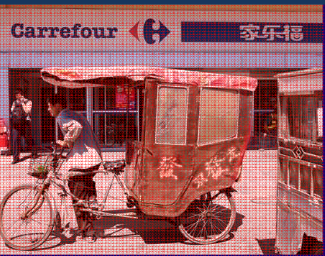
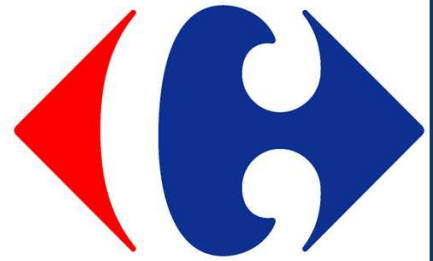


Carrefour



Carrefour in China

“A Crossroad between East and West”

By Lene Staertzel



Table of Contents

Introduction..... 3

CARREFOUR: The French Retailing Giant..... 4

COMPANY OVERVIEW.....	4
CARREFOUR'S CONCEPT.....	5
CARREFOUR'S VALUES.....	6
CARREFOUR'S STRATEGY.....	7
CARREFOUR'S COMPANY HISTORY:.....	8
CARREFOUR'S STORE NETWORK.....	10
Hypermarkets: "The appeal of the new".....	10
Supermarkets: "Modernization of stores and unification under the Carrefour name".....	10
Hard Discount: "Low prices year-round".....	11
Convenience: "Always attuned to customer needs".....	11
E-Commerce: www.ooshop.com.....	12
CARREFOUR'S STORE NETWORK DIAGRAM.....	13
CARREFOUR'S INTERNATIONAL EXPANSION:.....	13

CHINA: The Country..... 15

COUNTRY OVERVIEW.....	15
Greater China.....	17
People's Republic of China versus Republic of China.....	17
Hong Kong People's Republic of China, Special Administrative Region.....	18
Macau.....	18
Singapore.....	19
CHINA'S RETAIL INDUSTRY.....	19
OPPORTUNITIES IN CHINA.....	21
CHALLENGES IN CHINA.....	22

Carrefour in China: Crossroad between East & West..... 23

ENTRY STRATEGY.....	23
Taiwan's Influence on Carrefour's entry into China.....	23
Adaptation to Local Taste.....	24
COMPETITION.....	26
CARREFOUR: THE CONTROVERSIES.....	27
CRISIS MANAGEMENT.....	28

Conclusion 29

Source: 31



*“Carrefour” = “Crossroad”; that is the idea behind the French retailing giant. Placing a hypermarket at the intersection of two populated roads, that is the successful strategy of the company and it also used this concept when it entered China. No matter how expensive the property was, Carrefour was going to place its stores at those crossroads and take advantage of the immense customer flow¹. But what is it that makes the company so successful and so appealing to the Chinese consumer? How did Carrefour manage successful entry into the diverse Chinese market? What Challenges did it face? Whatever the answers are, fact is; Carrefour is the 7th largest retailer in China ahead of Wal-Mart and Tesco² and this paper will discuss **la chemin de la réussite, destination: Carrefour en Chine.**³*

Introduction

When a company wants to expand globally it has to think carefully about how it will enter the new market. It has to ask itself certain questions such as; how different is the culture? How will our current business model work in this new environment? How different is our new consumer? Or how will we deal with challenges that come up throughout our journey? These are exactly the kind of questions the French retailer had to ask itself when it wanted to expand into the Chinese market. So far the company had successfully entered many international markets with its hypermarket concept. It was able to adapt to local taste by using local partners and by getting 95% of its products produced locally⁴. But could the company use the same strategies it had used to enter other countries, to enter China?

The Chinese market, along with Brazil, India and Russia, is one of the fastest growing markets in the world. It is the country with the largest amount of consumers since it inhabits one

¹ “Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study

² China Chain Store & Franchise Association, *Steady Progress with Transformation and Improvement – 2010 China Top 100 Chain retailers, March 28th 2011*

³ “the road to success, destinations: Carrefour in China”

⁴ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



fourth of the human population⁵. The challenge in China is that with this big population there is a wide range of diversity. In China, there is a big difference between people from the Coast, between people from the West and between people from Central China⁶. Because of these differences, it is very important for businesses wanting to enter China to work with representatives from each respective region when expanding into these territories. Because Carrefour adapted exactly that strategy, and also learned from its experience in Taiwan, it was able to succeed.

After its entry into mainland China, Carrefour grew quickly and opened 100 stores within 12 years⁷. In the year 2006, Carrefour employed 40,000 people in China (98 % were Chinese) and served about 300 million Chinese customers per year⁸. Carrefour is seen as the number one French employer and currently buys its products from 22,300 local Chinese suppliers⁹.

CARREFOUR: The French Retailing Giant

Company Overview

Carrefour's story started in 1959 in France and for the first ten years it was solely a French retailer until its first international expansion into Belgium in 1969¹⁰. In the past 40 years, Carrefour kept expanding globally and is now operating in 34 different countries securing its

⁵ Central Intelligence Agency, *China, 2011*, (April 2011)

⁶ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁷ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

⁸ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

⁹ Carrefour, *China Opening of 100th Carrefour hypermarket*, 2011, <http://www.carrefour.com/cdc/group/current-news/china-opening-of-the-100th-carrefour-hypermarket-.html> (June 2011)

¹⁰ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



representation in three major markets; Europe, Latin America and Asia¹¹. In these markets, Carrefour has over 15,000 stores, employing on average 469,666 people and in 2009, Carrefour incurred Net Sales of 85,963 billion Euros¹². Part of the success comes from Carrefour's six successful store models; the hypermarkets, supermarkets, hard discount stores, convenience stores, Cash & Carry, and E-commerce. But one of its main sources of success is its commitment to local suppliers meaning that 90-95%¹³ percent of goods are produced locally depending on each country. All of these concepts led Carrefour to become the largest retailer in Europe and the second largest retailer worldwide after Wal-Mart¹⁴.

Carrefour's Concept

In the 1970s, Carrefour invented the concept of the hypermarket and this concept has since been a popular way for Carrefour to do business¹⁵. A hypermarket is a "Vast self-service warehouse-cum-retail outlet that combines the features of a supermarket, department store, discount store, and specialty store in one location."¹⁶ Carrefour also invented another concept when it came up with the idea of "Produits Libres" meaning "free products". These are unbranded products that are cheaper but the same quality as branded goods¹⁷.

