Rapidly Changing Landscape of Retail in China
Can Warehouse Membership Clubs Win Chinese Consumers

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ABSTRACT
The retail sector is undergoing a drastic change in China: thanks to the growing wealth and new technology, the public's higher demand for quality is now heating competition between different retailers, both local and foreign ones. Among the competitors, a player quite new to the Chinese market is warehouse membership clubs (WMC). Even though WMCs' operation in the US is largely successful, critics have been skeptical about the feasibility of this retail format in China. This study seeks to evaluate China's retail sector's environment and find the most optimal way of operation of WMCs. This study begins with a glance at China's retail industry. Local retailers are ramping up their pace of transformation while foreign retailers often face difficulties understanding local customs. The following part sheds light on the business model of WMCs, identifying three prominent characteristics of this type of retail: integration of warehouse and retail to curb inventory cost; lower assortment and higher quality; and owning of private labels. With all these findings, the research discusses what adaptions can WMCs make in the Chinese market and how local retailers can leverage their strength. It concludes that WMC has a promising future in China as the nation's retail sector is embracing new ideas. Local retailers can outstrip foreign ones who are less familiar with local customs and harder to identify with.

Keywords: *China, Retailing, Warehouse Membership Club, Marketing.*

1. INTRODUCTION

Chinese people had witnessed probably the most encouraging economic growth in the early 21st century, and what comes with it was people's demand for a higher quality life. All kinds of businesses flourished due to economic and commercial liberalization, including the retail sector. When department store was the dominant retail format in China, a new retail format emerged across the Pacific Ocean: warehouse membership club (WMC). Though it had a relatively shorter history, it quickly became the top choice of many American families. Now these two things are about to collide: a country that is going through a transformation in its retail sector and a retail format that has been proven successful elsewhere. As WMCs have already drawn a significant amount of attention from Chinese investors and the public, it is no doubt that the chemicals between China's innovating retail sector and WMCs would lead China into a new age of retailing. To understand this, it is necessary to look closely into the business logic of WMCs and China's retail market.

Study about warehouse membership clubs started quite early. Sampson and Tiger reviewed the warehouse retail industry in the 1990s and raised an important question about this business: are warehouse membership clubs retailers or wholesalers. Sampson and Tiger examined the preferences of customers and impact on the retail market using data from several North American cities and then concluded that as more customers preferred to go to a warehouse retail store for family goods and the retail market as a whole was highly sensitive to this newly emerging industry, warehouse membership clubs are in fact retailers rather than wholesalers. Sampson and Tiger also expected that this industry would heat competition with conventional retail chains [1]. Later studies then focused on the business dimension of WMCs. Courtemanche and Carden examined the effects of the entry of warehouse clubs such as Costco and Sam's Club on grocery prices within a certain competitive market. Using the data from ACCRA COLI and various the test, Courtemanche and Carden found that while competing grocers tended to reduce the price when faced with competition from Walmart supercenters, entry of Costco into a particular

market tended to increase grocery prices. Courtemanche and Carden also discovered that local grocery stores might choose not to compete with warehouse clubs on price dimension and instead focus more on price-insensitive customers [2]. Within the WMC industry, different players differ from each other. Cascio made a comparison between two warehouse membership conglomerates: Costco and Walmart-owned Sam's Club. A crucial difference pointed out by Cascio was employee treatment: Costco employees earn more than Sam's Club employees on average, bringing about higher prices in Costco than in Sam's Club. This divergence led to different comments from the public and Wall Street: according to Cascio, while consumers were willing to pay a little more to shop in a store where employees were well treated, some shareholders questioned the profitability of Costco's business model. Cascio concluded Costco's high-wage strategy was more sustainable while Sam's Club's low-wage strategy could potentially exacerbate the already unenthusiastic workforce [3].

