION PRICING

Other pricing options will involve the sale of tablet connectivity for limited time periods, an executive for Sprint Nextel, the No. 3 U.S. mobile provider, said.

"What you'll see is the ability to buy sessions -- a day, a month or a week pass," David Owens, vice president for product development at Sprint told Reuters ahead of the summit. The industry could move this way in the coming months, he said.

Because consumers use tablets more sporadically than smartphones, the plans need to reflect this.

"This is not a product like a handset where you have to always be tied to a network connection," Owens said.

Other operators like AT&T Inc, which will become the biggest U.S. mobile provider if its plan to buy T-Mobile USA succeeds, were less vocal about the need for change.

John Stankey, AT&T's head of business solutions said AT&T's tablet plans are already "very consumer friendly" because while the operator does not pay a subsidy to reduce the price of the device, neither does it require a long-term contract.

But he said AT&T could possibly provide subsidized tablets in future to consumers who subscribe to a long-term contract.

Analysts say operators need to make changes, either by making the device or the service cheaper.

"In the absence of higher subsidies or lower connection fees, the logical channel is not the carrier," CCS Insight analyst John Jackson said, ahead of the summit.

Tablet makers, trying to challenge the dominance of Apple's iPad, could also be hindered if the carriers charge too much. Rival tablet makers include Samsung Electronics Co and Motorola Mobility and computer makers like Huawei Technologies and Dell Inc.

Even if carriers subsidize iPad rivals, "consumers might not want to lock themselves into an iPad competitor" that could end up being upstaged by the next iPad, Gartner analyst Michael Gartenberg said. "The carriers have a long way to go to figure out the right business model."

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