¹¹ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

¹² Carrefour 2009 Annual Report, 2009,

http://www.carrefour.com/docroot/groupe/C4com/Pieces_jointes/Assemblee_generale/RFI_VGB_BAT_def_ve.pdf

¹³ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

¹⁴ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

¹⁵ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

¹⁶ Business Dictionary, *Hypermarket*, <http://www.businessdictionary.com/definition/hypermarket.html> (April 2011)

¹⁷ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



Carrefour's Values¹⁸

The French retailer states that it has a dream for its business. Carrefour's dream is to be a business that is recognized and loved by its customers because it assists them in the best way it can. It further dreams that by providing its customers with high quality products it can ultimately increase its customer's quality of life. To ensure the realization of this dream the company makes sure that every day it is:

Committed, Caring and Positive¹⁹

Carrefour ultimately adapted these three words into its company values:



"We are committed. Committed professionals and committed members of the community. We constantly strive to exceed everyone's expectations by providing better value and finding new solutions for a better quality of life."²⁰



"We are caring. Caring towards our customers and our consumers. We are receptive to their needs, each and every day. We welcome them to our stores and meet their needs with kindness, warmth and attention to detail."²¹

¹⁸ All Information in this section is obtained from: Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

¹⁹ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

²⁰ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

²¹ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



“We are positive. We rise to every challenge with energy, enthusiasm, and with fresh ideas. We help brighten the lives of our customers and our consumers. For them, for our employees, for the planet, we want the best, both today and tomorrow.”²²

Carrefour’s Strategy²³

“The Carrefour group has one simple ambition: making Carrefour the preferred retailer wherever it operates.²⁴”

To be the preferred retailer means that customers want to visit the store and continue to shop there because the retailer makes them happy and facilitates their lives. To land at the top of the rating list, Carrefour’s strategy includes three levels:

Client-oriented culture

“Getting to know our customers better in order to serve them better²⁵”

Transformation

“Increase agility, execution quality and competitiveness²⁶”

Innovation

“Regaining initiative and leadership²⁷”

²² Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

²³ All Information in this section is obtained from: Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

²⁴ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

²⁵ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

²⁶ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

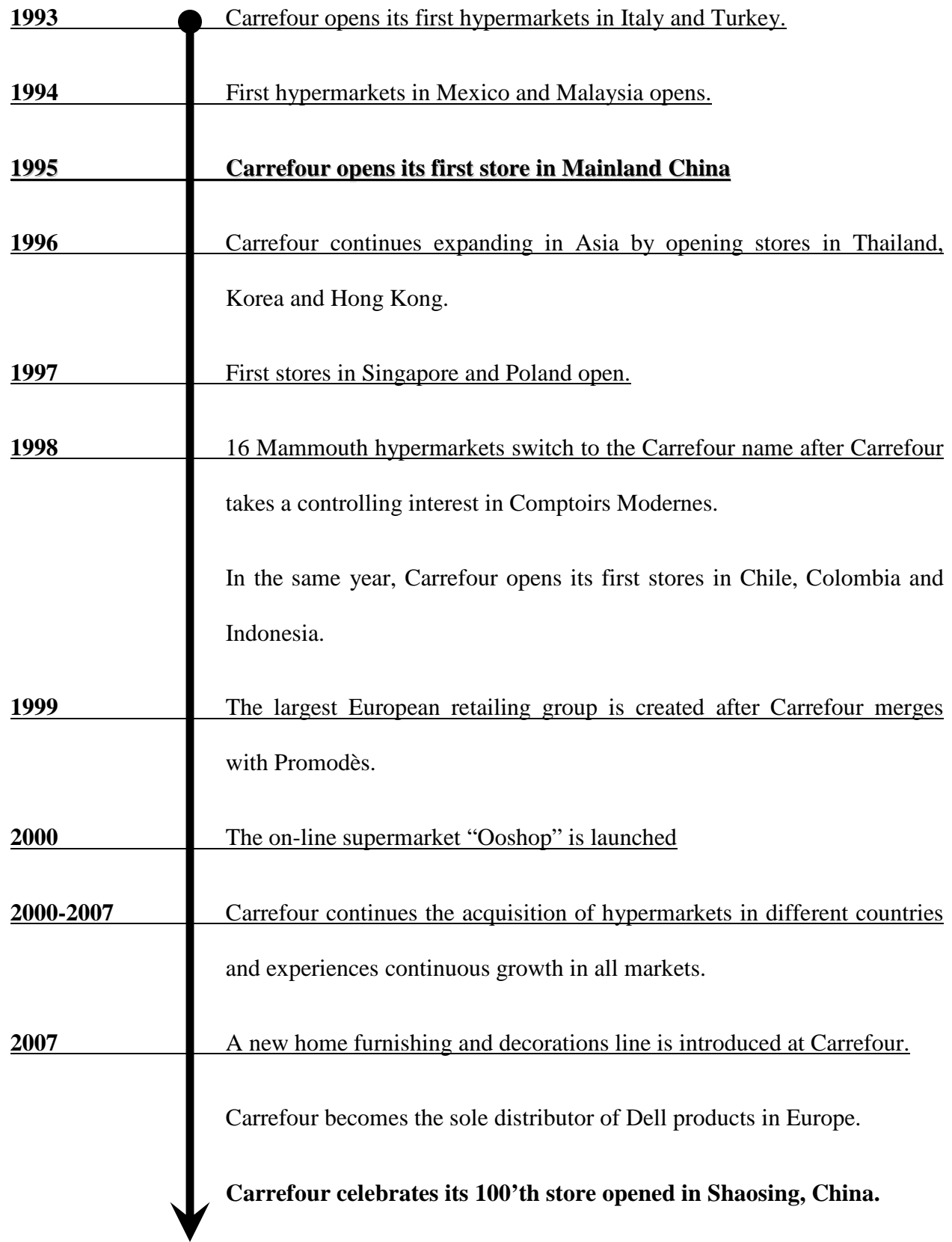
²⁷ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



Carrefour's Company History²⁸:

June 3rd 1959:	● Carrefour is founded by Denis Defforey, Jaques Defforey and Marcel Fournier. The three men chose the name “Carrefour” because the first store in Annecy was built at a crossroad (“crossroads” translates into “Carrefour” in the French language).
1963:	Carrefour opens its first hypermarket in Sainte-Genevieve-des bois. Food and non-food items were offered on a floor area of 2,500 square meters.
1970:	Carrefour lists its shares on the Paris stock exchange.
1969:	Carrefour's first international expansion begins in Belgium.
1973	The first Carrefour store is opened in Spain under the “Pryca” banner.
1975	Carrefour starts expanding into Latin America with opening its first store in Brazil.
1976	Carrefour invents the idea of “Produit Libres” using the slogan “just as good, and cheaper”.
1982	Carrefour opens its first store in Argentina.
1989	Carrefour's first expansion into the Asian market begins in Taiwan.
1991	Carrefour acquires its French competitors Montlaur and Euromarché.
	↓ The same year Carrefour opens its first hypermarket in Greece.