As WMCs began to internationalize, most studies focused on the adaptations and change WMCs had to make to satisfy different groups of people. Kim studied the operation of Costco in South Korea and how consumers reacted to Costco's membership strategy. Kim pulled data from two regions in South Korea in which Costco operated and surveyed consumers' behavior while considering membership fees. Kim thus concluded that consumers who were not familiar with Costco's business model tended to be less receptive, and paid membership was among the top considerations for South Korean consumers. Kim also proved a supplementary relationship between Costco and local supermarkets existed in South Korea for Costco members looking for small-volume purchasing [4]. The image of WMCs also varied between different nations. Li et al. compared consumers' perception of Costco in the US and Australia, both of which had highly mature retail markets and similar backgrounds. Li, Huddleston, and. Minahan graded people's preference of Costco's core attributes such as value and shopping experience in Australia and compared it to the US counterparts. Li, Huddleston, and Minahan found out that while Costco attracted price-sensitive consumers in both countries and both markets viewed a hedonic shopping experience as an important element of building loyalty, Australian consumers were less sensitive toward the value of goods in terms of strengthening loyalty [5].

As China was rapidly developing, its retail sector also became a topic of study. Wang examined the environment of China for foreign retailing firms to enter this market and tried to envision the future retail competition in China. Wang studied the development disparity in China and analyzed the existing foreign retailers based on China's admission into WTO and the country's rapidly growing retail sector. Wang projected that foreign retail conglomerates could have a promising market in China after the trade and legal barriers were removed, and new formats of retail, such as ideas of supercenter and warehouse membership club, could pose a huge threat toward local traditional retailers in the future [6]. However, the changing landscape of China's retail sector might have broken the balance between traditional and new retail formats. Wang, using Beijing as a framework, studied the retail transformation in China taken place after the economic reformation. Wang used the PEST model, with extra focus on political and regulatory impact, to explain how external environments impacted the retail sector. He discovered that the local government's effort to promote new retail format hindered the growth of traditional retail markets a great deal, and the removal of regulations gave rise to foreign retailers. Wang also claimed that consumer behavior and increasing wealth were also factors that boosted the development of new retails such as hypermarkets and warehouse membership clubs [7]. As foreign retailers were competing in the Chinese market, more insights into business operations in China were revealed. Yu and Ramanathan purported to find a link between the business environment in China and foreign retailers' operational strategy and to show how does the business environment impacts the ever-changing retail sector in China. Yu and Ramanathan forged a new framework for retail strategy based on the framework of the business environment and employed field research, collecting data through on-site interviews. They concluded with four challenges faced by international retailers: rising operating costs, cultural differences, government regulation, and increasing consumer awareness; and another important notion was flexibility strategy: foreign retailers needed to adopt flexible strategies parallel to local cultures and preferences [8]. Another business insight was Goldman's investigations of how global retailers transferred their retail formats while entering a developing country such as China. Goldman interviewed twenty-seven executives of global retailers and revealed the complexity of transfer in retail formats. Goldman found that while many retailers tended to stick with their original format, others adapted to the Chinese market and made extensive changes to their operational strategies. Goldman also discovered small Asian retailers that were close to China were more competitive than Western retailers: similarities in culture and consumption behavior gave them the advantage to dominate the market without changing their retail formats [9]. These in-depth studies of China's retail sector help examine WMC's feasibility in China. Ren and Wang studied the sustainability of Costco's reliance on paid membership in the Chinese market using the PEST model, covering the political, economic, social, and technological impact on Costco's core strategy, and questioned the applicability of such a business model in China. Ren and Wang concluded that this business model is not in line with the consuming

behavior of Chinese customers, who favor convenience stores more than a huge retail supermarket, and suggested a localization improvement to the paid-membership strategy with a more convenient store-based vision [10].

The objective of this study is to evaluate the feasibility of WMC in China. This study will first offer a glance at the current retail sector in China and then seek to identify some prominent characteristics of WMCs with some key metrics including financial performances and SKU. Ultimately this study will assess WMC's feasibility in China based on the previous findings.

2. CURRENT RETAIL SECTOR IN CHINA

After China entered into WTO in 2001, global retailers have always been fascinated by the Chinese market, a place full of opportunity. For the past 20 years, global retailers such as Walmart, Metro, Seven-Eleven, and recently Costco have been reshaping the landscape of China's retail sector and vastly changing people's preferences. It is believed that foreign retailers right now, however, are facing increasingly fierce competition from local retailers, a sign of the complexity of the retail market in China. As a country that embraces technological advancements, China has been expediting the use of technology in daily lives in recent years. For foreign retailers, a trend from offline to online shopping is a piece of bad news: ideas of supercenter and hypermarket only survived in China for 20 years and are about to be superseded by local retailers who adopt both online and offline format with a special focus on the freshness of groceries. Barriers now faced by foreign retailers are hard to overcome as they find it hard to keep up with the pace Chinese consumers change their preferences.

