

## Issue – November 2007 Best Buy - China

Although the Chinese recently welcomed the Year of the Pig, shoppers in Shanghai and other major cities seem to be celebrating the “Year of the Western Retailer.”

Last October, Wal-Mart announced an aggressive acceleration of its Chinese expansion acquiring Trust-Mart, a 100-store chain. Home Depot recently acquired Chinese HomeMart. H&M plans to enter China this year. And Best Buy just opened its first Chinese store, in Shanghai.



The list of western retailers trading in China includes Auchan, B&Q, Carrefour, IKEA, Tesco, Toys R Us, and Zara. These companies are drawn by the size of the Chinese market, with a population of 1.3 billion people, and the rapid expansion of the middle classes and the economy.

These positive market conditions are balanced by significant challenges. Success in China requires a profound understanding of the Chinese consumer and the flexibility to adjust every aspect of the business, including product range, presentation, service and pricing.

Best Buy's first China store offers an excellent case study of how one premier western retailer, is handling these opportunities and challenges. The U.S. market leader in home electronics, with \$30 billion from 832 stores in 2005, opened its four-story store in the Xu Jia Hui area of Shanghai's premier shopping district, in January. Its four floors are large by both Chinese and Best Buy standards. As one of its Chinese staff proudly told me, “It is the largest Best Buy in the world”. This was not Best Buy's first venture into China. The company established a sourcing office in 2003, and started retailing in the summer of 2006 through an acquisition of the majority interest in Jiangsu Five Star, China's fourth largest retailer of appliances and consumer electronics.



Best Buy executives are betting that once Chinese customers shop in a modern home electronics store, they will prefer it to the traditional Chinese electronics outlet. There are no shortages of these in China, located within malls and as stand-alone shops on the high street. Every brand both domestic and international is available, often in a chaotic environment. Many electronic stores are mom and pop operations; others belong to more sophisticated electrical chains. In the mom and pop stores, items are not priced. Some stores offer only a single brand. Vendor reps often patrol the sales floor dispensing advice to the vendor or retailer rather than the customer. In almost all stores, products are secured behind glass, inaccessible to customers without sales assistance.

### Enter Best Buy...

Everything is well priced, with the iconic yellow price tag used to communicate value. The prices are fixed and strictly non negotiable. The staff do a great job of explaining that Best Buys prices are lower than the 'last price' of the competitors. "We know," said Henry, an exceptionally helpful Chinese Best Buy employee. "We price compare continuously on your behalf".

The boldest move, however, was in the merchandising. Defying Chinese conventional wisdom, the glass cases have disappeared and customers can touch and feel the products without having to ask a member of staff. Products are not displayed by brand but by "Good, Better, Best." There is not a vendor rep in sight and signs throughout the store proudly proclaim that the well-trained staff do not get commission and give expert, independent advice.



Best Buy have effectively used their existing brands for their various offerings, exporting both the look and feel and the proposition with some local adaptation. There is a large area for the Geek squad, Best Buy's technical service and support. Judging by the queues of customer wanting to speak with them, Chinese consumers are just as baffled by technology as the rest of us, and rather than pray to the gods of silicone for a solution, are more than willing to pay for it.

At the premium end of the spectrum, and taking up a half a floor, is Magnolia Home Theatre Solutions shop-within-a-shop, a comfortable exhibition area. The exorbitantly high prices, even to western eyes, suggest that Best Buy clearly see the burgeoning middle classes as a prime market for cinema hardware, installation, and services. This market segment apparently is also the target of an extensive selection of leading domestic appliance brands.

Judging from the traffic when I visited the store, both during the soft opening and in the first week of proper trading, Best Buy have an enticing formula. There were queues almost everywhere. That said, China's mom and pop and other domestic home electronics stores are generally crowded, too. Their typical chaos suggests bargain pricing, while Best Buy's order and discipline may leave the opposite impression.



It's too early to tell, but one early warning sign at Best Buy was the lack of queues in one critical area of the store—at the checkouts.

There is a danger that as good as this first Best Buy store is from a retailing perspective, it could quickly become a giant showroom offering free advice that enables consumers to improve their shopping leverage at traditional stores.

It is important to remember, however, that this is only China store number one for Best Buy. The move is a brave step for a market leader in home electronics and another indication that western retailers are determined to succeed in the world's largest retail market.