²⁸ All Information in this section is obtained from: Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



Carrefour's Store Network²⁹

The Carrefour group's store network includes six different store types and shopping experiences. It has the hypermarkets, supermarkets, hard discount stores, convenience stores, Cash & Carry, and E-commerce.

Hypermarkets: "The appeal of the new"³⁰



Hypermarkets provide customers with a wide selection of products that are of high quality as well as competitively priced. The initial trend of hypermarkets was that they were large warehouses but in recent years Carrefour has focused on smaller store layouts in order to increase customers shopping experience. Along with the decrease in size, Carrefour is increasing its product diversity in order to keep up with the hypermarket concept. The company's new focus is customized service and international expansion.

Supermarkets: "Modernization of stores and unification under the Carrefour name"³¹



²⁹ All Information in this section is obtained from: Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

³⁰ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

³¹ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



Currently the supermarkets of Carrefour run under different banners such as the official Carrefour banner or some other acquired store names such as “Champion” or “Norte” in Spain, Argentina and Brazil. It is Carrefour’s vision to modernize its supermarkets and convert them all to the Carrefour banner in order to increase brand recognition and standardize its products. This change has already proven successful in countries such as Romania, Turkey, and Poland where Carrefour changed from the “Ahold” banner to the “Carrefour Express” banner.

Hard Discount: “Low prices year-round³²”



Carrefour’s hard discount stores provide their customers with low prices all year around. These stores do not operate under the Carrefour banner but under the name of the stores that Carrefour acquired them as. So it comes that customers in Spain, Greece, and Argentina shop at “Dia” for its low priced products and customers in Portugal do so at “Minipreço”. These types of stores incurred a huge increase in sales in 2008 when consumers experienced the economic crisis and looked for cheaper products.

Convenience: “Always attuned to customer needs³³”



³² Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

³³ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



With over 15,000 Carrefour stores globally, 4,698 of them are convenience stores through which Carrefour offers its customers an express shopping experience. These convenience stores are mostly operated as franchises and are known under banners such as “Marché Plus”, “Shopi”, “8 à Huit” and “Proxi” in France or “DiperDi” in Italy. In order to maintain its cutting-edge skills and name recognition Carrefour has introduced its own brands to these convenience stores allowing them to consistently provide customers with cheap, high quality products.

Cash & carry: “Proximity and accessibility for catering professionals”³⁴,”



The “Cash & Carry” format operates as a self-service wholesaler store whose main customers are catering and food industry professionals. Just like the convenience stores, these self-service wholesale stores run under their own banners and do not carry the Carrefour name. Furthermore, these stores mostly run under a franchise system such as “Promocash” who has experienced immense success with its 120 franchisees.

E-Commerce: www.ooshop.com

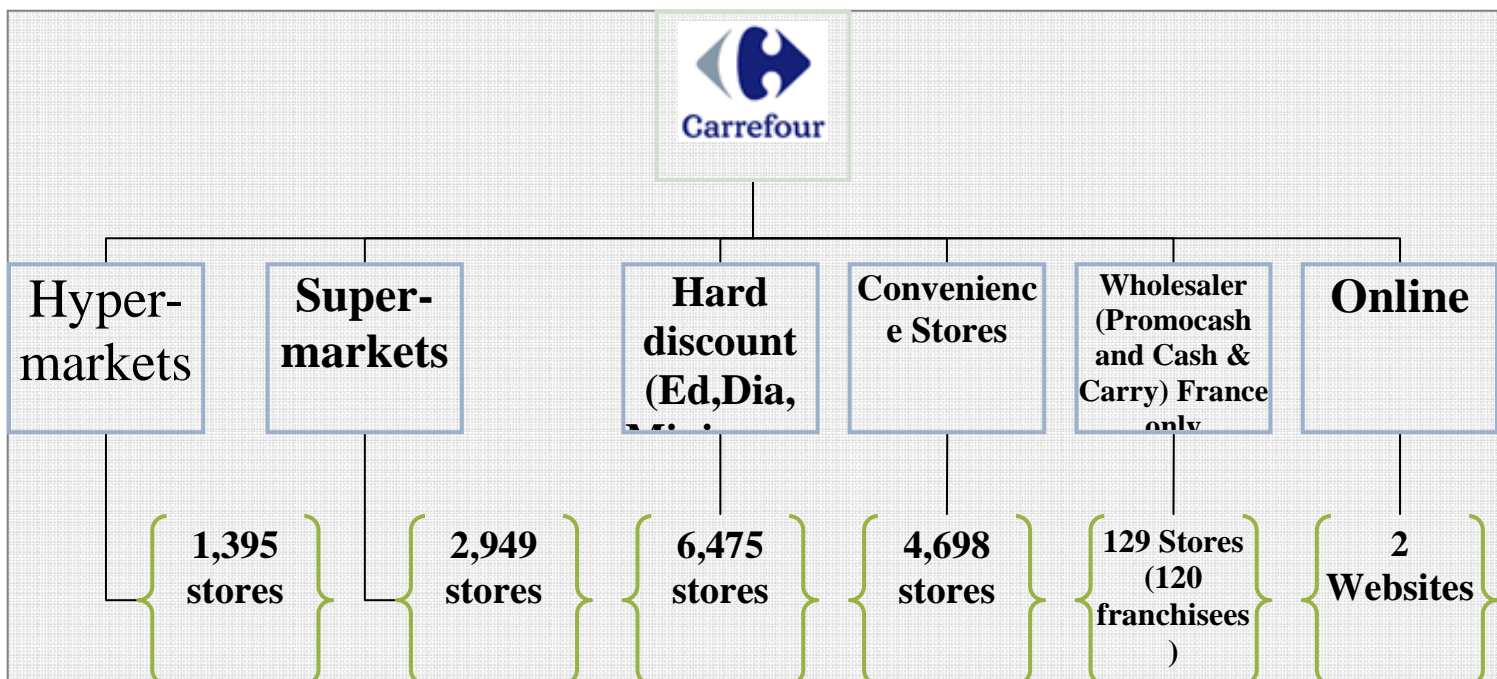


³⁴ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



Carrefour has also kept up with the trend of e-commerce and offers online shopping in some countries such as France, Spain, Belgium and Turkey. The online services include purchase of product and home delivery.