Indeed, foreign retailers did make changes to meet Chinese customers' expectations. For example, Walmart in recent years is working with multiple online shopping platforms such as JD.com and takeout delivery platforms such as Meituan to deploy its online service. However, Walmart's real crisis is the systematic failure in localization and adaption to local customs. Chuang and Donegan studied Walmart and Carrefour in China and concluded that guanxi, commonly referred to as connections and relationships with local government, was one of the key factors to explain foreign retailers' downfall. "The Chinese retailers thoroughly understand local customs and consumers and have long-established relationships with suppliers and local governments based on guanxi…the record of Walmart and Carrefour has been unimpressive, the average growth for their five largest competitors has exceeded that of either firm" [11]. While retailers like Walmart prevail in retailing strategy and brand name and have been recently trying to go online, they are mostly unsuccessful in terms of localization. The rise of local competitors will further squeeze their market share, and Walmart could be facing an existential problem in China.

Another trend that is happening among traditional local retail conglomerates is a transformation from traditional department stores to small convenience stores, supermarkets, and even outlet stores. Local retailers such as Wangfujing Department Store, Intime Department Store, and Parkson Department Store are all developing their convenience store and supermarket sector, hoping that they would replace their traditional department store business by satisfying Chinese consumers who are now looking for quality instead of price or assortment. While foreign retailers are still hesitant to make such dramatic changes, an evolution of retailing in China is already underway. What is also going on in China is the accentuation of fresh food. While switching to smaller convenience stores requires the sacrifice of assortment, quality of goods becomes vital. The fresh food market in China is growing maniacally: on one shelf are Alaska king crabs that arrived yesterday, and on the other are mangoes imported from Southeast Asia. Chinese customers are willing to spend up to two or even three times the price compared to traditional supermarkets to ensure quality. Players include the declining Yonghui Fresh who is now seeking an overhaul to save the company from bankruptcy and the rising Hema Fresh who focuses on the shopping experience. An Alibaba-owned retailer, Hema Fresh, can also integrate cashless payment given the dominance of Alipay in China. While the rise of the fresh food market can be explained by the growing purchasing power of Chinese citizens, retailers' struggle to stand out in an almost saturated market can also account for the emergence of new formats of retailing.

While many are competing on the front of convenient stores and supermarkets and moving services online to capture more consumers, another retail format is going viral in China: warehouse membership clubs (WMCs). Among the first group of retailers who set their foot in the Chinese market was Sam's Club, a Walmart-owned warehouse membership club with more than 20 warehouse clubs in China. Sam's Club had been struggling for years until recent attention is given to this format of retailing and many local competitors are ramping up to expand their warehouse clubs. With extremely high uncertainties, WMCs' development in China, one of the most promising retail markets in the world, will be facing difficulties expanding their business scope. The rest of the literature will discuss how the competition in WMCs is heating up in China with Costco, Sam's Club and a cluster of local startups are all betting on the future of warehouse clubs, how would it change the landscape of retailing as a whole, and most importantly, is this format of retailing sustainable in the Chinese market.

3. WMC VS. TRADITIONAL RETAILING

WMCs are new to China but not to the west: the idea first emerged in the United States back in the early 1970s, and the opening of Price Club in San Diego in 1976 marked the beginning of this whole new retail format. After almost 50 years of development, WMCs are proven successful. It is a five hundred billion-worth industry in the US and is still growing at an unbelievable pace. WMCs overhauled the structure of retail, managed to keep the price down, and at the same time ensure the quality of goods, but it did not just happen naturally: it is the combined effect of multiple pioneering reformations working in perfect synergy. Understanding the success of WMCs requires insight into different aspects of the business model and how are they different compared to traditional retailing.