Carrefour's Store Network Diagram³⁵



Carrefour's International Expansion:

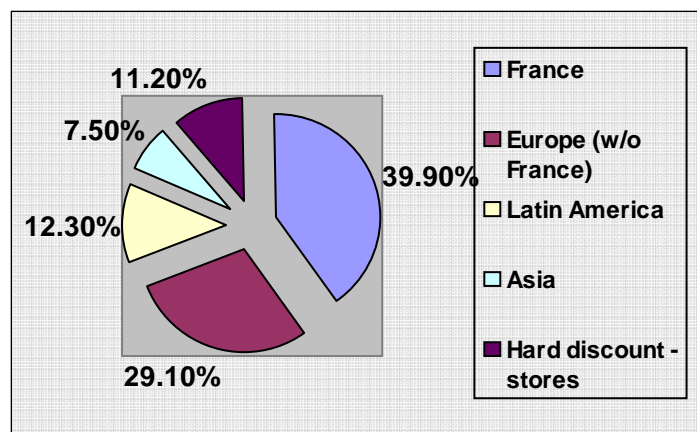
Once Carrefour showed success with its strategy in France, many retailers quickly followed and the French retail industry reached maturity. Further worsening Carrefour's situation was the fact that the company faced violent opposition from French merchants who were able to push for laws limiting hypermarket expansion in France in 1963³⁶. Because of this, international

³⁵ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

³⁶ IBS Center of Management Research, *Carrefour Strategy in China*, 2007, [Http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy/BSTR246.htm](http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy/BSTR246.htm) (April 2011)

expansion was Carrefour's only choice for continued growth. Carrefour first started to conquer the international environment by entering into Belgium in 1969³⁷. After that showed to be successful, Carrefour continued its expansion into other parts of Europe. Carrefour's first expansion into markets overseas came in the 70's and 80's when it brought the mass retail concept to Latin America³⁸. Carrefour opened its Latin American first stores in Brazil, Mexico and Argentina³⁹. Asian expansion did not come until 1989 when Carrefour opened its first store in Taiwan and expansion into mainland China did not occur until 1995⁴⁰. The reason for Carrefour's international success is its ability to adapt to local taste through using local suppliers. Carrefour purchases about 95% of its products from local suppliers⁴¹.

Figure 1 Percentage of Net Sales in regards to each Region⁴²



³⁷ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

³⁸ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

³⁹ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

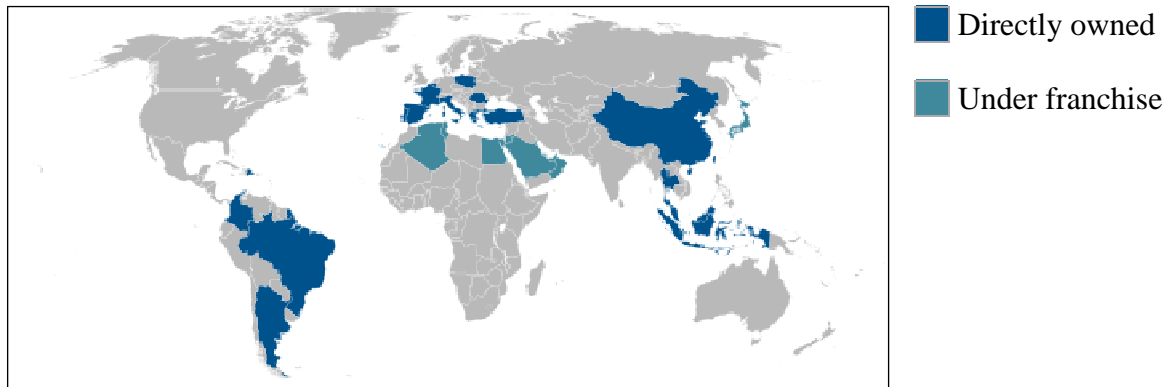
⁴⁰ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

⁴¹ Carrefour, *China Opening of 100th Carrefour hypermarket*, 2011, <http://www.carrefour.com/cdc/group/current-news/china-opening-of-the-100th-carrefour-hypermarket-.html> (June 2011)

⁴² Carrefour 2009 Annual Report, 2009,

http://www.carrefour.com/docroot/groupe/C4com/Pieces_jointes/Assemblee_generale/RFI_VGB_BAT_def_ve.pdf

Map of Countries in which the Carrefour Group is represented⁴³



CHINA: The Country

Country Overview⁴⁴

There are many ancient civilizations that we have studied in school but unlike the ancient Egyptians, Syrians or Greek, the Chinese civilization is the only one that has survived from the 2nd millennium BC until today⁴⁵. Back in its prime days, China was the superior culture and outpaced many other civilizations. They were the first civilizations to ever write on paper and, among other things, we owe to them the invention of the compass and gunpowder⁴⁶. Unfortunately, in the 19th and 20th century, China's superiority came to a halt when the country had to endure multiple civil wars, suffered from famine, military defeats and foreign

⁴³ Carrefour, *At a Glance 2007*, 2007, www.carrefour.com (June 2011)

⁴⁴ U.S. department of State, *China, 2011*, www.state.gov (April 2011)

⁴⁵ Hookham, Hilda, *A History of China*, Published 19 Aug. 2004

⁴⁶ Hookham, Hilda, *A History of China*, Published 19 Aug. 2004



occupation⁴⁷. During these times, the Chinese culture was suppressed and economic development slowed down⁴⁸.

It was not until after the Second World War, that MAO Zedong, together with the communist party, was able to pick the country back up and put it back on its tracks. He was able to reinstate China's independence and stimulate the Chinese economy. But the return to economic development came with a lot of restrictions. MAO Zedong and his followers created an autocratic socialist system which guaranteed China's sovereignty. Unfortunately, this system also imposed severe controls over Chinese people's everyday lives and caused the deaths of tens of millions⁴⁹.

Under MAO Zedong's communist China, foreign commerce was not welcomed since MAO wanted China to be independent from other countries and fuel its own economy. It was not until 1978 that DENG Xiaoping and his government opened the economy to international commerce which caused an immense increase in China's wealth⁵⁰. Due to the new open market policies China once again started to flourish and the country's outputs quadrupled within the next 22 years⁵¹. This increase in output ultimately led to an increase in Chinese

⁴⁷ Hookham, Hilda, *A History of China*, Published 19 Aug. 2004, and Central Intelligence Agency, *China, 2011*, (April 2011)

⁴⁸ Hookham, Hilda. "A History of China". Published 19 Aug. 2004

⁴⁹ U.S. department of State, *China, 2011*, www.state.gov (April 2011)

⁵⁰ Central Intelligence Agency, *China, 2011*, (April 2011)

⁵¹ Central Intelligence Agency, *China, 2011*, (April 2011)



people's standard of life and led China to be the biggest country in the world that encompasses a fourth of the world's population⁵².

Greater China⁵³

The term "Greater China" refers to an idea that indicates the economic ties and cultural connections among ethnic Chinese living in different parts of the Asian continent. This term is used for people living in Mainland China, Hong Kong, Macau, Taiwan, Singapore and Malaysia.

People's Republic of China versus Republic of China⁵⁴

After the defeat of the Japanese in the Sino-Japanese War in 1945 (a result of Japanese defeat in World War II), a civil war broke out in China between two main groups; the communists led by MAO Zedong and the nationalist led by Chiang Kai-Shek. The Chinese Civil War lasted about four years in which many lives were lost between March 1946 and May 1950⁵⁵. This Civil War ended with the defeat of the Nationalists causing them to flee Mainland China and to claim the island of Taiwan as their new home. Here the Nationalists, under Chiang Kai-Shek, established the Republic of China (R.O.C.) making Taipei its capital. After the Nationalists left China, MAO Zedong established the People's Republic of China (P.R.C.) with Beijing as its capital. Initially, the West recognized the Republic of China, Taiwan, as the "true" China since it was not communist and open to international commerce. But when the American President, President Nixon, negotiated for open commerce with Mainland China in the 70's and realized the huge potential of the country all of this changed. After Nixon's visit to

⁵² Wikipedia, *China, 2011*, www.wikipedia.org (April 2011)

⁵³ Wikipedia, *Greater China, 2011*, http://en.wikipedia.org/wiki/Greater_China (June 2011)

⁵⁴ Linda Clarke, *Doing Business in Asia - Course at the University of Florida, 2011*, - Lecture Notes

⁵⁵ Wikipedia, *Chinese Civil War, 2011*, http://en.wikipedia.org/wiki/Chinese_Civil_War (June 2011)



the People's Republic of China this republic was accepted by everyone as the “real” China and even got Taiwan's voting rights in the United Nations⁵⁶.

Hong Kong People's Republic of China, Special Administrative Region⁵⁷

After the British won the Opium Wars in the 1900s they demanded to be refunded for the war with Chinese territories. Because of these demands, Hong Kong, fell into the hands of the British and became a British Territory for 100 years. In the year 1997, Great Britain returned Hong Kong to the Chinese which upset a lot of people. This was due to the fact that people in Hong Kong were used to economic freedom and now faced a communist government. Because of this unrest, the Chinese were scared of “brain drain” (people leaving the island and migrating to other countries) and therefore made a special agreement with the island. A contract was signed in the same year stating that under the “One Country, Two System” formula, China's communist system would not be imposed on Hong Kong. Because of this, Hong Kong continues to operate under a free market system and is highly dependent on international trade.

Macau⁵⁸

Macau was the last territory to be returned to the Chinese. The territory was under Portuguese power until 1999 when it was finally returned to China. Just like Hong Kong, Macau operates under the “One Country, Two Systems” policy and the Central People's Government is responsible for the establishment of laws and for enforcing its own legal system. Just like Hong Kong the economy of Macau relies highly on international trade with gambling, tourism and textiles as its main trade.

⁵⁶ Linda Clarke, *Doing Business in Asia* - Course at the University of Florida, 2011,- Lecture Notes

⁵⁷ Linda Clarke, *Doing Business in Asia* - Course at the University of Florida, 2011,- Lecture Notes

⁵⁸ Linda Clarke, *Doing Business in Asia* - Course at the University of Florida, 2011,- Lecture Notes



Singapore⁵⁹

This Southeast Asian city-state declared its independence from Great Britain after the Second World War since it was, just like Hong Kong, a British territory. Singapore is Asia's biggest commerce hub and its population is very diverse. The culture in Singapore is very Chinese but the main language is English. The City-State also depends widely on international trade and its main industries are banking, finance, electronics and tourism. Singapore invests a lot of money into China and hopes that one day China will model its economics and politics after Singapore's.

As noted in the country overview, China comprises a wider range of territories that are all very similar in culture but still very different and divided. Please note that for the remainder of the paper, when talking about “China”, “Mainland China” or the “People’s Republic of China” is being referred to.

China’s Retail Industry

Because China was a country that had suffered multiple foreign invasions, MAO Zedong decided during his reign that every area in China should be self-sufficient and be able to survive even if its neighboring cities were invaded. This principle led China to close up to foreign trade and it caused China to develop a retail industry that is different and unique in every region of the country⁶⁰.

⁵⁹ Linda Clarke, *Doing Business in Asia - Course at the University of Florida, 2011*, - Lecture Notes

⁶⁰ “Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study



It was not until the 1970's that the Chinese government decided to bring the country together and steer their economy towards an open market economy, lowering their borders to international commerce⁶¹. This liberalizing change caused the major boom in the Chinese retail industry⁶². Today, based on a study conducted by the *China Chain Store & Franchise Association*, China's retail industry is very advanced. Even though the store growth of the top 100 chain retailers declined in 2010, they still demonstrated a sales volume increase of 21.2% in the same year⁶³. But not all of the stores had a slow growth in store openings; in fact the five major foreign-funded supermarkets opened 140 stores in 2010 showing a growth rate of 20%⁶⁴. A driving factor of these numbers is the urban development of retailers which accounts for 68% of China's total retail sales⁶⁵.