3.1. The Name Explains Itself

Warehouse membership club is a combination of warehouse and retail. It is the most obvious difference with other retail sectors, and it is revolutionary. Traditional retail such as supermarket requires a complex logistics and storage system, and the cost it incurs is usually underestimated. Storage and logistics account for a huge chunk of operating cost: global retailers are always competing on optimization of distribution systems to tackle high operating cost, and distribution itself is an important segment that impacts efficiency, price, and profitability. While bigger retailers have a more integrated and advanced storage and distribution system which drives down aggregate cost, small retailers are often troubled with difficulty keeping inventory cost down. All in all, storage and distribution have always been advancing and optimizing, and WMCs just make it even better. Even though a WMC often needs a big space located in suburbs, its operating cost is driven down. The chart below lists the total revenue and operating expense of some big retailers. Using an operating expense ratio, it is clear to see how WMCs have an overall lower operation cost while still generate high revenues. Costco and BJ's Wholesale Club are two dominant WMC operators in the US. Their operating costs account for a smaller portion of their total revenues than traditional retailers such as Albertsons, Target, Walmart, and The Kroger. WMCs benefit from a lower operating cost by simplifying their storage and distribution: putting storage into the same building as retail helps WMCs to eliminate unnecessary costs incurred from logistics and inventories. Increased efficiency in the supply chain further drives down the price of goods sold in a WMC and boosts profitability. This cyclical relationship between lower operating cost, higher efficiency, and lower price is the key to WMCs' sustainability and long-term growth, and it is proven to be a constructive solution to the retail sector which is long bothered by inefficient storage and distribution system.

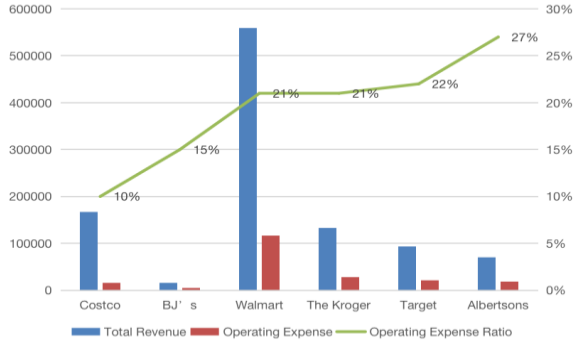

Figure 1 Financial performance of huge retailers in the last fiscal year (number in millions)

3.2. Lower SKU, Lower Assortment, Higher Quality

While items in a WMC often come in big size and volume, retailers cannot suffice customers who are looking for diversity. One example to make it clear is: you can handpick your favorite brand that makes sugar from dozens of other brands in a supermarket; whereas you can only find one or two brands that makes sugar in a WMC. One important concept that needs to be introduced here in the retail sector is stock-keeping unit (SKU). It is the way to organize items and goods by their attributes such as manufacturer, material, and size. To make it simple, SKU is an indicator that can tell how diverse the items are in a retail store: high SKU represents high assortment and vice versa. For a typical WMC, its SKU is significantly lower than a typical supermarket. The graph below compares SKU between WMCs and other retailers, and it is clear to see that while Costco carries around four thousand SKUs, supermarket retailers such as Target have about eighty thousand SKUs. Since a typical Targets store carries forty times more SKUs than a Costco store, Target offers a much wider range of options for all items than Costco does, but Costco believes not all customers are fond of spending time on selection, and good value is a more important factor. In WMCs like Costco, one can only choose from limited options of items chosen first by the retailers, which means retailers help the customers skip selection and directly offer items with good-enough quality and value. WMCs' bet on value instead of assortment is once again proved successful: while average household income dropped in the 1990s in the US, warehouse clubs became a more budget-friendly place for middle-class families, and the focus on the value of goods persisted until these days. Sacrificing assortment for value and quality remains to be the central strategy of WMCs, and more people in the future would likely be more value-oriented.

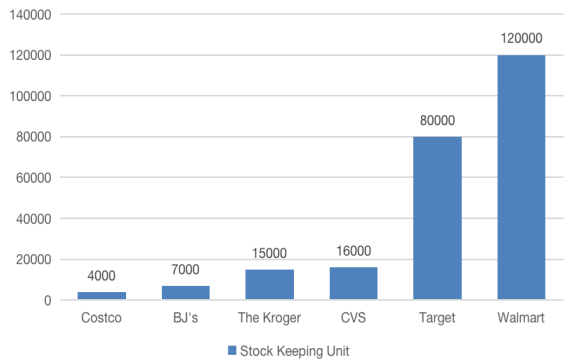

Figure 2 Stock keeping unit of different retailer

3.3. Another Boost To Perfecting Supply Chain

The integration of warehouses into retail is not the only way WMCs use to optimize the supply chain. One thing that also stands out in a WMC store is the number of private label items on the shelves. This seemingly trivial detail is a strategic move toward efficiency in the supply chain. Private labels, usually refer to the brands that are exclusive to a WMC, are becoming increasingly prevalent in the store. Famous labels include Kirkland from Costco, Member's Mark from Sam's Club, and Berkley-Jensen from BJ's. The pie diagrams below show what percentage does each of these private labels accounts for in their stores. For WMC executives, having these private labels has multiple merits. When a private label is firmly established among members, brand loyalty is retained.

Furthermore, a well-accepted private label can become a promoting force for the company as a whole: since private labels are exclusive, people will have to enroll as a member to access these brands. Kirkland from Costco is believed to be the main reason why Costco can retain high loyalty among members while still expanding potential customers. Aside from reinforcing brand loyalty, private labels also help to manage the supply chain. Companies such as Costco and Sam's Club have greater power over the manufacturing, packaging, and selling of their private labels since they are self-owned, enabling the company to maximize efficiency and output by reining in the cost. While traditional retailers sometimes struggle to strike a deal with infinite numbers of suppliers, WMCs manage to perfect their supply chain by owning parts of the supply chain. Private labels give WMCs the prerogative to skirt major risks of potential supply chain disruption.

WMCs have made some progressive moves that changed the landscape of retailing in the west. Integrating warehouses into retail areas, decreasing assortment for quality and value, and owning private labels have become the signatures of the industry. In China, however, WMCs might need to take a different approach to capture the ever-changing Chinese customers. Are the signatures mentioned above practicable in China or even more directly, can WMCs survive in China? Who is going to be the winner, after all, sophisticated foreign retailers or flexible local retailers? The rest of the literature will lead to some clues that might help answer these questions.

4. THE VISION OF THE FUTURE

With all of its characteristics being said, it becomes clear to see why WMCs are probably the most visited shopping destinations for Americans. Its cost-reducing supply chain and value-oriented strategy reinvigorated the retail sector. However, one thing to notice is that WMCs might be perfectly designed for Americans but not for others. Even big retailers such as Costco have to make adaptions to a foreign market. In many places around the world, paid membership, for example, could be a huge barrier to tackle. While multiple factors gave rise to WMCs in the West, such as purchasing patterns and focus on middle-class families, WMCs might have to take a different approach when expanding overseas. In the meantime, local retailers have already begun to build their WMCs. There is an invisible war between local and foreign WMCs going on. Can foreign WMCs sustain in the Chinese market by using existing strategies, or is it better to make localized adaptions? Can Chinese retailers, the latecomers in terms of WMCs, stun Costco and Sam's Club and break the duopoly in the Chinese market?

4.1. Urbanization In China And Rising Purchasing Power

People's need to move into big cities has been growing in the wake of the economic growth in China for the past forty years. This need is followed by large-scale urbanization across the nation, especially in the coastal regions. As many cities in China have hit ten million population, a bettering city planning is required. In big cities such as Beijing and Shanghai, more people reside in the suburban area now than before due to the rising cost of living downtown, giving rise to all kinds of communities around the city. As Chinese cities are growing like those in the US, WMCs are more likely to be welcomed in suburban China. Take Hema X Membership Club as an example: it currently has two stores in suburb Shanghai and plans to open more by the end of 2021. From the map below it is clear to see where the two stores are located in Shanghai: both are in communities that are far away from the central districts. While suburbs are populating, room for WMC's expansion remains large.

Another inevitable effect of urbanization is the increase in car ownership. China ranks number one when it comes to the number of motor vehicles as purchasing power has increased exponentially in recent decades. With more flexibility, Chinese families who

own cars are more willing to drive further away for shopping. For WMCs, this could be a piece of good news: Urban dwellers can now drive to WMCs located in the suburbs and fill their trunks up with large packages of goods. The reason why car ownership plays an important role here can be illustrated using ATV, or average translation value. It refers to the average dollar amount per transaction, an index showing how much on average one would spend at a store per visit. For WMCs, ATV tends to be much higher since everything sold in a WMC comes in big size and volume, making people come home with a lot of things. The following chart shows how ATV varies among different retail formats. High ATV is one reason WMCs always have strong cash flow, but this transaction level requires customers to have their cars take stacks of things home. WMCs' success in the US is in part due to a high number of automobiles, and the same thing is happening in China. With rising purchasing power, more Chinese families now own at least one car and can afford items in WMCs. As a result, there is an unbreakable relationship between car ownership and large packaging in WMCs, and the growing wealth in China is boosting the development of WMCs.