The study also states that the strongest players in this market are the department stores since they incurred an increase of 23.2% in annual sales in 2010. The study also shows a booming online retailing industry stating that 34 stores have launched an online website and are reaching out to urban customers through their online shopping portals. According to the study from the *China Chain Store & Franchise Association*, increasing operation costs are a current challenge for retailers in the Chinese market. In the year 2010 the industry saw a 30% increase in rent prices and a 16% increase in labor cost due to rising wages and money invested into extreme

⁶¹ Thomas White Global Investing, *China Retail | Retail in China |China Retail Industry, July 2010*, <http://www.thomaswhite.com/explore-the-world/bric-spotlight/2010/china-retail.aspx> (18 April 2011)

⁶² Thomas White Global Investing, *China Retail | Retail in China |China Retail Industry, July 2010*, <http://www.thomaswhite.com/explore-the-world/bric-spotlight/2010/china-retail.aspx> (18 April 2011)

⁶³ China Chain Store & Franchise Association, *Steady Progress with Transformation and Improvement – 2010 China Top 100 Chain retailers*, March 28th 2011

⁶⁴ China Chain Store & Franchise Association, *Steady Progress with Transformation and Improvement – 2010 China Top 100 Chain retailers*, March 28th 2011

⁶⁵ China Chain Store & Franchise Association, *Steady Progress with Transformation and Improvement – 2010 China Top 100 Chain retailers*, March 28th 2011



recruiting processes.⁶⁶ While some see these threats, others see the wide opportunities in the Chinese market and claim that by 2015 China will be the largest consumer market after the United States and Japan⁶⁷. This is based on the fact that in 2009, China and India together accounted for 93% of the cumulative retail sale in Asia⁶⁸.

Opportunities in China⁶⁹

- ❖ Population 1.33 billion (1/4th of the global population)⁷⁰
- ❖ 250 cities with over 1 million in population (in the U.S.A. there are only 10)⁷¹
- ❖ 825,000 millionaires⁷²
- ❖ 300 billionaires⁷³
- ❖ Steady GDP growth
- ❖ China was bundled together with Brazil, Russia and India forming the idea of “BRIC”.
The four countries are expected to grow massively in the next years.
- ❖ Huge network of manufacturing factories that is able to produce goods at low costs.

⁶⁶ China Chain Store & Franchise Association, Steady Progress with Transformation and Improvement – 2010 China Top 100 Chain retailers, March 28th 2011

⁶⁷ Thomas White Global Investing, *China Retail | Retail in China |China Retail Industry, July 2010*, <http://www.thomaswhite.com/explore-the-world/bric-spotlight/2010/china-retail.aspx> (18 April 2011)

⁶⁸ Thomas White Global Investing, *China Retail | Retail in China |China Retail Industry, July 2010*, <http://www.thomaswhite.com/explore-the-world/bric-spotlight/2010/china-retail.aspx> (18 April 2011)

⁶⁹ SGS Group, Doing Business in China - Opportunities and Challenges, 17 Nov. 2006

⁷⁰ “Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study

⁷¹ “Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study

⁷² “Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study

⁷³ “Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study



Challenges in China⁷⁴

- ❖ Corruption: “Guanxi” exists in China which is based on interpersonal relations that are based on friendship and long-term favor exchanges. This has caused corruption in recent years.⁷⁵
- ❖ The goods manufactured in local factories are not always of the highest quality
- ❖ China has many diverse cultures and consumers.
- ❖ Inefficient Supply Chain Management; deadlines are not always being kept
- ❖ Different business Culture according to the Hofstede’s cultural dimensions⁷⁶
 - Rank very high on Long Term Commitment
 - Long term relations with business partner are more important
 - Gaining your partner’s trust is sometimes more important than getting the better end of the deal

⁷⁴ SGS Group, Doing Business in China - Opportunities and Challenges, 17 Nov. 2006

⁷⁵ “Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study

⁷⁶ ITIM International, *China - Chinese Geert Hofstede Cultural Dimensions Explained*, 2009, http://www.geert-hofstede.com/hofstede_china.shtml (18 April 2011)



Carrefour in China: Crossroad between East & West

Entry Strategy

Carrefour's success in China mainly came from its large stress on decentralized management. The company divided its Chinese company structure into four big regions of East China, South China, North China and Middle China⁷⁷. So Carrefour used local partners such as a Shanghainese partner in Shanghai, a Cantonese partner in Guangzhou and a Beijing partner in Beijing. The CEO at the time believed that it was the smartest way, not because of legal issues but due to the cultural obstacles⁷⁸. Through this, store managers were empowered with deciding on orders, purchasing, pricing, supplier selection, arrangement of store displays, employee recruitments, negotiating promotional campaigns and arranging store displays⁷⁹. This had a positive outcome especially since it made managers proud of their work and triggered their creativity.

Taiwan's Influence on Carrefour's entry into China⁸⁰

To give itself a more secure entry strategy, Carrefour used the experience it gained from other Asian markets when it entered into China. As previously pointed out in the country overview, Taiwan and mainland China originated from the same culture and therefore share a lot of the same customs. So when Carrefour entered China it used the knowledge it had earned from

⁷⁷ "Ethical Dilemma: Carrefour China at the Crossroads" – Professor Oh Case Study

⁷⁸ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁷⁹ "Ethical Dilemma: Carrefour China at the Crossroads" – Professor Oh Case Study

⁸⁰ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

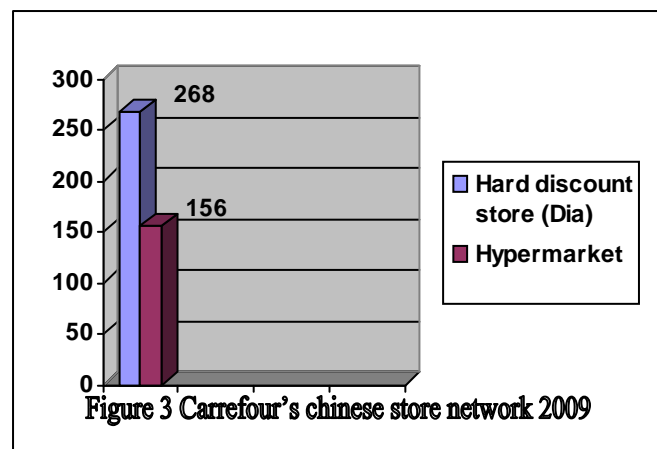


its experience in Taiwan⁸¹. For example, when Carrefour entered Taiwan it originally planned to open a 10,000 square foot store with a big parking lot. Carrefour quickly understood that that concept would not work and therefore opened a 3,000 square foot store with a smaller parking lot for scooters⁸². After Carrefour saw success of this model in Taiwan, it used it to enter the Chinese market.

Adaptation to Local Taste⁸³

Another decision the company made was to enter the market with only three of its store concepts: “Carrefour” hypermarkets, “Champion” supermarkets and “Dia” convenience stores⁸⁴.

Carrefour adapted these stores to the Chinese market through lessons it learned about the Chinese consumer by looking at the main cities along the coast⁸⁵. So when Carrefour entered the Chinese market in 1995 it started with the bigger cities such as Shanghai, Beijing, Guangzhou and Shenzhen⁸⁶.



Carrefour only had 17 stores in six cities⁸⁷. As Carrefour learned more about the Chinese market

⁸¹ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁸² McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁸³ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁸⁴ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁸⁵ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁸⁶ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁸⁷ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

it also realized that there are big differences between the bigger cities and the cities in middle and western China. For example, since cities in middle and western China are less developed, only 20% of TVs sold there are flat screen TVs while in the bigger cities about 50% of them are flat screen TVs⁸⁸. Furthermore, the beer brand Tsingtao is known by everyone in Quingdao but when you go to Beijing everyone drinks beer from Beijing⁸⁹. Therefore, Carrefour had to further adapt to local tastes and preferences in these areas. Carrefour also had to adapt its selling strategies. From the markets in Taipei City it learned how Chinese people sold their fish. Carrefour hence adopted two strategies; selling fish alive and selling frozen fish. While people in the bigger and costal cities preferred to buy their fish alive, right out of the fish tanks, Chinese in west and middle China preferred to purchase frozen fish because they are further away from the coast and want their fish to be fresh. After Carrefour adapted to this concept it saw fish sales go up 30-40%. Carrefour also had to adapt to the local consumer and their shopping behaviors. The Chinese consumer likes to compare different brands and because of this, Carrefour had to introduce larger shelves in order to place all the different brands in one area⁹⁰.

Additionally, Carrefour introduced new products to China such as wine which was not regularly consumed by the Chinese population. Carrefour did this by holding wine fairs and educating the Chinese how to drink the wine and what foods it goes with. When the taxes on wine imports were lowered, Carrefour was able



⁸⁸ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁸⁹ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁹⁰ All information in this paragraph is from: McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)



to provide its Chinese consumers with cheap imported wines such as French wine⁹¹.

Through all these adaptations to local taste or by using its knowledge from Taiwan, Carrefour was able to successfully enter the Chinese market. Carrefour China is one of the biggest markets for Carrefour and as of December 31st 2009 China's Net Sales were 3,473 billion Euros which showed a growth of 4.3% from the previous year.⁹²

Competition⁹³

Carrefour's main competitor in China is Wal-Mart who, due to its big size, has more bargaining power than Carrefour. Carrefour also competes with the five biggest domestic retailers, such as RT-Mart, who are quick to copy every concept. When Carrefour introduced the fresh bakery concept in its stores it was a successful idea. Unfortunately, Carrefour failed to include the Chinese deserts in its bakery section which its competitors did not. In order to stay competitive, Carrefour updates its strategy every three years since China is a market that is changing quickly.

Carrefour's biggest international competitors are Tesco and Wal-Mart who have entered the market in recent years. In order to stay competitive with these large retailers Carrefour invests a lot of money into Human Resources in order to train employees. The company also deals with retention differently than in Europe. For one, it invests a lot of money in its training and the employees need to sign a three to five year contract. If the employee wants to change to the competition he/she has to pay back the money for the training which is a lot. If employees

⁹¹ All information in this paragraph is from: McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

⁹² Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

⁹³ All information in this section is from: McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

stay with the company for five years they receive a big bonus. All this is keeping turnover very low.

Carrefour: The controversies

In April 2008, the Olympic torch relay was interrupted by Tibetan independence advocates in Paris where the protesters tried to get a hold of the torch from a wheelchair bound Chinese representative⁹⁴. Because of this, some Chinese activists have tried to boycott Carrefour stores



because of its French roots. This boycott was further fueled by the rumor that one of Carrefour's major shareholders had donated money to the Dalai Lama and the fact that Nicolas Sarkozy was the first European president to meet with the Dalai Lama in 2008⁹⁵. Even though Carrefour tried to state that they support the Olympics in Beijing and would not do anything to hurt the feelings of the Chinese people, protests still occurred at multiple Carrefour outlets in China. It even went so far that key search engines such as *Baidu.com.cn* and *sina.com* blocked the Carrefour website⁹⁶.

Furthermore, in 2008 a commission found eleven Carrefour stores guilty of manipulating prices by overstating discounts and using different prices for the same product. As a result, eight Carrefour stores were fined \$ 75,988 (500,000 Yuan) in 2011 for overcharging its customers (the

⁹⁴ ECCH, *Case Details*, 2009, http://www.ecch.com/casesearch/product_details.cfm?id=87353, (18 Apr. 2011)

⁹⁵ Sang, Ychoe, *French President Meets H H the Dalai Lama, the Most Respected Leader in EU, US*, 7 Dec. 2008, <<http://secrettibet.rsfblog.org/archive/2008/12/07/french-president-meets-h-h-the-dalai-lama-the-most-respected.html> (18 April 2011)

⁹⁶ Wikipedia, *Carrefour*, 2011, <http://en.wikipedia.org/wiki/Carrefour> (April 2011)



highest fine ever given to a retail store). Carrefour has also fallen into unfavorable relations with some of its suppliers due to charging high slotting fees that other retailers do not charge leading its suppliers to change to Carrefour's competitors. Carrefour has also been underpaying its employees often only paying minimum wage and not properly accounting them for overtime. This can be seen in a report that stated that more than 6,000 Carrefour employees' salaries in Shanghai had only increased 50 Yuan between 1998 and 2011 when the average wage of a Shanghai worker has tripled during that same time period. This led to a turnover of 108.5% between the years of 2006 and 2007. Additionally, the Carrefour brand's legitimacy has been weakened in consumers' eyes due to strong bribery and corruption allegations. A report showed that some Carrefour managers who had a monthly salary of 3,000 Yuan (\$397) could make more than a million Yuan (\$132,000) in a year due to unethical business behavior. The bad publicity really took a toll on Carrefour causing them to shut down four stores in 2010 and two more in 2011. While Carrefour's expansion into China has since slowed down, its competitors like Wal-Mart and RT-Mart have ceased the opportunity to take more market share⁹⁷.