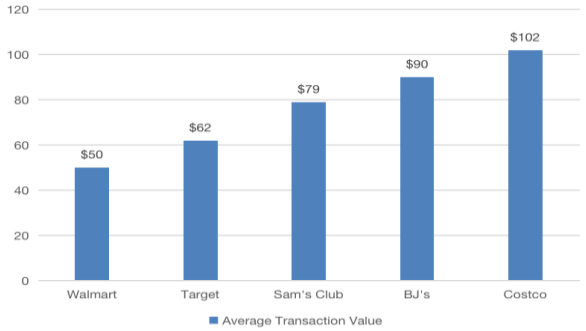

Figure 3 Average transaction value of different retailers

4.2. Locals Know Locals Better

The biggest strength of Chinese retailers is their knowledge of local customs. Retail in China is unlike any other kind around the world: this market is constantly changing thanks to technological advancement and acceptance of new things by consumers who are largely composed of younger generations. It is also the undeniable fact that the entrance of Sam's Club and Costco into China was partly driven by the reality that people are willing to embrace this new retail format, but they might not capture every changes that happened in the industry. On the other hand, local retailers know more about the retail landscape in China. Doing business in China is quite different than in the US: there are unwritten rules and customs unknown to foreign retailers. As mentioned before, guanxi, which common refers to connections with local government, plays an important role while doing business. Local retailers also know more about what exactly do Chinese consumers like, making them more flexible to make certain changes and adaptions. Hema, an Alibaba-owned offline retail chain, is a great example that can illustrate how retails in China can be different from the rest of the world. As China is becoming increasingly digitized, digital payment also becomes indispensable. In 2019, online transactions in China surpassed twenty-six trillion RMB, or 4 trillion US dollars, the world's largest single-currency online payment market. One of the two dominant payment applications is Alipay, also an Alibaba-owned business. Hema benefits from the prevalent paying-online behavior by making Alipay the exclusive way of payment at its stores. Shopping is made easier with the birth of online payment and Alibaba further leverages its strength in this particular area. Hema is also developing its WMC sector called Hema X Membership Club, and it is exciting to see how digitization plays its role in this process. In conclusion, Hema is just among many other local retailers who know the Chinese market better and leveraging this strength gives them the prerogative to better appeal to Chinese customers. When it comes to the development of WMCs, Chinese retailers can come up with more localized strategies different from that of Costco and Sam's Club.

4.3. Is Paid-Membership Structure Subjected To Change

Another thing that WMCs need to consider is the availability of paid membership in China. Though it is the basic requirement to gain access to a WMC, a majority of people could be reluctantly to pay the fee, and Costco in Shanghai manifested this brutal reality. Made its grand debut in China back in 2019, Costco was forced to lock its doors early in the day due to the high volume of customers lured by the extra-low price of goods. When everybody thought Costco was on the rise, members of Costco began to return their membership cards and asked for a refund in the following months. It seems like people's enthusiasm toward Costco did not last long, and the core problem behind it could be paid membership. In China, paying an annual fee to gain access to a shopping center seems more or less counterintuitive: people are yet to understand the reason why one has to pay first to go shopping. Undeniably, membership fees make up a large proportion of operating income and help to drive down the operating expenses, but local WMCs need to optimize this structure and convince Chinese customers that paying membership fees offers more than just access to a WMC.

One advantage of local retailers, such as Hema and Yonghui, is that they are not restricted to WMCs: Yonghui and Hema all have their supermarket chains, Yonghui Bravo and Hema Fresh respectively, and while they are developing their WMC chains, a collaboration between different kinds of business can exist through

memberships. For example, once a person is signed up for a Hema WMC membership, he or she can use this card to shop in Hema's WMC and get a discount in Hema's supermarket chains. This solution could convince customers that one can have both access to WMCs and other benefits in other supermarket chains with a membership card. This collaboration coheres with foreign WMCs' business mode, using membership fees to drive down operating cost and helps boost sales in both WMC and the supermarket sectors. For local retailers to put this model to work it requires a highly integrated retail chain including different formats of retail, and Hema and Yonghui can leverage their strength in this area. Startups who are solely focusing on WMCs could face challenges and competition from Costco and Sam's Club and have very little flexibility. In general, if the paid membership structure is subjected to change in order to convince Chinese customers, it will be spearheaded by local retailers who can forge a collaboration between traditional retail sectors and WMCs to make paid membership look more logical.

4.4. Power Of The Internet

Technological advancements have changed people's lives entirely, especially in China. Though the idea of internet came later in China than it did in the west, the country of one-point-four billion people quickly transformed itself into one of the most digitized market in the world in the past two decades. The chart below shows the growth of internet users in China through years. As nearly one billion people has access to the internet, the potential of internet-related business can be unlimited. A systematic collaboration between internet and retail sector is underway: Hema's use of Alipay, as mentioned before, is a milestone in China's retail transformation, but there is much more for WMCs to explore. Online shopping has been a daily practice, and alongside with China's sophisticated logistic system, WMCs can further reduce their inventory cost. One way to integrate WMCs' business into a digitized society is to leverage the strength of both the massiveness of online shopping network in China and the exclusiveness of private labels. Costco, for example, can create an online platform, selling Kirkland products. With fast delivery offered by Chinese logistic firms, Costco is able to deliver top-quality products directly from factory to consumers, avoiding unnecessary inventory costs and helping its members to enjoy a convenient shopping experience with one simple click on the phone. WMCs can also take a step further: with an online platform, retailers are able to trace each transaction and gain more insights into consumer segmentation and preference. Users' data online provide valuable information to retailers including age, gender, and frequently-purchased items. It can help retailers to pinpoint each individual's preference and to decide which items are more popular. Understanding this segmentation also keeps in line with WMCs' low-assortment strategy.

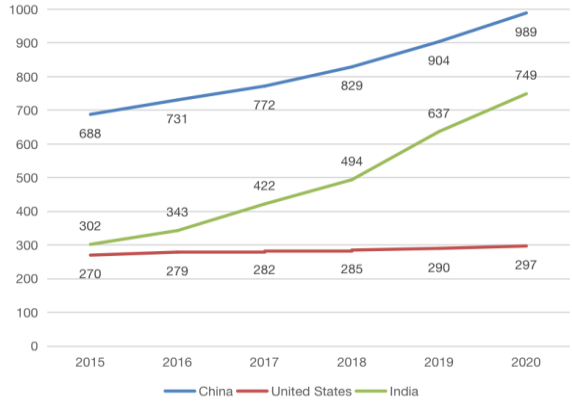

Figure 4 Number of internet users in three countries (number in millions)

5. CONCLUSION

Even though WMCs are new to China, it is believed that this retail format is about to shape China's retail sector in the coming years. Sophisticated retailers such as Costco and Sam's Club will be the leading players in this area. Their insight into this specific business and their experiences are all intrinsic advantages, and their popularity can guarantee their dominance in the market for a period of time. In the long term, local players will for a sure rise to power. Indeed, WMCs have replicated their business logic and have successfully applied it to many other countries outside of the US, but they will have to make adaptions. At present, China is the second-biggest economy globally and yet a developing country: consuming behavior in China is distinctive compared to either developing or developed nations. Local retailers have the key to understanding China's intricate consumer market, and it will be a decisive factor leading to success. Hema and Yonghui will be the dominant WMC operator in China with more localized features. All in all, as more investors and retailers are betting on WMCs, explosive development is expected.

Does that necessarily mean foreign retailers will have to withdraw their operations in China? Neither monopoly nor duopoly can stand long. In the future, local and foreign retailers will partake in shaping the landscape of China's retail sector as they are doing now. In a more distant future, when China becomes a saturated WMC market, retailers could go regional like BJ's, which can be found exclusively on the east coast of the US. There could be endless possibilities, but diversity is always what Chinese customers are looking for: retailers need to be distinct enough to capture the volatile young generations, and WMCs are on their way to win big.

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