*Crisis management*⁹⁸

To manage its bad image, Carrefour has taken multiple actions. First, to better relations with its suppliers, Carrefour started financing programs for smaller suppliers allowing them to apply for loans with Deutsch Bank. The company has also created a mailbox and hotline for suppliers to report any corruption and has personal investigators to go after such malpractices.

⁹⁷ All information in this section is from "Ethical Dilemma: Carrefour China at the Crossroads" – Professor Oh Case Study

⁹⁸ "Ethical Dilemma: Carrefour China at the Crossroads" – Professor Oh Case Study



In order to seek better relations with its employees, Carrefour has increased its communication with its employees and settled the disputes regarding overtime. Carrefour has also increased its fulltime employees' salaries by 8% and put in place a minimum wage that is 5% higher than the local minimum wage. In order to eliminate its price differences Carrefour also promised to have regular internal price inspections. Carrefour was ordered to correct its illegal prices and refund its overcharged customers. Carrefour China said that it would refund all of its customers who were charged more than the retail price⁹⁹.

Conclusion

When the biggest French retailer Carrefour entered China it was faced with many opportunities but also many challenges. To overcome the challenges, Carrefour used local partners as well as its knowledge acquired from entering Taiwan to secure its entry into this huge and booming market. Carrefour was able to accustom to local taste to the extent that when a customer enters a Carrefour in China he/she notices that West and East collide¹⁰⁰. The customer sees the water tanks with life fish, eels, bull frogs and turtles right next to the vacuum-packed bacon and pepperoni¹⁰¹. Through this, Carrefour is selling the Chinese people the same products they can get from their local markets in a cheaper and cleaner environment¹⁰². Therefore, the Chinese consumer experiences the modern retail concept mixed with local Chinese taste. This concept is what allowed Carrefour to succeed and increase its sales in 2010 to 90,099 billion

⁹⁹ All information in this section is from "Ethical Dilemma: Carrefour China at the Crossroads" – Professor Oh Case Study

¹⁰⁰ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

¹⁰¹ McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

¹⁰² McKinsey Quarterly, *An Interview with the President of Carrefour China*, 1 March 2006, http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)



Euros incurring a 12% increase in China and opening its 184th supermarket on June 3rd 2011 in Da Chang, China.¹⁰³

¹⁰³ Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)



Source:

“Ethical Dilemma: Carrefour China at the Crossroads” – Professor Oh Case Study

Business Dictionary, *Hypermarket*, <http://www.businessdictionary.com/definition/hypermarket.html> (April 2011)

Carrefour, *2009 Annual Report, 2009*,
http://www.carrefour.com/docroot/groupe/C4com/Pieces_jointes/Assemblee_generale/RFI_VGB_BAT_def_ve.pdf

Carrefour, *At a Glance 2007*, 2007, www.carrefour.com (June 2011)

Carrefour, *China Opening of 100th Carrefour hypermarket*, 2011, <http://www.carrefour.com/cdc/group/current-news/china-opening-of-the-100th-carrefour-hypermarket-.html> (June 2011)

Carrefour, *Company Website*, 2011, www.carrefour.com (June 2011)

Central Intelligence Agency, *China, 2011*, (April 2011)

China Chain Store & Franchise Association, *Steady Progress with Transformation and Improvement – 2010 China Top 100 Chain retailers, March 28th 2011*

ECCH, *Case Details, 2009*, http://www.ecch.com/casesearch/product_details.cfm?id=87353, (18 Apr. 2011)

Hookham, Hilda, *A History of China*, Published 19 Aug. 2004

IBS Center of Management Research, *Carrefour Strategy in China, 2007*,
[Http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy/BSTR246.htm](http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy/BSTR246.htm) (April 2011)

ITIM International, *China - Chinese Geert Hofstede Cultural Dimensions Explained, 2009*, http://www.geert-hofstede.com/hofstede_china.shtml (18 April 2011)

Linda Clarke, *Doing Business in Asia - Course at the University of Florida, 2011*, - Lecture Notes

McKinsey Quarterly, *An Interview with the President of Carrefour China, 1 March 2006*,
http://mkqpreview1.qdweb.net/article_page.aspx?ar=1799 (23 June 2011)

Sang, Ychoe, *French President Meets H H the Dalai Lama, the Most Respected Leader in EU, US, 7 Dec. 2008*,
<<http://secrettibet.rsfblog.org/archive/2008/12/07/french-president-meets-h-h-the-dalai-lama-the-most-respected.html> (18 April 2011)

SGS Group, *Doing Business in China - Opportunities and Challenges*, 17 Nov. 2006

Thomas White Global Investing, *China Retail | Retail in China | China Retail Industry, July 2010*,
<http://www.thomaswhite.com/explore-the-world/bric-spotlight/2010/china-retail.aspx> (18 April 2011)

U.S. department of State, *China, 2011*, www.state.gov (April 2011)

Wikipedia, *Carrefour, 2011*, <http://en.wikipedia.org/wiki/Carrefour> (April 2011)

Wikipedia, *China, 2011*, www.wikipedia.org (April 2011)

Wikipedia, *Chinese Civil War, 2011*, http://en.wikipedia.org/wiki/Chinese_Civil_War (June 2011)

Wikipedia, *Greater China, 2011*, http://en.wikipedia.org/wiki/Greater_China (June 2011)



Pictures:



Arizona Foot Hills Magazine - <http://www.arizonafoothillsmagazine.com/valleygirlblog/shopping/10-holiday-shopping-tips>



BBC - http://newsimg.bbc.co.uk/media/images/40787000/jpg/_40787391_carrefour_storesb.jpg



China daily - <http://www.chinadaily.com.cn/springfestival2009/images/attachement/jpg/site1/20090107/0013729e4abe0ace6b6f02.jpg>



China Digital Times - <http://chinadigitaltimes.net/2008/04/protests-target-cnn-carrefour/>



France 24 - <http://www.france24.com/en/20080416-chinese-threaten-carrefour-boycott#>



The Wall Street Journal - http://si.wsj.net/public/resources/images/EM-AK345A_carre_G_20101014165619.jpg



Xinhua News Agency - http://news.xinhuanet.com/english2010/china/2011-02/16/c_13734793.htm



Zhongguo Wine - <http://www.zhongguo-wine.com/2011/02/27/carrefour-wine-fair-in-china/>